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SELENA FM GROUP

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

Wrocław, 25 April 2019

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1. Information about the Group

1.1. Characteristics of the Parent Company

Selena FM S.A. (Parent Company, Company) having its registered office at ul. Strzegomska 2-4 in Wrocław is entered in the business register of the National Court Register kept by the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register under KRS no. 0000292032.

The Company was formed through conversion of the limited liability company Selena FM sp. z o.o. into a joint stock company, approved by the Extraordinary General Meeting on 26 September 2007. On 31 October 2007, the new entity was registered in the National Court Register by the District Court for Wrocław-Fabryczna in Wrocław. The Company received statistical number REGON 890226440. Its duration is indefinite (it is a going concern).

On 18 April 2008, the Company debuted on Warsaw Stock Exchange.

1.2. Management Board of the Parent Company

As at 31 December 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.

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, who was the 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.

1.3. Supervisory Board of the Parent Company

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.

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 Supervisory Board of the Company adopted a resolution delegating the duties of the Management Board President to Krzysztof Domarecki for a period not longer than 3 months.

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

- 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 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.

1.4. 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 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.

1.5. Key products and services

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

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

- Polyurethane mounting foams and foam adhesives
- Construction sealants (silicones, acrylic products)

- Construction and mounting adhesives
- Roofing membranes and shingles
- Bituminous masses
- Thermo-reflexive roof coating
- Building insulation systems
- Adhesives and joint fillers for ceramic tiles
- Application equipment
- Wood preservatives
- Agents for roofs and walls
- Foils and membranes.

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

The Group's production plants are located in Poland, Brazil, China, Romania, Turkey, Spain, Kazakhstan and Italy, and its products are available in the markets of more than 70 countries in the world. The Group also carries on R&D activity in Poland, Spain, Turkey and China. The Group also has an associated company, Hamil-Selena Co. Ltd, in South Korea and a joint venture House Selena Company Ltd. in China.

1.6. Distribution markets

For management purposes, the Group has identified 3 geographic segments: European Union (including: Poland and Spain), Eastern Europe and Asia (including Russia and China) and North and South America (the USA and Brazil).

See Note 1.7.1 for a detailed structure of the individual segments, and Note 2.1 for a share in sales of the individual segments in the Group sales.

Due to the nature and geographic scale of the business, both the Group's suppliers and buyers are diversified – the share of individual entities in the Group's total purchasing or sales does not exceed 10%.

1.7. Group composition, related parties and equity investments

1.7.1. Group structure

The ownership and organizational structure of the Group and the division into operating segments as at 31 December 2018 and as at 31 December 2017 are presented in the table below (all the companies in the table are consolidated using the full (line-by-line) method, except the associated company Hamil – Selena Co. Ltd., and House Selena Company Ltd., which are consolidated using the equity method).



Selena FM Group

Management Board's Report on the Group's Activities for 2018

Region	Country	Entity	Reg. Office	Activity	Group's Share		Owner		
					31 December 2018	31 December 2017			
European Union	Poland	Selena FM S.A.	Wroclaw	Group Head Office			-		
		Selena S.A.	Wroclaw	Distributor	100.00%	100.00%	FM		
		Orion PU Sp. z o.o.	Dzierżoniów	Manufacturer of foams, adhesives, distributor	99.95%	99.95%	SIT 1		
		Carina Silicones Sp. z o.o.	Siechnice	Manufacturer of sealants, distributor	100.00%	100.00%	SIT		
		Libra Sp. z o.o.	Dzierżoniów	Manufacturer of sealants, adhesives, distributor	100.00%	100.00%	SIT		
		Izolacja Matizol Sp. z o.o.	Gorlice	Manuf. of roof coverings, hydroinsulation, distributor	100.00%	100.00%	SIT		
		Tytan EOS Sp. z o.o.	Wroclaw	Manufacturer of loose materials	100.00%	100.00%	SIT		
		Selena Labs Sp. z o.o.	Siechnice	Research and Development	99.65%	99.65%	FM 1		
		Selena Marketing International Sp. z o.o.	Wroclaw	Intellectual property management	100.00%	100.00%	SA		
		Taurus Sp. z o.o.	Dzierżoniów	Legal administration	100.00%	100.00%	SIT		
		Carina Sealants Sp. z o.o.	Siechnice	Legal administration	100.00%	100.00%	FM		
		Selena Industrial Technologies Sp. z o.o.	Warsaw	Production management	100.00%	100.00%	FM		
		Oligo Sp. z o.o.	Katowice	Research and Development	99.50%	99.50%	SL		
		Western Europe	Spain	Selena Iberia slú	Madrid	Manufacturer of sealants, adhesives, distributor	100.00%	100.00%	FM
			Italy	Selena Italia srl	Limena	Distributor	100.00%	100.00%	FM
Uniflex S.p.A.	Mezzocorona			Manufacturer of sealants, distributor	64.00%	64.00%	FM 4		
Central and Eastern Europe	Germany	Selena Deutschland GmbH	Hagen	Distributor	100.00%	100.00%	FM		
	Czech Republic	Selena Bohemia s.r.o.	Prague	Distributor	100.00%	100.00%	FM		
	Romania	Selena Romania SRL	Ifov	Distributor	100.00%	100.00%	FM		
		EURO MGA Product SRL	Ifov	Manufacturer of adhesives and cement mortars	100.00%	100.00%	ROM		
	Hungary	Selena Hungária Kft.	Pécs	Distributor	100.00%	100.00%	FM		
Bulgaria	Selena Bulgaria Ltd.	Sofia	Distributor	100.00%	100.00%	FM			
Eastern Europe and Asia	Eastern Europe	Russia	Selena Vostok Moscow	Moscow	Distributor	100.00%	100.00%	FM 2	
			Selena CA L.L.P.	Almaty	Distributor	100.00%	100.00%	FM	
		Kazakhstan	TOO Selena Insulations	Astana	Manufacturer of insulation systems	100.00%	100.00%	FM	
		TOO Big Elit	Astana	Manufacturer of dry mortars	100.00%	100.00%	CA		
	Ukraine	Selena Ukraine Ltd.	Kiev	Distributor	100.00%	100.00%	FM 2		
	Asia	China	Weize (Shanghai) Trading Co., Ltd.	Shanghai	Distributor	100.00%	100.00%	FM	
			Selena Nantong Building Materials Co., Ltd.	Nantong	Manufacturer, distributor	100.00%	100.00%	FM	
Foshan Chinuri-Selena Chemical Co.			Foshan	Manufacturer of sealants, distributor	84.57%	84.57%	SA 1		
House Selena Trading Company Ltd.			Shanghai	Distributor	40.00%	40.00%	NAN		
S.Korea	Hamil - Selena Co. Ltd	Kimhae	Manufacturer of foams	30.00%	30.00%	SA 3			
Middle East	Turkey	Selena Malzemeleri Yapi Sanayi Tic. Ltd.	Istambul	Man. of foams and sealants, distributor	100.00%	100.00%	FM		
		POLYFOAM Yalitim Sanayi ve Tic Ltd.	Istambul	Distributor	100.00%	100.00%	SA 2		
N&S America	N&S America	Brazil	Selena Sulamericana Ltda	Curitiba	Manufacturer, distributor	100.00%	100.00%	FM 3	
			Selena USA, Inc.	Holland	Distributor	100.00%	100.00%	FM	
		USA	Selena USA Specialty Inc.	Holland	Property management	100.00%	100.00%	FM	



Selena FM Group

Management Board's Report on the Group's Activities for 2018

Explanations to the "Owner" column

FM - 100% owned by Selena S.A. (SFM)

FM 1 – shares owned by SFM, other shares are owned by Krzysztof Domarecki (Supervisory Board Chairman of Selena FM)

FM 2 – shares are owned by Selena FM (99%) and Selena S.A. (1%)

FM 3 – shares owned by Selena FM (95%) and Selena S.A. (5%)

FM 4 – shares are owned by Selena FM, the remaining shares are held outside of the Group

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

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

NAN – affiliated company – owned by Selena Nantong Building Materials Co., Ltd.

SL - shares owned by Selena Labs Sp. z o.o. (100%)

SA – 100% owned by Selena S.A.

SA 1 – shares are owned by Selena S.A., the remaining shares are held outside of the Group

SA 2 – shares are owned by Selena S.A. (85%) and Carina Silicones Sp. z o.o. (15%)

SA 3 – associate – shares are owned by Selena S.A.

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

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

1.7.2. Changes in the Group structure

Events occurring after the balance sheet date

On 1 January 2019, Selena USA Inc. merged (as acquiring company) with Selena USA Speciality Inc. (acquired company). Under the agreement of 31 December 2018, the share capital of the acquired company was transferred in its entirety to the acquiring company. As a result of the merger, the company was deregistered.

1.7.3. Financing investments

Investments were funded from equity, subsidies and bank loans. See Note 2.5 for details.

1.7.4. Branches

Selena FM S.A. has no branches.

1.8. Key developments

1.8.1. Execution of Selena Group's strategy in 2018

In 2018, Selena Group continued to develop its sales in most of its markets. New and technologically advanced products were prepared and intensive work commenced on development of new product categories. Product sales in Eastern Europe were increased – both under own brands (especially in Spain) and with private labels. Sales in Eastern markets also increased. A major sales improvement was noted in China. All these factors resulted in a strong increase in sales at the whole Group level.

In 2018, worked on drawing up its development strategy for the following years.

1.8.2. Dividend

On 14 June 2018, the AGM of Selena FM S.A. adopted a resolution on dividend payment in respect of a part of the Parent Company's profit for 2017 in a total amount of PLN 6,850,200.00, i.e. PLN 0.30 per share. The record date, when the list of shareholders eligible for dividend is determined, was set to 2 July 2018. The shares of all series carry the same dividend rights. The dividend was paid on 16 July 2018.

1.8.3. Group promotion

Selena S.A. at the Budma Fair (30 January–2 February 2018)

Selena S.A. again participated in one of the largest industry events: the International Construction and Architecture Fair – BUDMA. BUDMA is a place where producers and distributors of modern technologies and building materials meet with representatives of trade, architects, contractors and investors in Europe. During this year's edition, Selena S.A. was a partner for 1m/ARCH, called "a city of architects".

CE region marketing meeting (12–14 February 2018)

In February 2018, marketing and sales employees from the Central and Eastern Europe region met in Kecskemét, Hungary. The purpose of the meeting was to present new products, refresh knowledge about the existing strategic products, discuss selected marketing projects for the coming months and present examples of good practices from the Hungarian, Czech and Romanian markets.

Bricomarché Fair (13–14 February 2018)

On 13–14 February 2018, Selena S.A. took part in the Bricomarché fair. This was the third edition of the fair organised for store chains and their suppliers. The fair was an opportunity for Selena to establish new business relations.

Training for the ETICS applicators from Selena Bulgaria (12–15 February 2018)

On 12–15 February 2018, the ETICS applicators from Bulgaria participated in training at Polish production plants. They learned about the main features of the Group's products compared with competitive solutions and about how to increase the

efficiency of products (including the Tytan IS 13 plaster). During the practical session, customers had an opportunity to test the products and check their performance.

Budma Fair in Kielce (6–7 March 2018)

On 6–7 March 2018, Selena took part in the Budma construction fair in Kielce. At Selena's futuristic stand, stylised as a metropolis customers could both become acquainted with the company's key products and find out about new features in the portfolio of the Tytan Professional brand. Two new products made their debut at the fair: modern tile adhesives FLEX Gel and SUPERFLEX Gel, which are the first in the European market to combine the flexibility of a gel with fibre-enhanced strength.

Eurasia Window & Door (6–9 March 2018)

In March 2018, Selena Turkey participated in the Eurasia Window & Door Exhibition in Istanbul. This is one of the largest industry events in the MEA region for the industry related to the Window & Door segment. During the fair, Selena Turkey presented the visitors with a portfolio of innovative products for doors and windows. It was an opportunity to exchange experiences, establish new business contacts and present Selena's product range.

Bulgarian Building Week (7–10 March 2018)

From 7 to 10 March 2018, Selena Bulgaria participated in one of the major industry events – Bulgarian Building Week 2018. This was primarily an opportunity to build a network of business contacts and to familiarise new customers with Selena's product range. This year, Selena focused on demonstrating to customers and contractors the versatility of its portfolio with ready solutions for anything from foundations to the roof.

Fensterbau Frontale (23 March 2018)

On 23 March 2018, Selena Vostok took part in the 2018 Fensterbau Frontale Fair in Nuremberg. Selena Vostok was a bronze partner of the show. Melekhina Maria, Marketing Director Selena Vostok, participated in a discussion panel, during which a presentation was made of the company's technology and good practices regarding the use of the Group's products in the window mounting segment.

Arch+ Design Summit 2018 (6-7 April 2018)

On 6-7 April 2018, Selena Turkey participated in one of the biggest industry events Arch + Design Summit 2018, during which it had the opportunity to present the benefits of Titan 60 SECONDS with its practical applications. The main theme of the event was: "Innovative approaches in architecture and design"; the exhibition combined with fair attracted over 20,000 participants to the Congress and Exhibition Center Lütfi Kırdar. In addition, during the B2B meetings, Selena Turkey sales and marketing team met with representatives of over 40 architectural agencies.

Trip to Bucharest with clients – Selena Turkey (22 April 2018)

On 22 April 2018 Selena Turkey visited Bucharest with its clients as part of the "Incentive Promotion" programme. The campaign, combined with a trip for clients, was designed to strengthen relationships with key partners, make a successful start into 2018 in relation to domestic channels, and build awareness of the Tytan brand.

Selena S.A. is a partner of the 3rd edition of the Provincial Competition: Young Master of Construction (25 April 2018)

In April 2018, Selena S.A. was a partner of the 3rd Edition of the Provincial Competition "Young Master of Construction" ("Młody Mistrz Budownictwa"), organised by the Centre for Vocational and Continuing Education in Częstochowa, in cooperation with the Faculty of Civil Engineering at the Częstochowa University of Technology. The event is addressed to students of schools from the Silesian province which provide education in the trade of Construction Technician. Sponsoring the SMK BARS football game (28 April 2018)

Selena FM S.A. was a sponsor of a football tournament organised by the Association of Kazakh Youth "Bars" supported by the Embassy of the Republic of Kazakhstan to Poland. The event took place on 28 April 2018 in Warsaw. Participating in the event were Kazakh students from five European countries.

Training for Finns (6-8 May 2018)

On 6-8 May 2018, training was provided to the employees of Selena's distributor in Scandinavia: Rakkenuskemia from Finland. The purpose of the visit was to train Finnish partners in the product portfolio: foams, sealants and adhesives and new products, as well as to show them production plants.

Selena Iberia at HISPACK Fair (8–11 May 2018)

Selena Iberia participated in the HISPACK fair, which took place in Barcelona. This is the main industry event in Spain focused on the packaging industry and the second such industry meeting in Europe. At present, there are 1,400 brands and 39,000 visitors participating in it. During the fair, Selena Iberia presented its technologies and technical services.

Selena Romania Award Excellence at Euro Fereastra (15 May 2018)

Selena Romania received the Award of Excellence in the Business and Development category at the annual Euro Fereastra conference. The 5th edition of the conference took place in Bucharest on 15 May, and its objective was to gather companies operating in the window & door industry and to set quality standards in the market.

Selena Iberia at TEKTÓNICA fair (16–19 May 2018)

On 16–19 May 2018, Selena Iberia participated in TEKTÓNICA fair in Lisbon. It is the largest Portuguese construction fair, which grows popular year over year. The fair attracts thousands of architects, builders and installers who are looking for new trends in construction. Selena's products exhibited at the event included MS Polymer, Titanium 60 SECONDS and Aquaprotect.

Sponsoring the PWR Racing Team (18 May 2018)

Selena FM S.A. was a sponsor of the racing car and the initiative of the PWR Racing Team. The team formed by a group of students from the Wrocław University of Technology in 2009, now has 70 people involved, who each year design and build a racing car which takes part in the Formula Student competition. Selena supports this initiative for another year in a row.

Selena Labs takes part in the OECD workshop (8 June 2018)

Selena Labs was one of the participants of the international workshops attended by representatives of the Ministry of Science and Higher Education, organised by the OECD Biotechnology Committee in Kraków. During the workshop, Selena Labs presented a novel approach to the future of this branch of industry. The main objective of the event, attended by speakers from the EU and non-European countries, including from Canada and Japan, is to discuss the availability and use of different types of biomass in Poland in the context of implementation of bioeconomy and stimulation of bioindustry, considering the research and innovation needs in this area.

Selena S.A. takes part in the Małopolska New Technologies Fair (16–17 June 2018)

In June this year, Selena S.A. participated in the Małopolska New Technologies Fair together with SSRW – Finishing Work Specialists Association, which took place in Kraków. During the industry event, Selena S.A. showcased a portfolio of its new Tytan gel adhesives reinforced with fibers and presented the properties and application of the Tytan 60 SECOND foam adhesive.

Selena Kazakhstan at the Polish-Kazakh Intergovernmental Commission for Economic Cooperation (20 June 2018)

On 20 June 2018, representatives of Selena Insulations and Selena CA took part in the meeting of the Polish-Kazakh Intergovernmental Commission for Economic Cooperation which took place in Astana. During the meeting they presented the activities and the position of Selena in Kazakhstan, as well as raised the problem faced by Selena Insulations, namely lack of connection to the municipal heating network. The employees requested for a faster connection to the heating network, which would significantly reduce the additional costs borne by Selena Insulations.

Selena becomes the Ambassador of Sporty Poland (27 September 2018)

Selena receives the title and statuette of the Ambassador of Sporty Poland, confirmed with a certificate. The award was granted as part of the "We Build Sporty Poland" programme. The Ambassador of Sporty Poland is a title awarded to companies and local authorities that support the development of sports infrastructure and are involved in promoting sports among children, youth and local communities. Selena also became a member of the Sporty Poland Club (alongside Polish

local authorities and companies which contribute to the development of sports infrastructure). This is an initiative whereby entrepreneurs, local authorities and individual investors join forces to create a modern and safe sports and recreational infrastructure.

Selena USA – participation in ICAA in Orlando (13–15 September 2018)

Selena USA took part in the ICAA fair (Insulation Contractors of America Association), which each year focuses on the needs of insulation contractors. In addition to exchanging knowledge and observing new trends in the market, the ICAA fair is also a place to establish contacts with suppliers and distributors and manufacturers from the whole of North America.

Selena S.A. – participation in the meeting of the Judging Panel of the 4YoungEngineers Programme (4 September 2018)

As the Strategic Partner of the event, Selena S.A. met in Warsaw with the organisers of the Programme, Polish architects and engineers, affiliated in industry associations and other companies supporting the Programme.

Selena S.A. – Builder For The Future (August 2018 – in progress)

Selena participated as a Strategic Partner in a social educational programme for young construction engineers – 4 Young Engineers. Selena S.A. is a partner of events organised for young engineers: it took part in e.g. Engineering Days at the Wrocław University of Technology and the Kraków University of Technology and made its solutions available to young engineers for use in competition works in the programme's finals.

Selena USA at the Sunbelt Builders Show (8–9 August 2018)

This is one of the most important industry events that attracts the most important people from the industry where they can test products, do networking and collect data. During the show, Selena USA presented the FOAD line.

Golden Emblem of the Consumer Quality Leader 2018 (12 July 2018)

The Tytan Professional brand received the Golden Emblem of the Consumer Quality Leader 2018 in the “silicones and foams” category. The Consumer Quality Leader is a ranking based on a survey conducted among 12,000 respondents who point to what they believe are the best products and services. The Tytan Professional brand was chosen as the best in the “silicones and foams” category.

Selena Turkey puts mounting adhesives on the market (July–September 2018)

At the beginning of July, Selena Turkey launched five new products from the group of mounting adhesives used for interior decoration, fastenings and furniture production. One of them is the fast-curing polyurethane adhesive – Tytan Professional Liquid Nail – most often used by professionals from the Interior & Decoration sector, mainly furniture manufacturers. This product has helped Selena to fill gap in its portfolio and strengthened its position in the market of furniture accessories. Tytan Professional Liquid Nail is the result of cooperation between Selena Turkey and the research & development department. Selena Turkey has also introduced four new colours of Tytan Professional Fast Fix (MS Polymer) to match main construction and decorative materials. With the new colour options, Selena plans to diversify and increase the diversity of applications.

COOL-R used on the roof of the largest fish market in Europe

In July this year, Selena Group's latest product – COOL-R – covered the roof of Europe's largest fish market located in Madrid. The innovative coating, which combines the function of roof cooling and water-resistance, has been applied as part of renovation of the 33 thousand m² building of Mercado Central de Pescados. Thanks to the application of the product the temperature inside the building dropped by 7° C. This has a direct impact on lowering the building's cooling costs and improving the comfort of work in addition to reducing losses of the goods sold.

Selena Turkey – Tytan 60 SECONDS chosen for the construction of a school in Izmir (April–September 2018)

Tytan 60 SECONDS was used in the development of a private campus of the Form School. Contractors opted for Selena's product as it is fast and fit for a variety of mounting applications. In addition, the product's major advantages include low transport costs and clean application.

“Fill the tube” – Selena Turkey's promotional campaign with gift cards (October 2018)

Thanks to cooperation with the FMCG sector, by providing potential customers with Tytan Professional gift cards, Selena Turkey gains almost 90 new clients in a month. The campaign is very popular among clients.

Selena awarded as the Sporty Poland Ambassador (2 October 2018)

Selena received the Sporty Poland Ambassador award. The award gala takes place at the headquarters of the Polish Olympic Committee in Warsaw, where Selena was recognised as a firm which supports businesses and local authorities in building Polish sports infrastructure.

Selena receives the accolade of Ecological Company of 2018 (22 October 2018)

Selena is honoured with the title of “Ecological Company of 2018” in a nationwide ranking of the *Gazeta Finansowa* newspaper as one of the companies that adopts a pro-environmental attitude in its activities.

Connecting the world of business and science – a lecture at the Wrocław University of Technology (29 October 2018)

During the Young Engineers' Days organised by the Wrocław University of Technology, one of Selena's employees gave a lecture on Selena's innovative solution – highly-reflective waterproofing COOL-R coating, and met with young engineers.

100 years of Independence (5 November 2018)

Selena featured in the anniversary publication as part of the celebrations marking the 100th anniversary of Polish independence. The publication was prepared by the editing board of the Builder magazine and contained, *inter alia*, a statement by Krzysztof Domarecki.

Selena's participation in the Young Architect and Engineer Days (8 November 2018)

On 8 November, Selena took part in the 4Future Day in Warsaw. As part of the event, the Young Architect and Engineer Day was celebrated. It was the final meeting of young engineers and architects within the nationwide programme that brings together construction industry with the academic community.

Selena Iberia at the VETECO fair – E-POWER & BUILDING IN MADRID (13–16 November 2018)

On 13–16 November, Selena Iberia participated in the biggest construction fairs in Madrid focusing on Windows & Doors and Walls & Facades. The fair attracted over 80,000 exhibitors and 1,600 visitors from 100 countries. At its exhibition stand Selena Iberia conducted first demonstrations of the new hybrid adhesives based on MS polymers and presented the capabilities of the COOL-R. Thanks to its participation in the event, Selena Iberia established 80 new contacts.

Participation in training and demonstrations for young builders (14 November 2018)

The team led by Robert Rodzik took part in training and demonstrations for young builders held at CKPiU (a construction school) in Góra. These training sessions were a part of the permanent cooperation with school facilities, involving training and demonstrations for students of building schools and bringing young people up-to-speed about modern and innovative solutions in the industry.

Selena Iberia at the Salon International du Batiment fair in Morocco (21–25 November 2018)

In cooperation with its main distributor – Sacol – Selena Iberia took part in the international SIB fair, which primarily promote innovative solutions and new technologies that speed up construction processes.

Selena Turkey at Dubai Big5 for the third time (26–29 November 2018)

On 26–29 November, Selena Turkey took part in the BIG5 INTERNATIONAL BUILDING & CONSTRUCTION SHOW at the Dubai World Trade Center. Throughout the event, Selena Turkey could network with architects and other exhibitors and present Tytan Professional products to them. In addition having a highly positive impact on brand awareness, the show

enables Selena to reach new potential clients who have a huge potential to increase penetration of the products in the MEA market.

Construction Creator 2018 award for Selena S.A. (26 November 2018)

The Polish Chamber of Civil Engineers once again awarded Andrzej Ulfing and Selena S.A. with the title of Construction Creator 2018. The Construction Creator (Kreator Budownictwa) is a prestigious competition organised by the Polish Chamber of Civil Engineers, whose members select, once a year, the best companies and managers in the construction sector.

Selena at the Young Engineer Days at Kraków University of Technology (29 November 2018)

As part of the nationwide 4 YoungEngineers programme held in Kraków, Selena participated in the Young Engineer Days at the Kraków University of Technology. The meeting is part of a multi-month project addressed to young engineers in Poland, aimed at bonding the business and academic world, and developing the skills of the university graduates.

Selena S.A. at a meeting of the Polish Window and Door Association Council (4 December 2018)

On 4 December 2018, as a member of the Polish Window and Doors Association, Selena S.A. participated in a meeting of the Association's Council. Each year Selena S.A. participates in meetings and events organised by the Association's members.

VI Conference of the Construction Chemicals Industry (Chemia i Biznes) (4 December 2018)

Selena S.A. participated in an industry debate during the 6th Conference of the Construction Chemicals Industry organised by the Chemia i Biznes portal in Warsaw. The industry conference took place alongside a debate of representatives of industry companies on the condition and future of the construction sector.

Selena Iberia – cooperation with Leroy Merlin (Q4 2018)

Selena Iberia took part in an event organised by its business partner – Leroy Merlin, which organised a meeting for users together with demonstrations of new products available in stores. Store managers were trained by Selena Iberia's product managers in the application of such product groups as foams, foam adhesives and waterproofing products (aqua protect line).

“Another brick in the wall” – Selena Turkey's campaign to raise brand awareness (Q4 2018)

In the autumn of 2018, Selena Turkey started a campaign aimed at increasing brand awareness. With its key clients, Selena Turkey developed an appropriate brand display and visualisation of Tytan Professional products, including at shop windows or banners of 25 dealers and stores. These actions increased the visibility and sales of Tytan products.

1.8.4. Other significant events

In 2018, no significant events occurred for the Group other than those described in this report or in the Group's financial report for 2018.

1.9. Development of R&D operations

The Group's R&D activity is carried out chiefly by Selena Labs sp. z o.o. and through the labs in China, Spain, Turkey and Brazil.

In the first half of 2018, Selena Labs focused on development of the foam adhesives product group (FOAD), i.e. aerosol applications for bonding various construction and other materials.

Selena's offer includes aerosol adhesives for bricklaying, bonding EPS board insulation and waterproofing. The Company also offers 60 SECOND adhesives, which are also suitable for bonding small decorative elements.

Work was continued in the segment of adhesives and sealants in the area of development of products based on hybrid technologies. Selena finalised work on the new mounting adhesive, which combines the two most important features – a strong initial grip and very fast curing. The product received favourable market opinions.

Laboratory work was also finalised on a hybrid adhesive for parquet flooring, with parameters similar to those of polyurethane adhesives. The adhesive was put into production.

The formulation of the contact adhesive was modified to ensure the product can be used at lower temperatures. The formulation was put into production.

Selena finalised work on the formulation for a new transparent adhesive based on polyurethanes, dedicated to the Turkish market. The production of fire retardant products – silicone and acrylic sealant – was launched.

In the area of waterproofing products, Selena finalised work on a new formulation of COOL-R, the highly-reflective waterproofing roof coating, to expand the range of its use in various temperature and humidity conditions. The product was put into production.

Selena developed and put into production a new product line based on bitumen emulsions.

Selena launched production of a thick-layer waterproofing compound based on bitumen emulsion, which is currently being validated by customers.

In the second half of 2018, Selena also continued work under the HORIZON 2020 – EENSULATE and BIOMOTIVE projects. As part of the former project, work was finalised on the PIR foam with better fire-resistant and thermal insulation properties and limited smoke during combustion.

In the third quarter of 2018, Selena Group launched production of new products over which its R&D team had worked in previous months: the mounting adhesive with very short cure time and strong initial grip; the contact adhesive for low temperature applications; the transparent polyurethane adhesive and a range of fire-retardant products – silicone and acrylic sealants.

Also, the production of a modified, durable, highly reflective and waterproofing coating – COOL-R – was started, taking on board comments and needs of users from area with cool climate. Work is under way to start production of new water-based bitumen waterproofing emulsions. The Group develops its foam adhesives and aerosol applications.

Work has started on products based on raw materials from biorenewable sources that have a positive impact on the natural environment.

All products and systems are certified, taking into account not only mandatory requirements, e.g. those related to the CE mark, but also due to the expectations of end users, e.g. for LEED certification or other ECO-Label marks.

In Q4 2018, Selena Labs worked on new solutions for the U.S. market from the polyurethane chemicals range. Research is under way on ecological foams, which can be widely used in internal applications. In addition, Selena is developing products from the Ultra line, low-temperature foams and flame-retardant foams.

1.10. Key investments

In 2018, the Group's capital expenditures were more than 10% higher than its asset depreciation. Over 40% of the expenditures were spent on development investments and 33% on modernisation investments in production plants. Like in the previous year, the Group carried out necessary development investments, mainly modernisations, in most of its production plants.

One of the major investments was the continued construction of a new research and development laboratory in Dzierżoniów. Its opening ceremony took place on 2 April 2019. The new laboratory building brings together most of the Group's distributed R&D functions.

1.11. Description of risks and threats

The key factors that in the Management Board's opinion may affect the Group's performance in the following periods are described below.

The macroeconomic situation in Poland and world-wide. The updated forecast of the International Monetary Fund (IMF) published in January 2019 shows that in 2018 the global economy reached a GDP growth of 3.7%. 2019 is expected to see

a slightly slower growth of 3.5%, and what is particularly important: highly developed countries are forecast to grow by 2.0% (vs. 2.3% in 2018) and developing markets by 4.5% (vs. 4.7% in 2018). As regards the key markets of Selena FM Group in Europe, it is important to note good forecasts for the Spanish economy: 2.5% GDP in 2018 and 2.2% in 2019. The forecast for 2019 provides for positive GDP growth also in other European markets of Selena FM Group: Romania +3.4%, Hungary +3.3%, Czech Republic +3.0%, Bulgaria +3.1% or Italy +1.0%. For Poland, the IMF forecasts a decline in the GDP growth rate to 3.5%. According to the same forecast of the IMF, GDP growth in 2019 will be as follows: USA by 2.5%, Turkey by 0.4%, Ukraine by 2.7%. Kazakhstan by 3.1%, China by 6.2%, Brazil by 2.4%. GDP forecasts for the Russian market also point to an increase of 1.8%, an improvement on 0.1% observed in 2018.

Situation in the construction sector. Demand in the construction chemicals market is and will be influenced by the situation in the residential construction segment, where these materials are used to the highest degree. Data published by the Central Statistics Office (GUS) on 15 March for the nine months of 2018 point to a growth of 3.8% in house completions year-on-year. At the same time, the number of construction permits increased by 2.7%, while the number of commenced housing investments increased by 7.7%. There is a clear decrease in the growth rate in relation to 2017, when these ratios were a double-digit figure for the same period. At the end of 2018, the construction and assembly production was by 12.2% higher year-on-year. According to the data released by GUS on 22 February 2019, in February the General Business Indicator was similar to the January figure. The current orders portfolio is assessed as more positive than in January. Forecasts on employment are slightly less optimistic than last month, although a shortage of qualified workforce is strongly noted.

Availability of financing. According to the results of the PENGAB banking business sentiment index published by the Polish Banks Association in February this year, for 6-month projections 57% of the polled bankers pointed to an increase, 37% to stabilisation and merely 6% to a decline in the volume of housing loans. According to the Amron-Safrin report of 28 February 2019, the total value of debt on housing loans was PLN 415.16 billion. Measured at the end of 2018, this means an increase of 6.78% vs. the end of 2017. In turn, the number of active loan agreements in the corresponding period increased by 4.92%. These data suggest that the situation is stable in this regard.

FX rates. According to the currency forecasts consensus of Thomson Reuters as of 15 March 2019, the coming months are not expected to bring any major changes in the EUR/PLN rate, which is expected to stand at 4.26 at the year-end. Likewise, no sudden changes should be observed in the currency markets of Central Europe. Towards the year-end, the following currency rates are expected for the Group's main markets: EUR/RUB 78.49 EUR/CZK 25.26 EUR/HUF 317.78 EUR/RUB 4.79 EUR/UAH 33.32. The only market where a major weakening of the currency is forecast is Turkey, where the consensus for the EUR/TRY currency pair is 7.03, which would result in the exchange rate falling by 16% in relation to the end of 2018. Major fluctuations in exchange rates have an impact on credit risk.

Collection risk. The Group companies report a slight increase in overdue receivables. At the end of December 2018, the age structure of trade receivables slightly deteriorated vs. 31 December 2017. The proportion of up-to-date receivables decreased by 0.2 pp.

Raw material prices. After a period of strong increases in commodity prices in 2017 and at the beginning of 2018, the situation is growing stable. The prices of raw materials for the production of foams are slowly decreasing. The growth rate of prices of raw materials for the production of sealants has weakened; the high level of oil prices and road investments in Poland cause the prices of bitumens to continue to trend upwards.

The risk of a different assessment by tax authorities of transactions between Selena Group companies. The parent company Selena FM S.A. and Selena Group companies enter into intercompany transactions that may be subject to inspection by the tax authorities. The main purpose of the inspection is to check whether these transactions are entered into on an arm's length basis and whether the tax payable on such transactions is not understated. The companies of Selena FM Group have an obligation to prepare transfer pricing documentation and perform comparative data analyses as and when required. It should be noted that in 2017 extended transfer pricing obligations were imposed on Selena Group companies (including, e.g. new documentation obligations or extension of the scope of data indicated in the transfer pricing documentation). The approach and practice of tax authorities is not yet fully established and hence not possible to predict. The parent company is of the opinion that all transactions that the Company and the Group companies make with related entities were and are concluded only on an arm's length basis. However, it cannot be ruled out that tax authorities may have a different assessment of the Company's transactions with related entities, which could result in a need for adjustment of taxable income and thus the need to pay an additional tax along with default interest, which could have an impact on the Company's and the Group's financial result.

Risk related to changes in legal and tax regulations. Frequent changes in legal provisions and their inconsistent interpretations, which is typical of the Polish legal system, may impair the financial position of the parent company or Selena Group companies (e.g. as a result of a need to bring the operations of the Company or Group companies in line with the

resulting changes). Any amendments to or introduction of new local and EU laws may affect the situation and development prospects of Selena FM S.A. or Group companies, including their financial results. In consequence, they might have to incur additional costs to adapt their operations to such new or amended legal provisions. The above considerations relating to variability of laws and regulations and their inconsistent interpretation also apply to tax law. In particular – in addition to changes in substantive tax law – it should be noted that 15 July 2016 was the effective date of the Tax Ordinance, notably the General Anti-Avoidance Rule (GAAR), which is intended to prevent the creation and use of artificial legal structures designed to thwart tax avoidance. The above provisions apply to tax benefits arising from artificial legal structures that were achieved after the effective date of the GAAR clause (irrespective of when the structure was created). As a consequence, the determination of tax liabilities may require a significant degree of judgment, including in relation to the transactions that have already occurred, and the tax charges presented and disclosed in the financial statements may change in the future as a result of inspections by tax authorities. Given the existence of the GAAR, and the variable nature of the substantive tax law and its interpretations, it should be noted that there is an inherent uncertainty regarding qualification of operations of the individual entities by Selena Group companies in the context of their recognition under tax law, which may affect the ability to use deferred tax assets in future periods and a need to pay additional tax for past periods (alongside additional penalties provided for under tax law and default interest). Polish tax authorities may inspect books of account and tax settlements within five years after the end of the calendar year in which a tax obligation arose and assess an additional tax to be paid by Group companies, along with penalties and default interest.

Risk related to the introduction the GDPR. Since 25 May 2018, the Parent Company and Group companies, as entities processing personal data, have been subject to the requirements of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation or GDPR).

Both the Parent Company and the Group companies implemented in a correct and timely manner the obligations arising from the GDPR. The Group regularly monitors the level of compliance with the GDPR.

1.12. Expected development of the Group

In 2019, the growth of Selena FM Group will continue to be driven by boosting sales in mature markets, especially in Western Europe, while taking advantage of the economic situation in other Eastern markets, in the United States and China.

The priority areas for the next years are:

- Balanced growth of sales in all markets, notably in the economically stable ones
- Development of the sales of products that are innovative on an European scale
- Constant improvement of the existing products
- Strengthening of market position in the group of foam adhesives and waterproofing solutions
- Consolidation in the mature European market
- Continued improvement of operational effectiveness of the Group and optimisation of their production potential.

1.13. Investment plans

In 2019, Selena FM Group intends to focus on both on development and modernisation investments to increase the effectiveness of production lines, and on investments into work safety. The main investments will be delivered in the following production plants: Orion, Libra, Matizol, Selena Iberia and EURO MGA.

There are plans to continue to implement the ERP class IT system based on Microsoft Dynamics AX 2012 in other foreign affiliates. IT expenditures are expected to have more than 20% share in the total capital expenditures planned for 2019.

If the economic conditions are attractive enough, Selena FM Group might consider business investments (acquisitions), provided they are attractive enough and are a good fit with the Group's growth strategy.

2. Financial position

2.1. Financial performance

The tables below show selected items of the consolidated income statement and selected financial ratios.

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017	Change	Change %
Revenue from sales	1,227,971	1,178,706	49,265	4.2%
Cost of sales	870,084	838,499	31,585	3.8%
Gross profit	357,887	340,207	17,680	5.2%
Selling and marketing costs	193,646	192,823	823	0.4%
General and administrative expenses	99,359	98,156	1,203	1.2%
Other operating profit (loss)	-8,008	-5,794	-2,214	-
Impairment loss on financial assets	4,579	0	4,579	-
EBITDA (operating profit + depreciation + amortisation)	80,256	69,180	11,076	16.0%
Operating profit (EBIT)	52,295	43,434	8,861	20.4%
Net financial income (loss)	-15,491	-27,716	12,225	-
Share in net profit/loss of the associate	459	485	-26	-
Profit (loss) before tax	37,263	16,203	21,060	-
Profit (loss) after tax	26,660	6,839	19,821	-
Other net comprehensive income	-3,838	-10,605	6,767	-
Total comprehensive income	22,822	-3,766	26,588	-

	Change in p.p.		
Gross profit margin	29.1%	28.9%	0.2
Selling costs/ revenue from sales	15.8%	16.4%	-0.6
General and administrative expenses/ revenue from sales	8.1%	8.3%	-0.2
EBITDA margin %	6.5%	5.9%	0.7
Operating profit margin (EBIT%)	4.3%	3.7%	0.6
Net profit margin	2.2%	0.6%	1.6

EBIT % - operating profit/ revenue from sales

EBITDA % - EBITDA/ sales

* Comparative data for the year ended 31 December 2017 have been adjusted for the effect of a change in the presentation of costs of unused production capacity: cost of sales was increased by PLN 2,488 thousand, while other operating costs were reduced by a corresponding amount, which cause the gross margin for 2017 to fall by 0.2 pp

Revenue from sales

Consolidated revenue from sales in 2018 amounted to PLN 1,228.0 million, which is by 4.2% (by PLN 49.3 million) more than in the corresponding period of the previous year.

The increase in sales in the period of 12 months of 2018 was driven by revenues earned in the first quarter of 2018 by Uniflex S.p.A. (PLN 14.8 million), the acquisition of which took place at the end of March 2017, and an increase in sales by Group companies in Spain, Kazakhstan, China and the United States.

The sales of Selena Group are presented by three geographical segments: the European Union (including Poland), Eastern Europe and Asia (including Russia and China), and North and South America (USA and Brazil). The sales structure by segments has not changed significantly compared with 2017. European Union remains the key segment. It generated 65% (vs. 62% in 2017) of total sales. The Poland subsegment maintains its share in total sales, inter alia, thanks to the sales generated by the local manufacturing plants to private label customers abroad. The Eastern Europe and Asia segment recorded a slight decrease in its share to 30% despite growth in terms of value. The North and South America segment maintained its share in sales, achieving 6% contribution to Group's revenues.

Segment	Segment's share in the Group's revenues		Change 2018 / 2017
	Period ended 31 December 2018	Period ended 31 December 2017	
European Union, including:	65%	62%	9%
<i>Poland</i>	36%	37%	1%
<i>Other countries</i>	29%	25%	23%
Eastern Europe and Asia	30%	32%	-5%
N&S America	6%	6%	-1%

Gross profit on sales

For 12 months of 2018, Selena Group generated gross profit of PLN 357.9 million, i.e. PLN 17.7 million more year-on-year.

Gross profit margin was 29.1%, i.e. by 0.2 p.p. more than last year. The gross profit margin was still to a large extent under the influence of high prices of raw materials (with those for production of foams beginning to decline slowly in the second half of the year, coupled with a growth of materials for the production of silicones). The market situation did not allow the increases in raw material prices to be passed on to the market by increasing product prices.

Selling costs and general and administrative expenses

Selling costs in 2018 were PLN 193.6 million, up merely by PLN 0.8 million, i.e. 0.4% year-on-year. What is positive is the fact that the growth in sales (4.2%) was significantly higher than the growth in selling costs.

General and administrative expenses in 2018 increased by PLN 1.2 million (1.2%) year-on-year. The increase is due to the fact that Uniflex, acquired in 2017, had a share in the Q1 costs. This line item was also significantly affected by an increase in amortisation of intangible assets.

After 12 months of 2018, the ratio of selling, general and administrative expenses to sales was 23.9%, down 0.8 p.p. year-on-year.

The result on other operations was negative at PLN -12.6 million, taking into account the impairment loss in respect of financial assets. It was by PLN 6.8 million worse than last year. Since 1 January 2018, as required by the new IFRS 9, the Group has reported the net balance of impairment of financial assets in a separate line in the consolidated income statement.

The loss on other operations was affected by impairment allowances on receivables, less reversed allowances (PLN 4.6 million), impairment allowances for inventory, cost of liquidation of stocks and inventory shortages, less reversed allowances for the value of stocks and stock-taking overages (PLN 4.8 million in total). The result on other operations was also positively influenced by subsidies received (PLN 3.1 million).

Operating profit (loss)

In 2018, the Group generated an operating profit of PLN 52.3 million vs. PLN 43.4 million in the previous year, up 20.4% year-on-year. The change in operating profit resulted from an increase in sales and a reduced ratio of selling costs to turnover.

Profit (loss) after tax

In 2018, Selena Group generated net profit of PLN 26.7 million vs PLN 6.8 million posted a year before. The profit margin was higher by 1.6 p.p. The Group's net result was primarily influenced by the net financial income, including by valuation of open currency positions (trading settlements and loans received/granted). In the reporting period of 12 months of 2018, operating profit was reduced by a net loss on financial activity of PLN 15.5 million, including a negative balance of FX differences (PLN 9.3 million). For comparison, over 12 months of 2017, the Group's net FX position was a cost of PLN 24.7 million.

In 2018, there was an unfavorable trend in key currency pairs, i.e. EUR/RUB, EUR/KZT and EUR/TRY at the beginning and at the end of the reporting period. The Selena Group hedges the active part of its currency exposures relating to trade receivables and liabilities, i.e. those that can actually be realised over 12 months. Under its FX Risk Management Policy developed in 2017, Selena Group hedges its currency exposure by using multi-currency credit lines, in particular by entering into forward transactions, primarily in EUR/RUB, EUR/PLN and USD/PLN. In 2018, the Group secured extended financing for Selena Vostok with local loans up to RUB 700 million, which significantly reduced in the negative impact of exchange rate differences on the EUR/RUB pair.

The cost of interest on loans and finance leases totalled PLN 6.1 million net (after reduction by the achieved interest income from bonds and bank deposits), and was higher by PLN 2.0 million year-on-year.

For 12 months of 2018, the income tax charge was PLN 10.6 million vs. PLN 9.4 million posted in the corresponding period of 2017.

After the 12 months of 2018, EBITDA was PLN 80.3 million (including depreciation: PLN 27.8 million) and was by PLN 11.1 million (16.0%) higher year-on-year.

2.2. Asset and financial position

The table below shows selected figures of the consolidated statement of financial position as at 31 December 2018 and 31 December 2017.

Figures in PLN thousand	31 December 2018	31 December 2017 restated data*	Change	Change %
Non-current assets	302,720	313,531	-10,811	-3%
Property, plant and equipment	211,586	220,825	-9,239	-4%
Intangible fixed assets	55,548	55,475	73	0%
Other long-term assets	35,586	37,231	-1,645	-4%
Current assets	492,519	508,645	-16,126	-3%
Inventories	180,916	193,040	-12,124	-6%
Trade receivables	217,910	206,435	11,475	6%
Cash	45,501	52,921	-7,420	-14%
Other current assets	48,192	56,249	-8,057	-14%
Equity	425,903	410,112	15,791	4%
Liabilities	369,336	412,064	-42,728	-10%
Bank and other loans	142,492	152,129	-9,637	-6%
Trade liabilities	132,116	164,628	-32,512	-20%
Other liabilities	94,728	95,307	-579	-1%
	31 December 2018	31 December 2017 restated data*		
Current liquidity	2.1	1.4		
Quick liquidity	1.3	0.8		
Debt ratio	46%	50%		

Current liquidity – current assets / current liabilities

Quick liquidity – current assets less stocks / current liabilities

*The reasons for effects of the restated data published in prior periods are contained in Note 3.1 of the consolidated financial statements for 2018.

In 2018, the Group's balance sheet total increased by PLN 26.9 million.

The current and quick liquidity ratios (2.1 and 1.3, respectively) confirm the Group's ability to meet its current liabilities.

2.3. Debt

Net debt figures and debt ratios are presented in the table below.

Figures in PLN thousand	31 December 2018	31 December 2017 restated data*
Interest bearing borrowings	142,492	152,129
Other financial liabilities	22,422	28,699
Less cash and cash equivalents	-45,501	-52,921
Net debt	119,413	127,907
Equity attributable to the shareholders of the parent	425,346	409,622
Equity and net debt	544,759	537,529
Gearing (net debt / equity + net debt)	22%	24%
Debt ratio (liabilities / total assets)	46%	50%
Net debt / EBITDA**	1.49	1.85

*The reasons for effects of the restated data published in prior periods are contained in Note 3.1 of the consolidated financial statements for 2018.

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

As at the balance sheet date, the debt on bank and other loans decreased vs. 31 December 2017 to PLN 142.5 million (down by PLN 9.6 million). A major improvement was noted in the debt covenant Net Debt to EBITDA ratio: which fell from 1.85 in 2017 to 1.49 at the end of 2018.

At the end of 2018, the debt ratio amounted to 46% and was higher than the ratio posted a year before (50%).

2.4. Cash flows

The tables below show selected items of the consolidated cash flow statement for 2018 and 2017.

Figures in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017	Change
Net cash flows from operating activities	44,527	-7,462	51,989
Net cash flows from investing activities	-24,859	48,795	-73,654
Net cash flows from financing activities	-27,212	-43,137	15,925
Change in cash and cash equivalents:	-7,544	-1,804	-5,740

In 2018, net cash flows were PLN -7.5 million vs. PLN -1.8 million in 2017.

Net cash flows from operating activities were PLN 44.5 million versus PLN -7.5 million in 2017. The level of cash flows from operating activities was significantly affected by a strong decrease in inventories compared to the previous year.

Net cash flows from investing activities were negative at PLN -24.9 million compared with the positive balance of PLN 48.8 million recorded in 2017. The positive balance posted in 2017 resulted mainly from the proceeds from bond repayment of PLN 60.4 million.

Net cash flows from financing activities amounted to PLN -27.2 million. This figure was mainly affected by the net loan repayments (PLN -9.2 million), interest paid (PLN -6.4 million) and finance lease payments (PLN -5.6 million). The parent company Selena FM S.A. paid shareholders PLN 6.9 million in cash in 2018 as part of settlement of dividend payout.

2.5. Loans received

The balance of bank borrowings as at 31 December 2018 is presented in the table below.

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	30,312	0	0	33,902
2	Working capital loan	07/2021	46,798	0	0	26,686
3	Working capital loan	01/2019	0	15,551	0	47,635
4	Investment loan	03/2018	0	0	0	411
5	Working capital loan	06/2021	27,855	0	9,428	0
6	Working capital loan	08/2019	0	2,742	0	18,260
7	Working capital loan	01/2019	0	2,713	0	3,844
8	Working capital loan	11/2021	7,986	0	0	0
9	Other	Various	2,761	5,774	3,286	8,677
			115,712	26,780	12,714	139,415

Details of the lending terms are presented in Note 21.2 of the consolidated 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.

2.6. Guarantees and off-balance sheet items

The Group companies did not give any material guarantees to non-Group members. Specification of the guarantees provided by the Parent Company to Group companies is contained at Note 21.1 of the unconsolidated financial statements of the Parent Company for 2018.

2.7. Financial instruments and financial risk management principles

Details of the Group's financial instruments are presented in Note 33 of the Group's consolidated financial statements for 2018. The Group's risk financial risk management principles (covering FX risk, interest rate risk, credit risk and liquidity risk) are presented in detail in Note 32 of the Group's consolidated financial statements for 2018.

2.8. Investments

In 2018, the Group did not complete any major financial investments, other than the necessary development initiatives.

2.9. Assessment of financial resources management

As at 31 December 2018, the ratio of current assets to current liabilities (current liquidity ratio) was 2.1. The Group's current assets amounted to PLN 475.9m, while current liabilities were PLN 236.7 million. With such a structure, the Management Board sees no material risks to the Group with regard to liquidity and timely payment of obligations.

As at 31 December 2018, the Group's cash position was PLN 45.5 million. The Group also has undrawn committed credit limits of PLN 210.4 million, which in the opinion of the Management Board ensure financial liquidity and stable funding for the Group entities.

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

3. Other information

3.1. Material agreements

Material agreements concluded by the Group in 2018 include bank loan agreements (Note 2.5).

As deliveries and sales take place on an ongoing basis, no single material agreements were concluded in the ordinary course of business.

The table below shows material insurance agreements signed by the Group companies in 2018.

Contracting company	Insurance	Sum insured (million)	Ccy	Insurance period
All companies established in Poland	Property insurance against all risk and loss of profits	349.25	PLN	16/06/2018 - 15/06/2019
	General liability insurance (for the conducted business and property held)	20.00	PLN	16/06/2018 - 15/06/2019
	Motor insurance	Different	PLN	12 months
	Insurance against accidents and cost of medical service during foreign business trips	20.00	USD	11/06/2018 - 10/06/2019
	Liability insurance for firms providing accounting services to third parties (Selena FM S.A.)	0.10	PLN	02/02/2018 - 01/02/2019
	Electronic equipment insurance	4.60	PLN	16/06/2018 - 15/06/2019
	Loss of profit insurance	86.49	PLN	16/06/2018 - 15/06/2019
	D&O insurance	125.00	PLN	1/02/2018 - 30/06/2019
Selena Iberia	Asset insurance	31.07	EUR	15/06/2018 - 15/06/2019
	Insurance against loss of profit due to business interruptions	13.29	EUR	15/06/2018 - 15/06/2019
	Goods-in-transit insurance	0.18	EUR	01/01/2018 - 01/01/2019
	Liability insurance for natural environment	3.00	EUR	30/12/2018 - 30/12/2019
	General liability insurance (for the conducted business and property held)	1.00	EUR	15/06/2018 - 16/06/2019
	Cyber risk insurance	0.50	EUR	26/10/2018 - 26/10/2019
D&O insurance	3.00	EUR	01/01/2018 - 01/01/2019	
Global agreements	Trade credit insurance	16.00	EUR	1/11/2018 - 31/10/2019
Other foreign affiliates		23.30	RON	16/06/2018 - 15/06/2019
		9.27	TRY	16/06/2018 - 16/06/2019
	Insurance of assets against all risks, loss of profit	1,040.64	KZT	24/01/2018 - 23/01/2019
		2.90	RUB	01/09/2018 - 30/06/2019
		5.50	TRY	16/06/2018 - 16/06/2019
	General liability insurance (for the conducted business and property held)	4.68	RON	16/06/2018 - 15/06/2019
		73.40	RUB	16/06/2018 - 15/06/2019
	Motor insurance	Different	Different	12 months
	Other	290.63	KZT	16/05/2018 - 15/05/2019
		83.52	KZT	14/02/2018 - 13/02/2019

3.2. Related party transactions

The companies from the Selena FM Group did not enter into any unusual transactions or transaction made on non-commercial terms whose total value would meet the materiality criteria (10% of equity).

3.3. Issue of securities

In 2018, no securities were issued.

3.4. Acquisition of own shares

The Parent 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 Parent Company's shares held by the executive and non-executive directors of the Parent are presented in Note 3.10 of this report.

3.5. Delivery of forecasts

The Company did not publish its consolidated forecasts for 2018.

3.6. Litigations

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

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

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

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

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

At the request of Bank Millennium, the Regional Court in Warsaw resumed the proceedings. During the first hearing on 14 March 2017, the attorney of Bank Millennium filed a motion to refer the case to mediation. The court decided to defer its decision regarding the motion.

As at the date of preparation of the consolidated financial statements, the Regional Court continues examine evidence for the case. The company expects that the decision of the court of first instance should be taken in H2 2019 at the earliest. The company has a legal opinion which shows that the claim for payment is very likely to be successful.

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

Selena S.A. (Company) is a party to customs proceedings relating to the imposition by the customs authorities of anti-dumping duty on the Company in connection with the import of open-mesh fabrics of glass fibres from Taiwan, which took place in 2011–2012 (the anti-dumping duty on imports of certain open mesh fabrics of glass fibers shipped from Taiwan was not in force at the time). Anti-dumping duty on imports of this commodity the anti-dumping duty on this mesh was introduced with transactions carried out from 25 May 2012, on the basis of Regulation No. 437/2012 of 23 May 2012 in conjunction with Regulation No. 21/2013 of 10 January 2013.

On 24 February 2014, the Head of the Customs Office in Gdynia initiated the first proceedings against Selena S.A. concerning determination of anti-dumping customs duty. On 27 May 2014, the Head of the Customs Office in Gdańsk initiated further 37 proceedings in this regard. The basis for initiation of the procedure by the Polish customs authorities was the receipt of a report drafted by the European Anti-Fraud Office (OLAF) on the investigation carried out by OLAF in Taiwan in 2013 concerning the suspected circumvention of the anti-dumping duty imposed on the imports of open-mesh fabrics.

As a result of the proceedings against the Company, an obligation was imposed on it to pay PLN 7,992.9 thousand in customs duties. These decisions were essentially based on the above OLAF report (and in fact, the summaries submitted by the Taiwanese authorities, i.e. tables attached to the OLAF report), which was challenged by the Company during the proceedings. The findings of these decisions were upheld by the court of the second instance, which resulted in the Company filing a complaint to the Provincial Administrative Court (WSA) in Gdańsk.

Following initially favourable decisions issued by the WSA, unfavourable rulings were passed on 15 December 2016 (in a group of three proceedings), where the court dismissed the complaints filed by Selena S.A. These negative rulings increased the risk of a negative outcome of the remaining cases, so a decision was made to raise a provision for this purpose. In these cases, on 20 and 22 February 2017, the Company lodged cassation appeals to the Supreme Administrative Court (NSA).

A group of other 15 cases were suspended before the court of the second instance. During the proceedings, in September 2017 rulings were issued upholding the decisions of the court of the first instance. As a result, customs duties of PLN 4.4 million were paid, including interest of PLN 0.2 million. The Company's appeals lodged to the WSA in these cases were dismissed by the court. The Company disagreed with the judgments and lodged cassation appeals on 16 April 2018. At the same time, the Company also filed a cassation appeal in another similar case. The case was referred by the NSA to be reconsidered, as a result of which the WSA issued a decision unfavorable for the Company. In this other case, the duty payable is PLN 407.1 thousand and was paid by the Company.

There remains another group of 13 proceedings, which were suspended by the Provincial Administrative Court in Gdańsk (the amounts resulting from these decisions, with interest, totalling PLN 2.8 million were paid in September 2018).

A provision had been raised for the amount of potential future customs obligations, posted in 2016 and 2018. Most of the provision was used in 2017 and 2018. As at 31 December 2018, the remaining provision amount is PLN 0.5 million. After the balance sheet date, a provision of PLN 0.5 million was used in connection with the repayment of interest.

3.7. Unusual events and factors

Other key factors affecting the Group's performance in 2018 were described in Note 2 of this report.

3.8. Remuneration of the Management Board and the Supervisory Board

The remuneration of the Management and the Supervisory Board members of the Parent Company is described in Note 30 of the Group's consolidated financial statements for 2018.

3.9. Equity-based remuneration programmes

In 2018, no equity based remuneration programmes were in operation.

3.10. Shareholdings by executive and non-executive directors

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

Name	Role	Number of shares held	Nominal value of shares (PLN)
AD Niva Sp. z o.o. *	-	9,763,000	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.

3.11. Agreements affecting changes in the proportion of shareholdings

The Company has no other information on any agreements that in the future might affect the proportion of shareholdings of the existing shareholders.

3.12. Control of Employee Share Programmes

In 2018, no employee shares programmes were in place in Selena FM S.A.

3.13. 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.

Remuneration of the auditor of the Parent Company's unconsolidated financial statements and the Selena FM Group's consolidated financial statements as well as financial statements of selected subsidiaries for 2018 and 2017 is presented in Note 31 of the consolidated financial statements for 2018.

4. Corporate Governance Principles

Corporate governance principles applied by the Group are presented in detail in the report on the activities of the Parent Company – Selena FM S.A. for 2018.

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

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

**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**

Appendix 1 Group's Non-Financial Information Statement



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I. Additional information

Selena FM S.A. is not required to prepare a non-financial information statement. Such a statement needs to be drawn up for the Group as a whole.

This non-financial information statement of Selena Group has been prepared based on the Non-Financial Information Standard 2017 (SIN).

The procedures and policies described in this Statement do not contain any quantified objectives for the Group – they merely set lines of action and main operating principles. This model has been adopted due to the wide geographical span of the Group's operations and the diversified business profit of its individual companies.

II. Management area

1. Description of the business model and strategic development directions

1.1. Business model

Selena FM Group ("Group" or "Selena Group") is a group of companies which produce and distribute construction chemicals. The Group is based on Polish capital. The Group's Parent is Selena FM S.A. of Wrocław, which on 18 April 2008 debuted on the main market of the Warsaw Stock Exchange.

Selena Group is a global leader and distributor of construction chemicals and one of the three largest producers of polyurethane foam in the world. The Group's product range includes foams, sealants, adhesives, waterproofing products, insulation systems, fastenings and complementary products. The Group's portfolio is topped by such outstanding brands as Tytan, Quilosa, Artelit and Matizol.

At present, Selena Group comprises 33 companies (including distribution and commercial companies and production plants) in 16 countries on 4 continents. The Group's production plants are located in Poland, Brazil, China, Romania, Turkey, Spain, Italy and Kazakhstan and its products are available in the markets of more than 70 countries in the world. The Group also carries on R&D activity in Poland, Spain, Turkey, China and Italy. The international team's activities are coordinated by Selena Labs based in Dzierżoniów. In April this year the company officially opened its modern R&D centre.

1.2. Main business strategy directions

In its activities, Selena Group focuses primarily on appropriate response to the needs of end users of construction chemicals around the globe, ensuring the highest quality of its own products in various geographies and climatic conditions.

Selena Group's mission statement is "Together we deliver better building performance", which is underpinned by many years of experience gathered in cooperation with users – builders across the world.

In its products and system solutions, the Group primarily focuses on: fast and convenient application; durability; energy efficiency; pro-environmental aspects; weather resistance in various geographical regions; efficiency, comprehensiveness and user safety.

One of the most important directions of the Group's development is Selena's close cooperation with builders in many countries of the world. This will only be possible by careful listening to users' needs and designing the right products. That is why Selena constantly develops its portfolio of innovative products, and achieving an increase in their sales is one of the main challenges for Group companies in all countries. These activities are correlated with changes in work technology resulting from digitalisation and higher level of service for customers.

An important R&D area is also pro-environmental solutions, which respect the principles of sustainable construction. The R&D unit develops both products that help to save resources, such as electricity, as well as new components derived from biorenewable sources (as part of cooperation in the Horizon 2020 programme). The solutions developed under these projects respond to the needs of investors and users, including in the area of LEED¹, BREEAM², ECO-LABEL³ and carbon footprint requirements and are in line with Selena's corporate social responsibility.

1.3. Implications of the business model

Thanks to its consistently implemented business model, Selena Group, operating for 26 years in the market, is now one of the three largest producers of polyurethane foams, is ranked second in adhesives in the Russian market and is the leader in the segment of traditional adhesives in Poland. The Group employs 1,800 people (as at 31 December 2018). Its products are distributed to 70 markets on 4 continents: in Europe, Asia, South America and North America.

1.4. Strategies

Selena Group is constantly working on improvement of its existing and introduction of innovative solutions to the market – thanks to the exchange of knowledge and professionalism of the teams located in 16 countries. Diversification of sales markets allows the Group to pursue stable and balanced development.

The Group's main driver is cooperation with end Users. As an experienced organisation with more than 25 years of market experience, own know-how, robust R&D function and extensive distribution network, Selena concentrates its business activities around even closer identification of Users' needs. Thanks to close cooperation with builders, the Company will design innovative solutions that will significantly change or affect the User's work. With an international team of specialists and experts, Selena is able to identify the needs and flexibly respond to changes. As a result, its solutions cater to specific expectations and improve the work of the builder. This makes Selena a trusted partner in business (as it builds its leadership position), and Users are fully satisfied with the products offered.

The Group's strategic goal is also to improve work ergonomics and internal performance, and deliver products tailored to global trends while respecting fundamental values such as human rights, equal employment opportunities, counteracting corruption or environmental protection.

With consistent implementation of its strategies and commitment, both by individuals and teams, the Group believes it is able to deliver on its goals.

1.4.1. Environmental aspects

When implementing its business strategy, Selena Group always takes due account of environmental matters.

It is production plants that have the biggest impact on the environment. They have a leading role in ensuring that the highest environmental standards are maintained. With constant monitoring and proper planning of activities, the production plants' environmental impact is gradually mitigated.

In 2018, we run an environmental audit for all the Group companies headquartered in Poland. The purpose of the audit was to thoroughly verify the current situation and identify possible areas for improvement in terms of environmental protection.

¹ LEED – the multi-criteria evaluation system for buildings (Leadership in Energy and Environmental Design) introduced in 1998 by U.S. Green Building Council USGBC. The second most-used multi-criteria certification system for buildings in Poland after BREEAM

²BREEAM – Building Research Establishment Environmental Assessment Method, introduced in the UK in 1990 by BRE Global. It is present in 77 countries. It is the most widespread system in Poland. In the certification process, a BREEAM assessor needs to be higher. Their list can be found on the GreenBook Live pages of the system operator, BRE Global, which grants certificates.

³ ECO-LABEL – also known as the EU Flower, is awarded in 30 product categories available in the EU market (including Iceland, Liechtenstein and Norway). The Ecolabel certificate is awarded to individual products that meet a number of standards, and their entire life cycle is planned in such a way as to have the least adverse impact on the natural environment.

Environmental requirements are also implemented through continuous formal and legal supervision at the Group level and implementation of the required measures at the Group companies as well as implementation of the obligations set out in environmental decisions.

In the R&D area, Selena Group is an active partner of the Horizons 2020 Programme⁴, whose one of the main goals is to contribute to the protection of natural environment.

In its efforts to ensure dynamic production growth, Selena Group uses only certified raw materials. In addition, Selena Group's factories operate special programmes designed to save energy and reduce carbon emissions and waste.

In terms of products, Selena Group not only cares about expanding the range of its products, but also focuses on innovation. For example, Selena Group keeps developing its COOL-R technology which allows roof temperature to be lowered by nearly 70%. This in turn helps reduce carbon emissions to the atmosphere as a result of reduced demand for air-conditioning equipment.

Bearing in mind even more effective energy management in production processes, an energy audit was carried out in the Group's largest production plants. The audit was a voluntary initiative stemming from Selena's care about the natural environment, as none of the Group's plants was required to conduct such an audit under the Energy Efficiency Act.

Comprehensive analyses of energy use, which will be prepared by a specialist external company, will be used to introduce potential improvements.

1.4.2. Social/ employment aspects

At present, no major employment downsizing is planned at the Group level. However, due to the noticeable reduction in the number of potential employees, Selena Group might consider future actions aimed at automation of production processes thus reducing the demand for workforce.

1.5. The market

Selena Group operates in the construction chemicals market. We sell our products in more than 70 local markets on 4 continents. The construction chemicals market is sensitive to changes in the macro environment, i.e. legal, social and technological changes. Particularly important are changes in regulations regarding the use, collection and disposal of chemical products and waste as well as the expectations of customers. This is also important due to the size of Selena Group.

Therefore, Selena Group has specialised units responsible for ensuring efficient operations in the areas of R&D, chemical substances, ISO, labels and environmental management.

The Group's current market comprises four main application segments:

- finishing and renovation works
- windows & doors installation
- waterproofing products
- walls & facades, including ETICS

⁴The EU Framework Programme Horizon 2020 is the largest research and innovation programme in the history of the EU. It includes three previously separate research support programmes at the EU level. These are:

- 7. Framework Programmes for Research and Technological Development,
- the innovation related activities of the Competitiveness and Innovation Framework Programme (CIP),
- and the activities of the European Institute of Innovation and Technology (EIT).

The proposition addressed to professional contractors from these segments is based on products and systems from the following product categories:

- a) foams
- b) adhesives and sealants
- c) insulation systems
- d) waterproofing systems.

1.6. Products and services

Selena Group executes orders in the markets of more than 70 countries. Such a large scale of the Group's operations results from the fact that at each stage of product development Selena Group guarantees innovative and competitive solutions that respond to specific needs of Users from different countries/ geographical regions. At the same time, these solutions are offered with adherence to the highest global standards, confirmed by awards and international quality certificates.

At present, Selena Group is one of the three largest producers of mounting foam in the world. The Group's portfolio includes a wide range of those products tailored to different customer needs and applications. The foams on offer include in particular:

- gun and straw foams
- high-yield and low-pressure foams
- winter and multi-season foams
- specialist and dedicated foams
- foam adhesives.

In addition, Selena Group produces:

- sealants
- construction and industrial adhesives and chemical anchors
- floor systems
- thermal insulation systems (ETICS)
- systems for finishing interior walls
- systems for ceramic tiles
- mortars
- waterproofing materials
- passive fire protection solutions
- building accessories.

Selena Group's products are catalogued according to the application segments (to make it easier for customers to choose between the products). The online version of the catalogue is available at <http://www.selena.pl/pl/produkty/>. It contains a detailed description of the products, with information on their technical parameters and application areas.

1.7. Competitive environment

Selena Group's competitive market can be divided into three groups:

- a) foams, adhesives and sealants — the main competitor group is large international/ global enterprises including such brands as Soudal, Bostik, Henkel and Mapei;
- b) insulation systems – competition depends to a large extent on local markets and enterprises selling their products in those markets; there is no clear competitor in the global market;
- c) waterproofing systems – as in the case of insulation systems, competition mainly exists in individual local markets, without a clear competitor in the global market.

As the Group has observed, a consolidation trend can be seen in the construction chemicals market.

1.8. Supply chain

Selena Group's activity covers all stages of product creation: from advanced research to production, distribution, marketing and sales worldwide. To achieve the right flexibility in the supply chain, Selena Group has the following units responsible for individual elements of the supply chain:

- Product Life Management (e.g. registration of basic product and counterparty data, and supervision over their correctness)
- S&OP (sales and distribution plans; order execution; control of deviations from the plan and budget; identification of risks related to the shortage of production capacity and raw materials)
- Customer Service (e.g. contact with customers, entering orders, building customer relations)
- Transport & Warehousing (including handling and delivery of transports to customers; customs services; handling of warehouse processes; supervision over transport and warehouses in the group)
- Supply Chain Analytics (including collection and processing of supply chain data, cost analysis).

2. Corporate Governance

2.1. The Group's management structure

The Group comprises over 30 Polish and foreign companies in 17 countries on 4 continents, including production plants located in 8 countries on 3 continents. The Group's headquarters, from which the entire international activity is managed, are located in Wrocław.

For management purposes, the Group has identified 3 geographic segments:

1. European Union (including Poland, Spain, Italy, Romania),
2. Eastern Europe and Asia (including Russia, Kazakhstan, China) and
3. North and South America (United States and Brazil).

The ownership and organisational structure of the Group and division into operating segments are presented in Note 1.7.1 of the Management Board's consolidated report on the Group's activities.

2.2. Instruments supporting effective management

Effective management in Selena Group is ensured by high-class managerial personnel. To facilitate their work, Selena Group adopted the *Rules for Objectives and Performance Management System for Management Personnel*. The Rules describe such issues as: consolidating the managerial personnel around joint implementation of Selena Group's strategy; communicating and disseminating the Group's long-term business goals; creating a favourable environment for joint goal-setting; the process of managing goals and results and the system of bonuses for management personnel. Bonuses for management personnel are in particular linked to the IES index (Group/Company/Unit Efficiency Index) and achievement of individual MBO objectives.

In addition to the above Rules, the Group has *Rules for the system of performance management and granting bonuses to specialists at Selena Group's headquarters*. The purpose of these Rules is to motivate people by granting additional benefits to those who achieve their objectives, designated as IES (Group Effectiveness/Company/Unit Index). The objectives and degree of their achievement are measured and recorded on the corporate Intranet site. Such a solution contributes to ensuring transparency, greater objectivity, as well as the possibility of comparing the employee's development with previous periods. Also, a tool for staff performance review was developed.

The Group's production plants use the quality management system based on the requirements of ISO 9001. It should be noted in 2018 the plants adapted the system to the latest version of the 2015 standard. The purpose of implementation of the system is to meet our customers expectations in relation to – above all – quality, taking into account the risk-based approach, as required by the 2015 standard. In addition, it should be emphasised that some of some of our production

plants, both in Poland and beyond, implemented not only the quality management system, but also the integrated system which takes into account the occupational health & safety and environmental management aspects.

2.3. Information management

As a listed company, Selena FM S.A. is required to comply with certain rules in communicating with various stakeholder groups, including regulatory and supervisory institutions and market organizers (KFN, Warsaw Stock Exchange) and Investors. It is a priority for Selena Group as an entity listed on the Warsaw Stock Exchange to operate an active and transparent information policy based on the following principles:

- **Transparency** – as required by law, on its corporate website www.selena.com the company publishes, in the form of current and financial reports, all legally required information as well as stock exchange quotations, terms of reference of the governing bodies of the parent company, information about upcoming general meetings, events and news;
- **Reliability** – business-related content is prepared using reliable information based on public data;
- **Equal access** – all interested entities have access to public information, published by the company on, e.g. its corporate website at www.selena.com, in the dedicated Investor Relations tab
- **Credibility** – the company provides reliable information on events which are important for the organisation and engages in regular communication through media that are key for the company. The company ensures that its employees, as experts, take part in industry and economic events, conferences and forums. Such credible communications have an influence on the company's share price;
- **Quality care** – Selena makes sure that its communications (current and financial reports, press releases, stock quotes) contain high-quality content and information.

Selena Group's information policy is focused on protecting and respecting the Group's stakeholders.

For this reason, Selena Group also follows the principles and recommendations of the Best Practice of GPW Listed Companies 2016 – a statement in this regard can be found at: <http://www.selena.com/pl/relacje-inwestorskie/lad-korporacyjny/Zasady%20Ladu%20Korporacyjnego%202018.pdf>;

In addition, to ensure correct implementation of the information policy, information about the Group is verified in terms of compliance with the requirements relating to inside information within the meaning of Article 7 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC ("MAR").

2.4. Internal control system

The Group's Internal Control System is based on the Policy: *Internal Control System in Selena Group*. It was designed in accordance with the COSO model based on 3 lines of defence. It includes procedures, instructions and practices supporting workers in effective and abuse-free performance of duties.

The Group's Internal Control System consists of functional control and institutional control. Functional control concerns all the aspects of Selena Group's operations and is carried out on an ongoing basis by each employee in relation to their respective activities and by employees responsible for supervising identified operations. This type of control also includes control performed by expert units which supervise individual areas of the Group: compliance, health and safety, taxes, etc. (1st and 2nd line of defence). Institutional control is carried out by the Audit Department based on the Annual Internal Audit Plan (3rd line of defence). The Internal Control System is subject to an annual assessment by the Audit Department, and the opinion is provided to the Company's Management Board and the Audit Committee of the Supervisory Board.

In order to support compliance with law, internal policies, procedures and ethics in business, the Group has implemented an *Internal Audit Procedure*. The Procedure applies to all areas of the Group's operations and to all personnel.

3. Social/ employee and environmental risk management

3.1. List of identified social or environmental risks

The Group is in the process of developing the *Anti-Crisis Management Policy of Selena Group*. This document is supposed to regulate risk management in the whole Group, define key risks related to its operations, divide emergency situations into sudden and long-term ones, introduce procedures for monitoring and report the occurrence of crisis situations.

Until the above Policy is adopted, risk management issues are discussed at meetings of management bodies of the parent company and subsidiaries. As part of performance of their duties, individual members of the management board supervise ongoing identification of risks and application of relevant preventive measures. At the lower levels, risk management is the responsibility of selected managers. The management of individual risk categories is also regulated by specific policies and procedures referred to later on in this document.

Selena Group's significant risks, the occurrence of which may affect social aspects, in particular the employment level, the amount of remuneration granted to employees and employee safety, include:

- **plant or production line failure** – in order to prevent potential failures, devices and installations used in production plants are subject to periodic reviews and overhauls, which significantly minimise the risk of failure. In addition, plants classified as facilities at high risk of a major industrial accident, have accident prevention programmes in place, as required by SEVESO.
- **lack of raw materials needed to carry out core operations** – Selena Group has a specialised unit for market monitoring in the area of key raw materials (defined based on demand and value). Arrangements are made with suppliers to guarantee raw material supply dates and prices, and all possible measures have been taken to avoid reliance on a single source of supply.
- **sudden increase in raw material prices** – as above
- **sudden loss of suppliers** – as above
- serious defect of a product put on the market – Selena Group prevents this risk by implementing a quality management system in accordance with ISO 9001: 2015. The 2015 version of the system uses a process approach based on risk management. Effective implementation of system requirements allows risk to be identified and managed through integration with the organisation's strategic direction (focus on meeting the expectations of both internal and external customers).
- **reputational damage resulting from core operations** – Selena Group is in the process of developing a Crisis Management Policy, however, in cases that have the traces of crisis situations, a crisis management team is appointed, consisting of representatives of the management board, head of the board office, head of the legal department, the corporate communication department and a PR agency. Thanks to coordinated actions of the people involved an immediate response is ensured to keep the crisis situation under control. To respond as quickly as possible to potential situations related to reputational damage, the corporate communication department carries out ongoing monitoring of the media and the press.
- **sudden legal implications resulting from core operations** – the Group's head office has a legal department whose responsibilities include monitoring the legal environment. All significant legal changes which might affect the functioning of Group companies are subject to a detailed analysis, and actions are proposed to implement/ adapt the Group to new requirements. In addition, all issues related to legal risk are also addressed on an ongoing basis by the Legal Department in the head office.
- **crisis resulting from a sudden deterioration of financial position** – at the Group's headquarters there is a specialised unit responsible for dealing with financial institutions and ongoing monitoring of the Group's financial position, and how it is impacted by the existing debt and security level.

Selena Group's significant risks, the occurrence of which may affect environmental aspects, in particular the use of renewable and non-renewable energy, emission of greenhouse gases, water consumption and air pollution include:

- force majeure:

- natural disasters, whose risk of occurrence has been mitigated at the stage of planning plant locations (e.g. elimination of hurricanes risk by siting plants in areas where there is a low risk of their occurrence) or at the plant design and construction stage (e.g. by raising the permitted load on roofs to mitigate the risk of collapse, e.g. due to heavy snow);
- non-natural events (e.g. power outages throughout the country or locally) – this risk is mitigated by having two power sources in key plants, or installing additional power generators, as well as by distributing the manufacture of product lines between at least two locations);
- soil and waste water pollution, which is minimised by rational waste management and cooperation with reliable waste collectors;
- noise, which is regularly reduced by introducing new equipment and installations, and where appropriate, by noise barriers;
- leakage of raw materials into soil and waters – minimised e.g. by having leakage trays at the place of unloading and storage of hazardous materials and through systems blocking rainwater drainage systems or through portable ecological pharmacies (sorberent sets) in places where there is a risk of leakage;
- fires and explosions – mitigated, among others by installing new and improving existing fire alarm systems and gas detection systems, as well as connecting them with visualization systems.

To ensure best possible management of environmental risk, in addition to in-house specialists dealing with environmental protection, Selena Group companies constantly cooperate with specialised third parties.

3.1.1. Environmental risk management

Selena Group prevents the emergence of environmental risks already at the stage of choosing a place for its production activities. For this reason, virtually all the Group's production plants are located at a safe distance from naturally valuable areas (see also Part II, Section 5). In addition, in order to reduce the occurrence of environmental risks to the minimum, all the Group companies maintain constant production supervision, including monitoring the consumption of raw materials, installing new and improving existing fire warning systems and gas detectors, and carry out regular environmental checks and audits.

In addition to internal checks and audits, in 2018 there were 10 external inspections held by Environmental Protection Inspectors and 6 inspections by fire brigade units.

The production plants of Orion PU Sp. z o.o., classified as plants at high risk plants of a major industrial accident, meet the highest environmental protection standards and hold the Integrated Management System Certificate (including for Environmental Management).

In 2018, Selena Group did not experience any accidents or breaches in the scope of environmental risk. Likewise, no fines related to a breach of environmental regulations were imposed on any Group company.

In the reporting year, actions were taken to strengthen the involvement of contractors in aspects related to environmental protection, including by increasing the number of contracts containing the an environmental protection clause, and also by including environmental aspects in the procedure of selecting suppliers for Selena Group companies.

3.1.2. Social/ employee risk management

In order to efficiently manage social/ employee risk, including with regard to the respect for human rights and counteracting corruption, a number of policies and procedures have been developed for Selena Group to govern the related issues.

Currently, the Group has a Selena Group's anti-corruption policy, which covers all employees and persons cooperating with the Group, and which regulates matters related to corruption and gift policy.

Another policy operated by the Group is inside information protection policy, which addresses issues related to ensuring security of information owned by Selena Group and applies to all employees and persons cooperating with the Group and all partners and stakeholders.

The Group also has a procedure for reporting breaches and dealing with cases related to the application of policies and security at Selena Group, which defines internal breaches, specifies escalation paths and lays down the rights of whistleblowers.

Issues related to competitive activity, conflicts of interest and responsibilities of the Group, as well as all employees and collaborators are governed by and defined in the document: Guidelines for implementation and operation of security policies in Selena Group and the Policy on non-competition and conflicts of interest.

These documents comprehensively regulate both guidelines and procedural issues related to identifying, monitoring, preventing and combating the related risks.

4. Ethics management

Selena Group has implemented a Code of Conduct ("CoC") to govern ethical issues. New hires receive a set of documents and are required to familiarize themselves with their provisions. The CoC regulates employees' conduct in relation to the respect of the rights of personnel, suppliers and offtakers. It lays down details of behaviours understood as corruption and conflict of interest, as well as the measures of preventing their occurrence and possible consequences. The "CoC" also provides for the possibility of reporting any (identified) breaches of its provisions. The method of notifying breaches guarantees full anonymity and prevents negative consequences for whistleblowers.

III. Environmental area

1. General

When conducting its industrial activities, Selena Group is primarily focused on avoiding any damage to the natural environment. Therefore, it ensures that the activities comply with environmental protection laws, and its plants have all permits required for their business.

Due to the diversification of the activities of individual Group companies, including distribution, production, management and research and development, no single system is or is planned to be in place related to the environmental impact of Group entities. At the same time, it should be noted that subsidiaries, in particular those conducting manufacturing activity, carry out their own respective environmental policies, including prevention of breaches and ongoing monitoring of environmental aspects.

In the next sections of this chapter, we present the most important indicators related to the functioning of the Group and environmental impact. Due to the change in the method of calculating the ratios, it will not be possible to compare the indicators with the previous year (in the current report, the indicators relate to the sales figures for the whole Group, while last year's figures related to the sales of production plants only). The modified method of calculating indicators will be continued in the following years and then, it will be possible to compare individual indicators.

2. Direct and indirect impact: raw materials and materials

2.1. Rational use of raw materials and consumables

Selena Group consists of companies with a very diversified business profile and very diversified production, which leads to a major diversity of raw materials and consumables. The Group, however, makes sure that only proven raw materials are used in its production processes.

Raw materials used by the Group do not come from renewable sources, from recycling, nor do they have sustainable development certificates.

However, the Group's production plants start using recycled packaging on an increasingly larger scale.

2.2. Raw materials and materials in numbers

Type of raw material	The company in which it is used
PMDI	Orion PUSelena Yapi, Selena Nantong
Polyether Polyether	Orion PU Selena Yapi, Selena Nantong
Isobutane	Orion PU., Selena Yapi, Selena Nantong
Dispersions	Libra, Selena Yapi, Selena Iberia, Titan EOS
Silicones	Libra, Carina, Selena Iberia, Selena Yapi, Chinuri
Asphalt	Izolacja Matizol Sp. z o.o.
Granules	Izolacja Matizol Sp. z o.o.
Sorbent	Izolacja Matizol Sp. z o.o.
Cement	Titanium EOS, Euro MGA, Selena Insulation
Chalk	Titanium EOS, Euro MGA, Selena Iberia, Selena Insulation

The amount of consumption of all raw materials in Selena Group per unit of income ¹	0.52 kg/€
The amount of consumption of key raw materials in Selena Group (top 5 plants) per unit of income ⁵	0.36 kg/€

The amount of consumption of all raw materials per unit of income is calculated as the amount of all raw materials used for production to the Group's total revenue expressed in EUR.

The amount of consumption of key raw materials per unit of income is calculated as the amount of key raw materials (top 5 from each plant) to the Group's total revenue expressed in EUR.

3. Direct and indirect impact: fuel and energy
3.1. Energy in numbers

Total energy consumption	18,123,029 kWh
Energy consumption per unit of income	63.02 kwh

The energy consumption per unit of income is calculated as the total energy consumption in the production plants to the Group's total revenue expressed in EUR and multiplied by 1,000 EUR.

3.2. Efficiency of fuel and energy consumption

The basic sources of energy for the Selena Group companies are electricity and natural gas. The Group makes efforts to minimise the consumption of fuels and energy by regular upgrades of its production plants. In the reporting year, work was continued in relation to the installation of energy-efficient lighting, which was completed at another three companies.

Another example of reduced energy consumption is the use of heat coming from the compressor for heating the manufacturing facility and water at Carina Silicones Sp. z o.o.

To identify potential for even better energy consumption management, in 2018, an energy audit was carried out at selected production plants, as referred to in Section 1.1.1.

As an R&D firm, Selena Labs Sp. z o.o. constantly modifies product formulations to lower the temperature of their production and thus reduce the energy intensity of production processes.

The Group does not obtain energy from renewable sources.

⁵The unit of income in this statement means the PLN equivalent of EUR 1,000 according to the average exchange rate announced by the National Bank of Poland as at 31 December 2018, i.e. PLN 4,300.00.

4. Direct and indirect impact: water

4.1. Sources of water

At Selena Group companies water is obtained mainly from water supply systems. This is with the exception of EURO MGA Product SRL, which has its own groundwater intake (representing 669 m3 in the total amount of water used).

The water used is not subject to recovery. However, at some Group companies water is used in closed circuits for cooling the production process, as referred to in Section 4.3.

4.2. Water in numbers

Water consumption	28,341 m3
Recovery and reuse of water	0 m3
Water consumption per unit of income	0.10 m3

The water consumption per unit of income is calculated as the total water consumption in the production plants to the Group's total revenue expressed in EUR and multiplied by 1,000 EUR.

4.3. Efficiency of water consumption

The water used at Foshan Chinuri-Selena Chemical Co. and Izolacja Matizol Sp. z o.o. is reused in closed circuits for cooling the production process.

5. Direct and indirect impact: biodiversity

Most of Selena Group's production activities are conducted away from natural areas. In consequence, in most locations no special environmental monitoring is required. However, a weekly environmental monitoring applies to Selena Nantong Building Materials Co. as it is located near the Hong Gang Water Plant.

6. Direct and indirect impact: atmospheric emissions

6.1. Efficiency of atmospheric emissions

In its activities, Selena Group is constantly striving to minimise pollutant emissions into the air.

The measurements of pollutant emissions into the air, as carried out in the reporting period by the Group companies, do not show any limit breaches and are consistent with the decisions issued and the limits set in those decisions.

Additionally, Selena Labs Sp. z o.o. keeps working on new formulations that would reduce the amount of emissions.

6.2. Atmospheric emissions in numbers

Amount of pollutants emitted to the atmosphere	17.890 Mg
Emission of pollutants into the atmosphere per unit of income	0.00006 Mg

The emission of pollutants into the atmosphere per unit of income is calculated as the amount of pollutants emitted to the atmosphere in production plants to the Group's total revenue expressed in EUR and multiplied by 1,000 EUR.

7. Direct and indirect impact: waste and wastewater

7.1. Waste and wastewater in numbers

7.1.1. Wastewater in numbers

Total volume of wastewater	17,012 m3
Discharge of wastewater per unit of income	0.06 m3

The emission of sewage per unit of income is calculated as the total amount of sewage from production plants to the Group's total revenue expressed in EUR and multiplied by 1,000 EUR.

7.1.2. Efficiency in wastewater management

Selena Group makes every effort to ensure that the wastewater discharged to water meets all parameters required by applicable law. To this end, most of the subsidiaries carry out quality checks on the wastewater they discharge. Noteworthy is also the on-site sewage treatment plant at Selena Iberia SLU.

7.1.3. Waste in numbers

Weight of hazardous waste	374.625 Mg
Weight of non-hazardous waste	4049.835 Mg
Emission of hazardous waste per unit of income	0.0013 Mg
Emission of non-hazardous waste per unit of income	0.014 Mg

Hazardous waste produced per unit of income is calculated as the weight of hazardous waste generated in production plants to the Group's total revenue expressed in EUR and multiplied by 1,000 EUR.

Non-hazardous waste produced per unit of income is calculated as the weight of non-hazardous waste generated in production plants to the Group's total revenue expressed in EUR and multiplied by 1,000 EUR.

7.1.4. Efficiency in waste management

Selena Group companies undertake regular measures to minimise the amount of waste, including through procedures for checking raw materials, semi-finished products and products as well as constant supervision over the production process. Subsidiaries ensure that all waste is transferred to authorised third parties which hold relevant permits. Solutions are being sought to ensure waste can be reused in own production processes.

8. Other aspects of direct and indirect environmental impact

8.1. Direct and indirect impact: noise

The activities of Selena Group's production plants substantially do not cause noise emissions. Most production plants are located outside residential areas, in particular in economic zones and industrial areas. This is with the exception of EURO MGA Product SRL, which is located in the vicinity of residential districts. At that location, appropriate noise barriers were put in place.

9. Extended environmental responsibility: products and services

9.1. Disposal of Selena Group's products purchased by customers

Selena Group's responsibility for its products does not end with their manufacturing and marketing. In practice, this means that every effort is made to place necessary information on products about their correct and safe use and the method of their segregation. To this end, as regards product labelling, all Selena Group companies comply with Regulation (EC) No

1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures.

IV. Social and employee area

1. Use of public aid and public procurement

1.1. Public aid used by Group companies

In 2018, Selena Group received public aid within the meaning of Article 107 of the Treaty on the Functioning of the European Union. The public aid was provided in the form of subsidies and tax exemptions.

In Poland, the main beneficiary of public aid was Selena Labs Sp. z o.o. In 2018, as the leader of an international research and development project, this company continued R&D operations as a leader of an R&D project under Horizon 2020 Programme: "Advanced biobased polyurethanes and fibers for the automotive industry with increased environmental sustainability". As a result of the project, in the years 2017–2021, Selena Group is to receive a subsidy of max. EUR 3,384,980.00. From this pool, in 2018 Selena Labs recognised revenue from subsidies of PLN 1,025,798.69.

Also under the Horizon 2020 Programme, as part of the research and development project: "Development of innovative lightweight and highly insulating energy efficient components and associated enabling materials for cost-effective retrofitting and new construction of curtain wall facades – EENSULATE", Selena Labs Sp. z o.o., in 2018 Selena Labs Sp. z o.o. recognised revenue from subsidies of PLN 590,585.83.

In 2018, Selena Labs also received PLN 128,367.31 towards an R&D project "Research into ultra-modern polyurethane foams and foam adhesives in 1K and 2K systems using nanotechnology" completed in 2017.

In 2018, the following Selena Group companies used state aid in the areas indicated below:

- **Orion PU Sp. z o.o** received payment of PLN 245,000 as a support in the form of a grant towards the capital expenditure incurred. The application was submitted in 2017 and the funds received come from the Zone Fund.
- **Selena Nantong** received the following aid in 2018:
 - Refund of land tax for 2017: CNY 244,103.30
 - Individual income tax refund for 2017: CNY 4,769.54
- **Libra Sp. z o.o** benefited from a tax credit in connection with its activity in the Wałbrzych Special Economic Zone

1.2. Selena Group's participation in public procurement

Companies from Selena Group did not participate in any public procurement proceedings, placing no bids in any public tenders.

2. Employment and salaries

2.1. Selena Group's HR management strategies

Employees are the key capital of Selena Group. Without their commitment, professionalism and integrity, Selena Group would have never been so successful in the construction chemicals market. For this reason, one of the Group's main goals is to build good relations with employees and primarily to create such working conditions for them in which employees:

- will receive equal treatment – regardless of sex, religion, views, origin, disabilities or form of employment;
- will have safe working conditions
- will be able to improve their skills.

2.2. Recruitment policy

The parent company and the subsidiaries try to build good relationships with employees from the very beginning. Selena Group wants to ensure that its prospective employees know right at the recruitment stage that the company will not discriminate anybody for their age, sex, beliefs, religion or education, and that knowledge and professional experience are the key criteria considered when hiring or promoting people. Transparency of the recruitment process is supported by the website: <http://www.selena.com/pl/kariera/>, where all persons interested in working with Selena Group can find information on vacancies, requirements and general recruitment rules.

2.3. Employment in Selena Group – statistical data

2.3.1. Employment number

In the Polish market, Selena Group has 1112 employees (as at 31/12/2018), while in total, including in foreign affiliates, the Group employs 1,766 people (as at 31/12/2018).

2.3.2. Form of employment

Selena Group values stability in the employee–employer relations, which is why the firm virtually does not use outsourcing. In addition, a vast majority of employees are employed on the basis of employment contracts. In the reporting period, less than 12% of people provided work for Group companies under a work-for-hire or similar contracts for service.

2.3.3. Employment of the disabled

In the construction chemicals industry, it is very difficult to adapt working conditions to the needs of disabled people. Consequently, only a small percentage of the disabled can find employment there. Nevertheless, Selena Group tries to create jobs that will be suitable for people with disabilities. In 2018, thirteen disabled people worked with the Group companies, which is 0.7% of the total workforce. Due to the above-mentioned proportion of employees with disabilities, the Group companies regularly make payments to the State Fund for Rehabilitation of Disabled People. The payments made in the reporting period totalled PLN 669,117.

2.3.4. Employment of young parents

Selena Group fosters a friendly work environment for (future) young parents. In cooperation with employees – (future) parents, Group companies supervise compliance with the standards set by the Labour Code (and relevant labour-related regulations applicable at foreign affiliates), and maternity, paternity and parental leaves are granted as and when appropriate. In addition, women are encouraged to return to work after maternity leave. In the reporting period, only 7 out of 55 women within 12 months of returning to work after childbirth decided not to continue their employment.

2.4. Salaries at Selena Group

2.4.1. Remuneration policy

The individual companies of Selena Group employ people with a very wide range of qualifications. For this reason, Selena Group did not decide to introduce a uniform remuneration policy for all its companies. In turn, remuneration matters are regulated separately for each company. Depending on the headcount number, remuneration at individual companies is regulated by remuneration rules and in employment contracts or only in employment contracts. With such a solution, individual Group companies can comprehensively shape their respective remuneration principles and adapt them to the profile of their operations.

As regards remuneration, Selena Group has decided not to compare the indicators presented in the 2018 report with the prior year. The indicators cannot be objectively compared due to their different calculation methodologies. In 2017, the indicator was calculated taking into account all the Group companies, including those which employed only one male/female. By reflecting this in the indicator, the actual situation in the Group remuneration-wise was distorted. In 2018, such

deviations were excluded. In the subsequent years of the report's publication, the indicator will be calculated in accordance with the methodology adopted in the current report, which will make the indicator comparable year-over-year.

2.4.2. Remuneration statistics at Selena Group

2.4.2.1. The ratio of the average gross remuneration of women to the average remuneration of men

The ratio of the average gross remuneration of women and men in Poland/ Selena Group	0.7507 / 0.6876
Average gross remuneration to the minimum wage in Polish companies/ Group	women 2.3283/ 2.7486 men 3.1012/ 3.3860

2.4.3. Fringe benefits

Selena Group provides a wide range of benefits to its employees. The benefits are primarily designed to cater to the key needs of the Group employees. In addition, their role is also to motivate employees to work diligently.

In the reporting period, all employees:

- at the Group's production companies established in Poland benefited from medical care at LUX Med;
- at Selena FM S.A., Selena S.A. and Selena Marketing International Sp. z o.o. and Selena Labs Sp. z o.o. benefited from the Medicovert package.

Furthermore, employees of Selena FM S.A., Selena S.A., Selena Marketing International Sp. z o.o., Selena Industrial Technologies Sp. z o.o., Selena Labs Sp. z o.o., Orion PU Sp. z o.o., Libra Sp. z o.o. and Carina Sp. z o.o. have access to:

- the *Multisport* sports pass
- group insurance from PZU
- foreign language courses
- subsidies to trainings, undergraduate, graduate, postgraduate studies and
- subsidies to housing costs or commuting.

In addition, children of the employees of the above companies also receive gift packages for the St. Clause Day and gift cards. Foreign affiliates of Selena Group operate an independent policy of fringe benefits – there are no Group-wide guidelines in this respect.

2.5. Results of application of HR management policies

The data for individual companies show that in the reporting period (2018) employment was terminated by 24% people employed on the basis of employment contracts. These contracts were terminated by mutual agreement of the parties (42%). The policies operated by Selena Group companies seek to ensure stability in the field of employment.

3. Industrial relations and freedom of association

3.1. Relations between the Group authorities and employees

In its relations with employees, Selena Group focuses primarily on an open dialogue, which takes place, e.g. as part of communication meetings, during which technical, process, health and safety and other vital issues relating to individual companies are discussed. To encourage employees to deal with such difficult subjects such as protection of inside information, competition ban, conflicts of interest or corruption prevention, Selena Group operates a Security Policy, which includes: *Selena Group's Anti-Corruption Policy, Selena Group's policy on the protection of inside information, Procedure for reporting breaches and dealing with cases related to the application of the Security Policy in Selena Group, Guidelines for implementation and operation of security policies in Selena Group and the Policy on non-competition and conflicts of interest and IT Rules.*

The documents specify, for example, behaviour standards, monitoring of breaches, procedures for reporting breaches, prohibition of retaliation, preventive measures and consequences of breaches.

3.2. Freedom of association and the right to conduct collective disputes

Selena Group fully respects one of the most basic human freedoms: the right to form and join associations. Hence, as regards the objectives employees wish to pursue jointly, no obstacles are created to their right to form and join associations, foundations or trade unions. Four trade union organisations operate in the Group.

3.3. Dialogue with employees

As regards employment matters, individual companies of Selena consult and engage in discussions with trade unions in the first place. On the other hand, at the companies where employees have not formed any trade unions, a representative of employees is selected to hold discussions with the management.

3.4. Results of application of employee relations policies

Selena Group's statistics show that the dialogue strategy chosen by the Group in its dealings with employees helps prevent disputes between the employer and employees. In the reporting period, no collective disputes with the employer occurred in the Polish companies of Selena Group. In 2018, at only one foreign company of Selena Group a dispute was going on with the employer regarding interpretation of the collective agreement. The talks ended quickly and the dispute was resolved amicably.

4. Occupational health & safety

4.1. The Group's approach to managing health and safety

Providing a safe and hygienic work environment is one of the priorities for Selena Group.

In order to efficiently manage the change process in the Occupational Health & Service area, a Group EHS Road Map was developed, which is a long-term plan to improve health & safety conditions and environmental protection in Group companies.

The road map includes the main activities and projects as well as the planned engagement divided into five areas: safety, health, environmental protection, fire protection and documentation (processes).

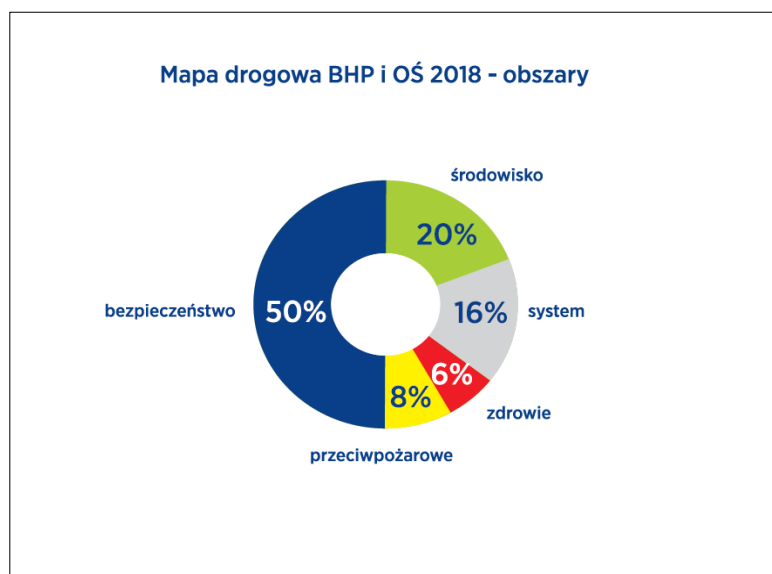


Fig. 1 – EHS Road Map – engagement planned

All activities and projects included in the detailed EHS road map were divided into tasks to which a specific score was assigned. Their achievement was monitored in monthly cycles as a common indicator for all the areas: safety, environmental protection, health, fire protection and documentation.

In 2018, the EHS Road Map assumptions were achieved in 83% (the target being 80%).

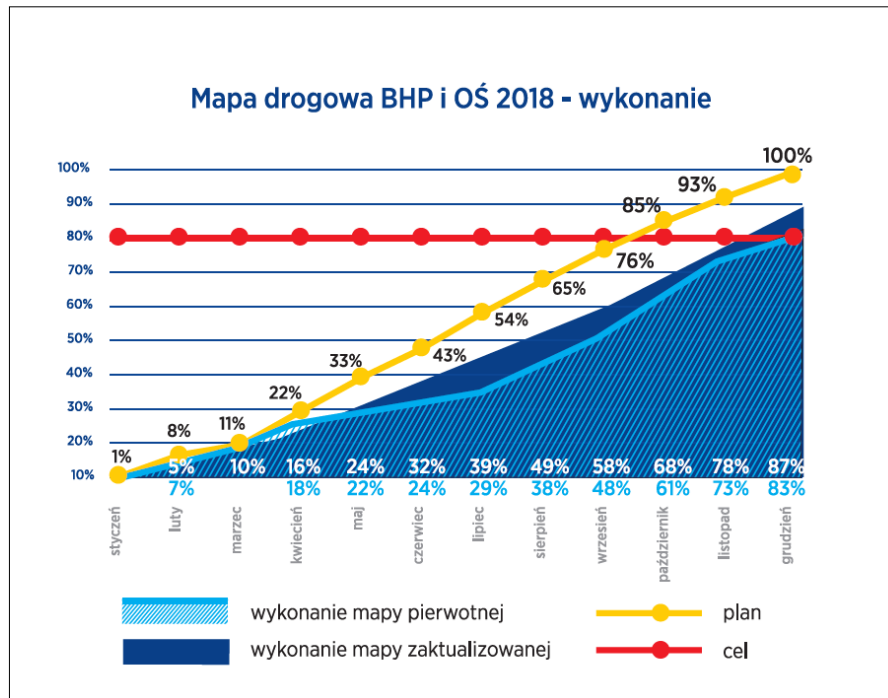


Fig. 2 – Progress vs. the EHS Road Map in 2018

One of the actions planned under the EHS Road Map was, *inter alia*, introduction of a new system for reporting on health and safety data, whereby Selena Group could keep track of the basic health & safety indicators and analyse the health & safety situation both at production companies and across the Group; this also provided an internal benchmark of the key indicators between all the companies and between the companies and the entire Group.

By integrating health & safety functions from all companies, communication in this area has been improved, which made it possible to share good practices and information on accidents as well as to carry out joint projects.

In addition to the annual group activities, the Group companies implemented their own technical and process solutions and undertook a lot of local activities and initiatives to keep the number of accidents down.

The most important of these include:

- installation and improvement of Fire Alarm Systems and gas detection systems
- installation and improvement of monitoring systems
- assembly of safety systems at tanker unloading stations
- dust reduction by upgrading production lines
- development and implementation of safety instructions and leaflets for drivers
- equipping administrative and office employees with additional personal protective equipment
- marking places where accidents occurred and places where accidents might potentially occur
- furnishing forklifts trucks with in blue led spot lights
- extending the FTEs of the health & safety function.

4.2. Self checks

In order to ensure compliance with health and safety rules and requirements, internal Group audits are regularly carried out at individual Group companies. The findings are reported, and each irregularity is covered by corrective and preventive measures. At most production plants, such internal health & safety checks take place at least once a month, and very often they are also extended to include fire and environmental issues.

These checks are conducted by Health & Safety and Fire Specialists employed locally in individual companies.

At the Group level and as part of the actions planned in the Road Map, audits were carried out to assess compliance with legal requirements in the area of occupational health & safety in the Polish production plants. A list of legal acts applicable to the Group was created alongside a system of constant monitoring and implementation of legal developments.

In 2018, all production plants also underwent external health & safety inspections by competent external bodies:

Inspection body	Polish plants	Foreign plants	Whole Group
Labour Inspection	1	8	9
Sanitary inspection	4	2	6
Fire Department	2	4	6

The number of employees in each of the companies does not exceed 250 employees, so none of the production plants is legally required to establish a health & safety committee, so formally no such meetings take place.

4.3. Work conditions

Selena Group strives to create for its employees a work environment that will not in any way threaten their lives or health, including by annual investments to improve production processes in the plants, as well as by numerous improvements proposed directly by employees (Kaizen).

The work environment is regularly measured and the results show that the actions taken in individual plants ensure hygienic work conditions for staff. At all Group companies, employees do not work in conditions in which the maximum admissible concentrations (MAC) or maximum admissible intensities (MAI) are exceeded, with the exception of two workplaces (a plant in Spain and a plant in Chelmża), where noise limits were exceeded (employees have appropriate personal protection equipment).

In 2018, Selena Group received two notifications of suspected occupational disease (1 skin disease and 1 hearing loss). Both cases are still pending, but the information and materials obtained from the relevant companies show that the Group did not contribute to the health impairment of these employees.

With a view to raising awareness of one of the major hazards in production plants (chemical substances), Selena Group joined the international campaign of the European Agency for Safety and Health at Work (EU-OSHA) and became the official partner of the Polish edition of the campaign "Hazardous substances under control".

In order to improve the management of hazardous substances, the Group's selected production plants also tested innovative software improving this area – the outcome of the tests was positive, and in 2019 the solution is to be rolled out in all production plants.

4.4. Results of application of health & safety policies

The new health & safety data reporting system referred to in Section 4.1 ensures that changes in the number of accidents at work and in the key EHS indicators can be tracked on a monthly basis.

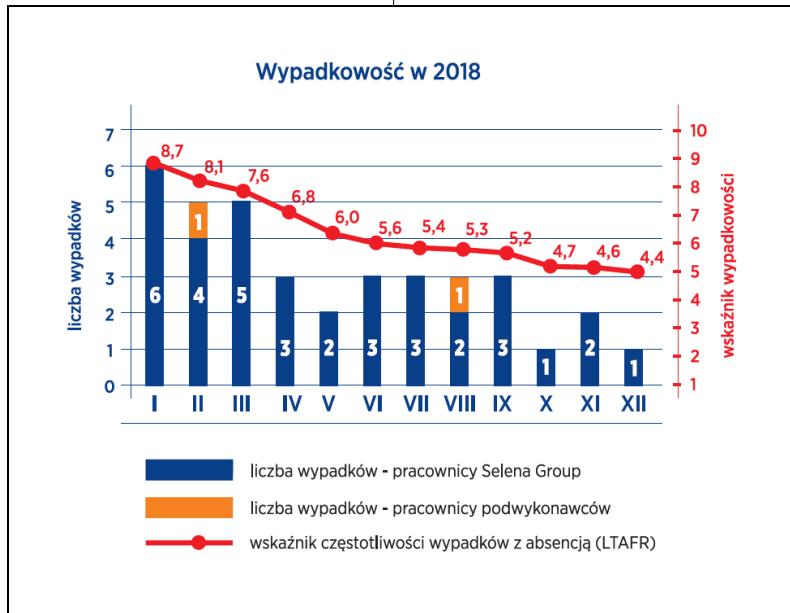


Fig. 4 – chart showing the number of accidents with employee absences and the accident rate in the Group's production plants for individual months

In 2018, a total of 45 accidents at work were observed in production plants, up from 32 in 2017. Another 4 accidents at work took place at non-production companies.

9 of all the 49 accidents did not result in employee absences (all accidents without resulting employee absences were recorded at a plant in Spain).

Two of the accidents involved third-party employees performing work for Selena Group companies, one of these accidents was fatal.

All the accidents were subject to a detailed analysis to identify root causes. Lessons learned were identified and then disseminated in other companies to eliminate similar events in other locations. As part of a structured process, all employees receive information about the circumstances and causes of accidents, and about the actions they need to take to avoid a similar event in the future.

Table showing the number of accidents and key occupational health and safety indicators for employees of Selena Group in 2018

Accidents/ indicators	Production companies	Non-production companies	Selena Group
Accidents at work resulting in employee absence	35	3	38
Accidents at work not resulting in employee absence	8	1	9
Fatal accidents	0	0	0
Significant accidents	1	0	1
Light accidents	34	3	37
Accidents on the way to/from work	2	5	7
Days of incapacity for work	649	38	743
Accident rate by work time (calculated per 200,000 hours)	4.8	0.5	2,5
Accident rate by number of	4.2	0.5	2.2

employees (calculated per 100 employees)			
Accident severity rate (calculated as the number of days on sick leave due to accidents to the number of accidents resulting in absence)	18.5	9.5	19.1

As can be seen from the table above, most accidents (except one) are light accidents. The most common direct cause for accidents resulting in employee absence was contact with sharp objects leading to hand injuries. The heavy accident was caused by contact with a moving part of a machine. As a result, the affected employee lost his fingertip.

In order to improve the accident rate, Selena Group makes sure that the necessary measures are implemented to improve safety in the individual work areas. The most common corrective measures include:

- using safety knives
- updating the requirements re the use of Personal Protective Equipment (footwear, gloves)
- inspecting the technical condition of machines and installation of additional security features
- replacing and purchasing new transport equipment (trolleys)
- establishing uniform requirements for external companies.

5. HR development and education

5.1. Staff training and development – general information

Selena Group makes every effort to ensure that its employees regularly improve their skills and qualifications. Therefore, training and development programmes are implemented at each of the Group's companies. Due to the very diverse business profile of the Group companies, training provided varies and is adapted to needs of individual companies.

Importantly, Selena Group makes sure that every employee has equal access to training. In practice, this means that factors such as age, job position, sex or the form of employment do not affect the availability of training in any way.

5.2. Types of training held

The range of training provided within the Group is very diverse. The Group companies conduct many trainings that improve both hard and soft skills. For example, a cycle of Lean Management training courses was organised for the employees of Polish companies of Selena Group. The courses were divided into three one-day workshop meetings in: "Introduction to Lean Manufacturing", "Lean Office" and "Problem Solving". In total, 21 people from Selena FM, Selena Marketing International, Libra, Tytan EOS, Matizol and Carina took part in the 2018 programme.

5.3. Development support

Employees who wish to expand their knowledge outside the workplace can apply for financing to external courses or to language courses or studies. It is common practice at Selena FM S.A., Selena S.A., Selena Marketing International Sp. z o.o., SIT, Orion PU Sp. z o.o. and Libra Sp. z o.o. to enter into training agreements with employees. These agreements lay down the terms of financing selected for the types of studies selected by an employee (undergraduate, graduate, postgraduate, MBA studies) or courses (e.g. language courses).

The financing is based on a request submitted by the employee to the personnel department. The cost of development training (both involving hard skills and soft skills) is fully covered by the employer. Studies are co-financed in 50% to 100% depending on the case. Financing is approved on the basis of the consent from the line manager, the personnel department and the CFO.

The Group does not have general rules for financing training and education given significant differences resulting from geographical factors and the profile of operations of individual companies (production, distribution, administration).

5.4. Performance reviews

In Selena Group, periodic staff performance reviews are carried out by individual companies, taking into account the subject and scope of their operations.

6. Diversity management

6.1. Selena Group's diversity management strategies

Diversity and openness are fundamental values of Selena Group and have a major impact on its development. The values are reflected in the Group's strategy, one of its pillars being the principle of respecting diversity in all the Group's activities.

Since the very beginning, one of the main success factors at Selena Group has been diversity and the resulting work in interdisciplinary teams that have various work experience in different markets and teams composed of different personalities. Accordingly, it has always been the Group's priority to provide such working conditions in which employees will feel that diversity is the Group's driver and a source of synergies rather than an obstacle in achieving global objectives.

The most important values lived by Selena FM S.A. include:

- creating a friendly work environment
- providing a sense of security and acceptance
- remunerating for work, not views
- ensuring equal access to employee benefits
- respect for the family
- responsibility and proactivity.

6.2. The principle of respecting diversity at the recruitment stage

The principle of respecting diversity is applied already at the recruitment stage. When recruiting employees, companies primarily focus on the knowledge and experience of candidates. Recruitment results are not influenced by such factors as: age, sex, race, nationality, ethnicity, sexual orientation, health, family status, trade union membership, political opinions or religious beliefs.

6.3. The principle of respecting diversity in the workplace

In order to provide the employees of Selena Group with a work environment characterised by mutual respect and understanding, individual companies have developed their guides on equal treatment in employment and anti-bullying procedures. As the guides and their related procedures are adapted to the specific nature of individual companies, they help effectively prevent such negative behaviours as bullying, discrimination or sexual harassment.

6.4. The principle of equal access to earnings, benefits, development, training and promotion

The rules for access to benefits, development initiatives, training courses and promotions are clear, transparent and accessible to all employees of Selena Group. The Group companies attach great importance to the fact that the criteria used for granting all kinds of benefits are transparent, objective and non-discriminatory.

6.5. The Group's diversity support measures

As part of supporting diversity, the Group employs persons who are in the course of serving a prison sentence. At two production plants in Lower Silesia, about 20 people provide service under a contract with the Detention Centre.

6.6. Results of respecting diversity

As a result of the Group's diversity management strategy, we have managed to create jobs in which employees feel that diversity is their strength rather than weakness. In addition, the lack of tolerance for any behaviours which in any way

threaten diversity is another factor contributing to a safer work environment. In the reporting period no cases of discrimination, bullying or sexual harassment were reported in the Group.

7. Human rights

7.1. Strategy adopted

Selena Group makes every effort to ensure that its actions do not undermine the respect of fundamental rights and human freedoms guaranteed by such legal acts as the UN's Universal Declaration of Human Rights, the European Convention on Human Rights or the Constitution of the Republic of Poland. Aspects of the respect for human rights are included in the policies and guidelines applicable to the whole Group, including: the Anti-Corruption Policy, the Procedure for reporting breaches and dealing with cases related to the application of the Security Policy in Selena Group and the regulations adopted by individual Group companies. For example, the parent company has implemented Detailed procedure for the prevention of bullying at Selena FM S.A., Work Regulations at Selena FM S.A. and Remuneration Regulations at Selena FM S.A.

7.2. Results of the respect of human rights

As a result of the Group's strategy, no human rights violations were reported in the reporting period.

8. Child and forced labour

8.1. Child labour – strategy adopted

Selena Group has no tolerance for the exploitation of children. All Group companies ensure that their actions are consistent with the applicable laws that protect children's rights, especially the Convention on the Rights of the Child. Selena Group does not employ juveniles.

8.2. Forced labor – strategy adopted

Partnership and open dialogue are the values by which the Group is guided in its relations with employees. Accordingly, each employment relationship is established on a voluntary and paid basis. This is reflected in the work and remuneration regulations adopted by the Group companies.

8.3. Results of adherence to the laws banning child and forced labour

Due to the stringent compliance with the ban on child and forced labour, no such cases were reported by any Group company in the reporting period.

9. Local communities and social commitment

9.1. Impact on the social environment

Selena Group has its roots in Lower Silesia. This is also the region of origin of the firm's main shareholder and founder Krzysztof Domarecki. It was in Lower Silesia that in early 1990s, the company started its distribution, production and R&D activity. To date, a significant part of the Group's companies are based in the Lower Silesia province. Currently, Wrocław, the capital city of Lower Silesia, is home both to the company's headquarters and to the Group's distribution company Selena S.A. Also, four production plants operate in the province:

- Carina in Siechnice
- Libra and Orion in Dzierżoniów
- Orion in Nowa Ruda.

In its operations in Poland and abroad, the Group always emphasises that it was established in Poland, in Lower Silesia.

By employing qualified specialists and experts and by increasing the level of innovation in the Lower Silesia province, the Group contributes to region's development. The Group companies always focus on responsible development when doing their business. Selena makes sure that its projects do not cause nuisance to the people who live near production plants or to the natural environment.

Selena Group's employees are get engaged in social activities. The founder Krzysztof Domarecki shares his experience and supports initiatives at the interface of science and business, taking part in local initiatives. In 2018, in cooperation with the Lower Silesian Provincial Office, Selena Group's production plants which are based in Lower Silesia featured in a promotional spot for the province. In addition, to mark the 100th Anniversary of Independence, Selena Group was invited to prepare its input to an album entitled "100 Years of Independence", in the section on investments in Lower Silesia.

Krzysztof Domarecki takes very active part in both local and national events. In 2018, he took part in lectures during the 365 Timing Economic Congress in Wrocław and at the Social Academy of Sciences in Świdnica, sharing with students his experience in international expansion. He also supported with his knowledge the Family Business Initiative during the 11th U-RODZINY Congress of Family Businesses, speaking of aspirations and possibilities of foreign expansion.

Furthermore, Selena Group is engaged in the development of local activities, e.g. by supporting charitable campaigns, foundations and associations. In 2018, we provided financial support to e.g. the Tertio Millennio Institute Foundation, the MANUS Foundation and BARS Association of Kazakh Youth.

Every year, Selena Group also supports the initiative originated at the Wrocław University of Technology – PWR Racing Team. As part of the cooperation, the University students receive construction chemistry materials and financial support from the Group for implementation of their project.

The Group's local companies are also happy to take part in local and nationwide industry initiatives. In 2018, they participated in such events as:

• **Training for the ETICS applicators from Selena Bulgaria (12–15 February 2018)**

On 12–15 February 2018, the ETICS applicators from Bulgaria participated in training at Polish production plants. They learned about the main features of the Group's products compared with competitive solutions and about how to increase the efficiency of products (including the Tytan IS 13 plaster). During the practical session, customers had an opportunity to test the products and check their performance.

• **Budma Fair in Kielce (6–7 March 2018)**

On 6–7 March 2018, Selena took part in the Budma construction fair in Kielce. At Selena's futuristic stand, stylised as a metropolis customers could both become acquainted with the company's key products and find out about new features in the portfolio of the Tytan Professional brand. Two new products made their debut at the fair: modern tile adhesives FLEX Gel and SUPERFLEX Gel, which are the first in the European market to combine the flexibility of a gel with fibre-enhanced strength.

• **Eurasia Window & Door (6–9 March 2018)**

In March 2018, Selena Turkey participated in the Eurasia Window & Door Exhibition in Istanbul. This is one of the largest industry events in the MEA region for the industry related to the Window & Door segment. During the fair, Selena Turkey presented the visitors with a portfolio of innovative products for doors and windows. It was an opportunity to exchange experiences, establish new business contacts and present Selena's product range.

• **Bulgarian Building Week (7–10 March 2018)**

From 7 to 10 March 2018, Selena Bulgaria participated in one of the major industry events – Bulgarian Building Week 2018. This was primarily an opportunity to build a network of business contacts and to familiarise new customers with Selena's product range. This year, Selena focused on demonstrating to customers and contractors the versatility of its portfolio with ready solutions for anything from foundations to the roof.

• **Fensterbau Frontale (23 March 2018)**

On 23 March 2018, Selena Vostok took part in the 2018 Fensterbau Frontale Fair in Nuremberg. Selena Vostok was a bronze partner of the show. Melekhina Maria, Marketing Director Selena Vostok, participated in a discussion panel, during which a presentation was made of the company's technology and good practices regarding the use of the Group's products in the window mounting segment.

• **Arch + Design Summit 2018 (6–7 April 2018)**

On 6-7 April 2018, Selena Turkey participated in one of the biggest industry events Arch + Design Summit 2018, during which it had the opportunity to present the benefits of Titan 60 SECONDS with its practical applications. The main theme of the event was: "Innovative approaches in architecture and design"; the exhibition combined with fair attracted over 20,000 participants to the Congress and Exhibition Center Lütfi Kırdar.

In addition, during B2B meetings, Selena Turkey's sales and marketing team met with representatives of over 40 architectural offices.

• **Selena S.A. is a partner of the 3rd edition of the Provincial Competition Young Master of Building (25 April 2018)**

In April 2018, Selena S.A. was a partner of the 3rd Edition of the Provincial Competition "Young Master of Construction" ("Młody Mistrz Budownictwa"), organised by the Centre for Vocational and Continuing Education in Częstochowa, in cooperation with the Faculty of Civil Engineering at the Częstochowa University of Technology. The event was addressed to students of schools from the Silesian province which provide education in the trade of Construction Technician.

• **Sponsoring the SMK BARS football game (28 April 2018)**

Selena FM S.A. was a sponsor of a football tournament organised by the Association of Kazakh Youth "Bars" supported by the Embassy of the Republic of Kazakhstan to Poland. The event took place on 28 April 2018 in Warsaw. Participating in the event were Kazakh students from five European countries.

• **Training for Finns (6-8 May 2018)**

On 6-8 May 2018, training was provided to the employees of Selena's distributor in Scandinavia: Rakkenuskemia from Finland. The purpose of the visit was to train Finnish partners in the product portfolio: foams, sealants and adhesives and new products, as well as to show them production plants.

• **Selena Iberia at HISPACK Fair (8–11 May 2018)**

Selena Iberia participated in the HISPACK fair, which took place in Barcelona. This is the main industry event in Spain focused on the packaging industry and the second such industry meeting in Europe. At present, there are 1,400 brands and 39,000 visitors participating in it. During the fair, Selena Iberia presented its technologies and technical services.

• **Selena Romania Award Excellence at Euro Fareastra (15 May 2018)**

Selena Romania received the Award of Excellence in the Business and Development category at the annual Euro Fareastra conference. The 5th edition of the conference took place in Bucharest on 15 May, and its objective was to gather companies operating in the window & door industry and to set quality standards in the market.

• **Selena Iberia at TEKTÓNICA fair (16–19 May 2018)**

On 16–19 May 2018, Selena Iberia participated in TEKTÓNICA fair in Lisbon. It is the largest Portuguese construction fair, which grows popular year over year. The fair attracts thousands of architects, builders and installers who are looking for new trends in construction. Selena's products exhibited at the event included MS Polymer, Titanium 60 SECONDS and Aquaprotect.

• **Sponsoring the PWR Racing Team (18 May 2018)**

Selena FM S.A. was a sponsor of the racing car and the initiative of the PWR Racing Team. The team formed by a group of students from the Wrocław University of Technology in 2009, now has 70 people involved, who each year design and a racing car which takes part in the Formula Student competition. Selena supports this initiative for another year in a row.

• **Selena Labs takes part in the OECD workshop (8 June 2018)**

Selena Labs was one of the participants of the international workshops attended by representatives of the Ministry of Science and Higher Education, organised by the OECD Biotechnology Committee in Kraków. During the workshop, Selena Labs presented a novel approach to the future of this branch of industry. The main objective of the event, attended by speakers from the EU and non-European countries, including from Canada and Japan, is to discuss the availability and use of different types of biomass in Poland in the context of implementation of bioeconomy and stimulation of bioindustry, considering the research and innovation needs in this area.

• **Selena S.A. takes part in the Małopolska New Technologies Fair (16–17 June 2018)**

In June 2018, Selena S.A. participated in the Małopolska New Technologies Fair together with SSRW – Finishing Work Specialists Association, which took place in Kraków. During the industry event, Selena S.A. showcased a portfolio of its new Tytan gel adhesives reinforced with fibers and presented the properties and application of the Tytan 60 SECOND foamadhesive.

• **Selena Kazakhstan at the Polish-Kazakh Intergovernmental Commission for Economic Cooperation (20 June 2018)**

On 20 June 2018, representatives of Selena Insulations and Selena CA took part in the meeting of the Polish-Kazakh Intergovernmental Commission for Economic Cooperation which took place in Astana. During the meeting they presented the activities and the position of Selena in Kazakhstan, as well as raised the problem faced by Selena Insulations, namely lack of connection to the municipal heating network. The employees requested for a faster connection to the heating network, which would significantly reduce the additional costs borne by Selena Insulations.

• **Selena S.A. receives the Eagles award from the Wprost weekly (26 June 2018)**

On 26 June 2018, Selena S.A. received an accolade during the Wprost Weekly Eagles award gala under the honorary patronage of the Ministry of Entrepreneurship and Technology, the Ministry of Investment and Economic Development and the Ministry of Agriculture and Rural Development. The Wprost Eagles award is granted to the companies have gained the highest average net profit in the last three years and those with the highest average percentage increase in net profit.

• **Selena Turkey – Tytan 60 SECONDS chosen for the construction of a school in Izmir (April–September 2018)**

Tytan 60 SECONDS was used in the development of a private campus of the Form School. Contractors opted for Selena's product as it is fast and fit for a variety of mounting applications. In addition, the product's major advantages include low transport costs and clean application.

• **COOL-R used on the roof of the largest fish market in Europe**

In July 2018, Selena Group's latest product – COOL-R – covered the roof of Europe's largest fish market located in Madrid. The innovative coating, which combines the function of roof cooling and water-resistance, has been applied as part of renovation of the 33 thousand m² building of Mercado Central de Pescados. Thanks to the application of the product the temperature inside the building dropped by 7° C. This has a direct impact on lowering the building's cooling costs and improving the comfort of work in addition to reducing losses of the goods sold.

• **Golden Emblem of the Consumer Quality Leader 2018 (12 July 2018)**

The Tytan Professional brand received the Golden Emblem of the Consumer Quality Leader 2018 in the "silicones and foams" category. The Consumer Quality Leader is a ranking based on a survey conducted among 12,000 respondents who point to what they believe are the best products and services. The Tytan Professional brand was chosen as the best in the "silicones and foams" category.

• **Selena USA at the Sunbelt Builders Show (8–9 August 2018)**

This is one of the most important industry events that attracts the most important people from the industry where they can test products, do networking and collect data. During the show, Selena USA presented the FOAD line.

• **Selena S.A. – Builder For The Future (August 2018 – in progress)**

Selena participated as a Strategic Partner in a social educational programme for young construction engineers – 4 Young Engineers. Selena S.A. is a partner of events organised for young engineers: it took part in e.g. Engineering Days at the

Wrocław University of Technology and the Kraków University of Technology and made its solutions available to young engineers for use in competition works in the programme's finals.

• **Selena S.A. – participation in the meeting of the Judging Panel of the 4YoungEngineers Programme (4 September 2018)**

As the Strategic Partner of the event, Selena S.A. met in Warsaw with the organisers of the Programme, Polish architects and engineers, affiliated in industry associations and other companies supporting the Programme.

• **Selena USA – participation in ICAA in Orlando (13–15 September 2018)**

Selena USA took part in the ICAA fair (Insulation Contractors of America Association), which each year focuses on the needs of insulation contractors. In addition to exchanging knowledge and observing new trends in the market, the ICAA fair is also a place to establish contacts with suppliers and distributors and manufacturers from the whole of North America.

• **Selena becomes the Ambassador of Sporty Poland (27 September 2018)**

Selena receives the title and statuette of the Ambassador of Sporty Poland, confirmed with a certificate. The award was granted as part of the "We Build Sporty Poland" programme. The Ambassador of Sporty Poland is a title awarded to companies and local authorities that support the development of sports infrastructure and are involved in promoting sports among children, youth and local communities. Selena also became a member of the Sporty Poland Club (alongside Polish local authorities and companies which contribute to the development of sports infrastructure). This is an initiative whereby entrepreneurs, local authorities and individual investors join forces to create a modern and safe sports and recreational infrastructure.

9.2. Results of social involvement

The Group's policy of supporting the development of Lower Silesia and the strong involvement in local, regional or national initiatives by most of the Group's companies earn Selena the recognition of its partners, customers and the public, but also of regional authorities and cooperating institutions.

Thanks to its presence at conferences and industry events as well as through modern communication channels, including social media, Selena Group promotes its proprietary solutions and instructs its Users and potential clients how to use them. Technical marketing in the form of active and professional consulting is one of the key elements of the Group's communication policy.

One of the effective forms of reaching out to the Users of the Selena Group is education and "can in the hand presentations (i.e. testing the Group's new product solutions by users themselves). In this ways, each potential User is able to see for themselves the speed and ease of application and become familiar with the benefits of the product.

Selena's founder Krzysztof Domarecki is actively involved in different social and economic initiatives, as part of which he shares his rich experience as an entrepreneur and investor at various lectures. Case studies presented by Krzysztof Domarecki referring to the company's life and its founder's professional career (including with regard to start-ups) are a valuable training material for young aspiring businessmen, especially those who plan to go beyond the domestic market and strive for international success.

In 2018, the company was also involved in the nationwide initiative "Noble Gift" ("Szlachetna Paczka"). For a family in need from Dzierżoniów, employees and management of the company organised a collection of necessary items, including household appliances. Before Christmas, Selena Group also supported UNICEF's humanitarian organisation and purchased dedicated Christmas cards.

Selena's founder Krzysztof Domarecki became the winner of the 2017 Wektor award from the Employers of the Republic of Poland (Pracodawcy Rzeczypospolitej Polskiej) and received the "Personality of Lower Silesia" accolade in the "Business Stars" competition as part of the Lower Silesian Economic Plebiscite. Selena enjoys consumer confidence, which is evidenced by the following awards received in 2018:

- Golden Emblem of the Consumer Quality Leader 2018
- Wprost Eagles award
- Ecological Company of the Year award for a firm which undertakes the most interesting environmental initiatives
- Ambassador of Sporty Poland award.

Thanks to the active involvement of the company's employees, the local community lodged no complaints against the Group's activity during the reporting period.

10. Prevention of corruption

10.1. General

Fairness and integrity are among the key values of Selena Group. That is why the company will not condone any aspects of fraud, corruption or other types of financial irregularities. All the Selena Group companies are required to comply with law and internal regulations of the Group. In order to raise the awareness of the Group's employees and partners regarding activities that bear traces of corruption and to combat corruption, in 2014 Selena Group introduced *Selena Group's Anti-Corruption Policy* ("Anti-Corruption Policy"). At the time of employment, every new hire is informed about the Anti-Corruption Policy and signs a statement that they have read, understood and agree to follow it.

10.2. Characteristics of the policy

The Anti-Corruption Policy lays down details of what is understood by corrupt behaviours and indicates a catalogue of banned behaviours. It discusses the issue of accepting and granting gifts and inducements. It also makes it clear that the employees who were direct witnesses of or have a justified suspicion of corruption being engaged in, are required to immediately report it in accordance with the *Procedure for reporting and dealing with breaches*. They are assured that they will not suffer any negative consequences for doing so. Each employee has also been informed about the risks associated with corrupt behaviours. According to the Anti-Corruption Policy, its infringement can be treated as a gross violation of basic employee duties, which in turn may result in summary dismissal of the employee concerned. In turn, in relation to workers who are not employed under an employment contract, violation of the Anti-Corruption Policy may constitute the basis for immediate termination of their assignment.

10.3. Dissemination of Anti-Corruption Policy

All personnel members of Selena Group are required to read, understand and agree to follow the Anti-Corruption Policy. However, if there are any doubts or ambiguities as to its contents, the employee should turn to the Policy Owner, i.e. the person designated to implement, monitor and ensure adherence to Policy at an individual company of Selena Group, or to their superior.

10.4. Results of application of the Anti-Corruption Policy

In 2018, the Company's application of the Anti-Corruption Policy was effective at counteracting corruption. No cases of corrupt behaviours were observed during the reporting period.

11. Product and consumer safety

Selena Group's products have been popular with representatives of the construction industry for years because they are safe and of high quality. In order to maintain customer satisfaction and provide them with the highest possible level of safety, Selena Group has developed the *Procedure for dealing with and documenting quality problems in Selena Group*. In accordance with the procedure, if any irregularities related to products of individual Group companies are observed, the following actions are taken:

- Define immediate protective measures – in the event of a quality problem, the priority is to protect customers against the related effects. For this reason, before addressing the problem, employees first consider the need to take the potentially non-compliant product off the market.

- Set up a working group – next, a cross-functional team is established, composed of experienced employees who know the defective product well. As a rule, the team is set up separately for each Selena Group company. However, in the case of problems or complaints requiring cooperation of people from different companies, a cross-company team may be formed.
- Describe the problem – for a solution to be effective, the problem should be well-identified first. Accordingly, once formed, the working group immediately proceeds to define the problem, which entails: description of the problem, its location, time and size. A correct description of the problem is the starting point for further stages of the analysis.
- Define and implement temporary corrective measures – in order to protect customers against continued effects of the problem until introduction of permanent corrective measures, working group employees apply temporary corrective measures. These include for example: introducing additional controls, stopping production, segregating products or informing customers about the identified problem.
- Define the cause of the problem: at this stage the team identifies the cause of the problem. In addition, in order to avoid similar mistakes in the future, the team also determines why the problem was not noticed at the time of its occurrence. When determining the cause of the problem, working group members use quality tools, such as risk analysis (FMEA), Ishikawa diagram or the 80/20, 5 WHY method.
- Define long-term corrective measures: after a comprehensive diagnosis of the problem, the team develops several solutions to select the optimal one.
- Implement long-term corrective measures: at this stage, the persons appointed by the team first implement corrective measures and then check their effectiveness and efficiency.
- Define and implement preventive measures: in order to prevent the problem from reoccurring, the team determines preventive measures.
- Assess and finalise actions: having worked through the problem, the team members compare the “as is” state with the state in which the problem occurred. Next, the outcome of this comparison is reflected in the 8D report, containing e.g. a description of the causes of the problem and temporary and long-term corrective measures.

12. Marketing communication

12.1. Marketing communication with Customers

Good communication with Clients is the basis for building good relationships with Users, and this is what Selena Group greatly focuses on. It is thanks to customers' opinions and comments that the Group can improve its products. For this reason, the Group develops an active communication with the Users of its products, systems and solutions. In the era of widespread digitalisation, the Group contacts its users not only directly (e.g. by participating in industry events and fairs), but also through modern communication channels, including social media (YouTube, LinkedIn and Facebook).

One of the good practices applied by the Group to maintain partner relations with clients and to build its position of a consultant-expert is training courses organised, for example, by the Polish company Selena S.A. in Poland in cooperation with building wholesalers and industry associations. In 2018, the Bulgarian company also conducted trainings for ETICS system applicators. Also, the Group's Finnish distributor was trained by Polish experts.

In order to build its corporate brand image and the image of its product brands, Selena Group also carries out advertising and promotional activities addressed to contractors, e.g. online campaigns, POS materials, presence of seasonal promoters

at points of sale, ATL campaigns, e.g. on the radio and PR articles concerning products, technologies and the Group's activities.

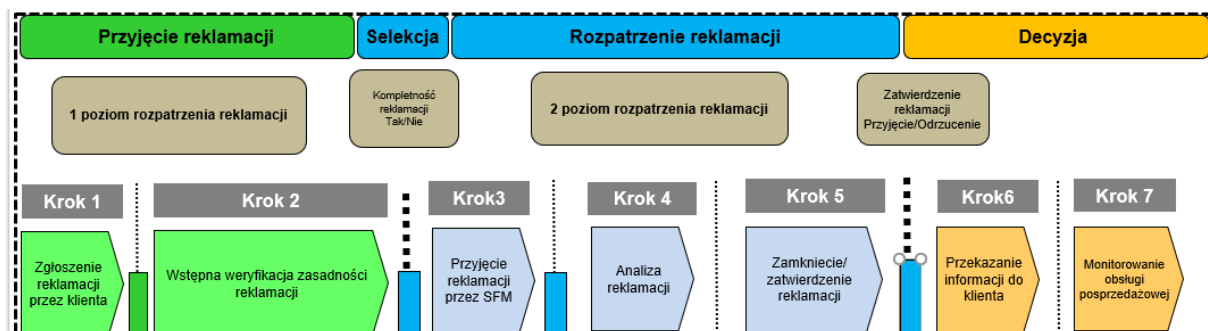
One of the communication channels is the Selena Contact Center (which exists at Selena S.A. for example), whose task is to provide comprehensive customer service. Selena Contact Centre's employees are available to customers from Monday to Friday from 8:00 to 17:00 providing them with product information and advice and registering complaints. In addition, the customers of Selena S.A. can contact the company by filling out the contact form available at <http://www.selena.pl/pl/kontakt/>, by sending an email to: kontakt@selena.com, or by sending a letter. All these communication channels have been created so that customers can choose the most convenient way to communicate with Selena S.A.

Selena Group is also engaged in regular communication and PR activities. It regularly publishes information on current events, participation in fairs, plebiscites and conferences, as well as product materials and financial results.

12.2. Complaints procedure

In order to improve and streamline the complaint handling process, Selena has introduced a global procedure a special procedure in this area for all the Group companies. The procedure is based on the intention to harmonise the complaint handling process in companies located in various parts of the world and to ensure central supervision over the process.

The procedure provides for two main courses of action, depending on the value of the potential non-compliant product and possible damages in the complaint process. With such a design, the process ensures central supervision over the course of the proceedings, including communication with the client, a cause and effect analysis and proper decision-making. The overarching principle in the process is the customer-centric attitude and continuous improvement by learning lessons and implementing remedial measures.



12.3. Results of marketing communication

Thanks to the Group's communication strategy Selena's clients have direct access to dedicated communication channels (both indirect and direct communication), as well as to the units responsible for particular areas (e.g. separately the call center, separately the complaint handling department).

The constant building of communications, and thus the Group's image among Users, causes a growth in the brand recognition and image of Selena Group as a partner and technical advisor. This is one of the desired effects that the Group wishes to focus on and improve in the following years of its operations.

With its active, professional and planned marketing communication, the company uses digital tools and channels to reach increasingly larger groups of users. Examples include three key online product campaigns conducted in Poland in 2018 in relation to the 60 Seconds Foam, Evomer and a Bonding Primer, whose total results include over 633,500 users reached and over 3,183,700 views.

In 2018, thanks to media relations, in the Polish market Selena Group generated more than 1,200 publications and reached more than 10 million readers. In total, Selena Group got 645 mentions in release headings, and statements of the company's

representatives appeared in more than 366 information materials. These activities were strengthened through publications in Selena Group's own social media channels, including: YouTube, LinkedIn and Facebook.

13. Privacy protection

Selena Group is committed to privacy protection. This approach is reflected in the policies adopted at the Group level, contained in the Code of Conduct and in respect for the right to protection of personal data of the Group's customers and contractors alike. Thanks to the rules adopted by the Group, no breaches have been identified with respect to the protection of privacy, including the processing of personal data. Likewise, no administrative proceedings were conducted against and no fines were imposed on any Group companies in this respect. In 2018, the Group undertook a number of measures to strengthen the protection of personal data of both its employees and its collaborators. Cooperation was started with a law firm specialising in personal data protection, intensive training was conducted for people who processed data, and IT solutions were developed and implemented to facilitate work and increase the level of personal data protection.

14. Product labelling

Selena Group's products are labelled in accordance with Regulation (EC) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures. Consequently, each product is labeled in an official language of the Member State in which the substance or mixture is placed on the market and contains, in particular, information such as:

- supplier's name, address and phone number
- hazard pictograms
- safety warnings
- phrases indicating hazard types
- precautionary statements.

Moreover, in order to ensure the best possible level of protection of human health and the environment against chemical products, Selena Group has developed *General guidelines for the preparation of labels and placing alerts for the visually impaired*. The document applies to the whole Selena Group. Labelling activities are coordinated at the head office level.

15. Other social and market-related matters

In the reporting period, no anti-competition or anti-market behaviours were observed in any Group company. In consequence, no fines were imposed on the Group in this regard.
