

Dear Shareholders,

We are presenting to you the report on Selena Group's activities in 2018. We are delighted to announce that once again we have increased our sales revenues, which reached PLN 1,228 million. Particularly noteworthy is the Group's net profit of more than PLN 26.7 million, almost four times more than a year ago. Our sales growth continued in most markets, including: China up 27%, Spain up 20%, Ukraine up 14% and the United States up 13%. This robust performance was helped by optimisation of our operations, building competitive edge in international markets, marketing innovative products and consistent development of the distribution network. However, it should be borne in mind that these activities are underpinned by relentless effort and commitment of our whole team and here I would like to thank everyone for this.



In 2017, we were faced with an unprecedented increase in raw material prices, the highest in 15 years, but in the following year of 2018, after the first six months, the construction chemicals sector began to feel positive effects of falling prices of raw materials for polyurethane foams, which led to a significant improvement of margins. However, the prices of raw materials for the production of silicone sealants as well as the prices of bitumens continued to grow. Selena Group was steadily increasing the share of its high-margin products in the portfolio, including foam adhesives, and the R&D department was working hard on innovative formulations of these products.

Selena Group's sales increased by 4.2% and the Group's gross profit margin was 29.1%. In 2018, the Group generated 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 revenues and a reduced proportion of selling costs to turnover. This also gave a boost to our EBIT margin, which reached 4.3%.

In 2018, Selena Group worked on preparing assumptions for the firm's new business strategy. We are extremely pleased that we have developed the concept of our strategy within interdisciplinary teams, which presented the capabilities of individual market segments. This unique development path of Selena was built with inputs from both long-standing employees and young experts, and with our very good understanding of the markets where we operate as well as the good practices and business insights that we shared during the work on the strategy. The outcome of this intensive effort is a strategy which focuses mainly on the needs of construction professionals, who are at the heart of our activities.

In addition to system changes in our organisation, last year was a period of strong development of our innovative products portfolio and the search for new sources of raw materials for cost-wise optimisation of our products. At the same time, international cooperation was continued under projects forming part of the EU Horizon 2020 programme: EENSULATE and BIOMOTIVE. As part of EENSULATE, work was finalised on the PIR foam with better fire-resistant and thermal insulation properties and limited smoke during combustion. BIOMOTIVE was devoted to work 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 2018, we finalised construction of an R&D centre, with state-of-the-art laboratory equipment, testing machines and professional equipment for polyurethane foam analyses. Its opening ceremony took place on 2 April 2019.

In 2018, we also developed and marketed products that were the result of advanced R&D activities, including:

- **highly flexible gel adhesives reinforced with fibres: Tytan Professional Superflex Gel and Flex Gel** – the solution is particularly addressed to the rapidly growing segment of large format tiles, where a greater resistance to deformation, a better transfer of stress resulting from substrate behaviour or temperature changes plus a working temperature of up to 35°C are essential parameters of the adhesive.
- **development of our top product from the waterproofing segment – COOL-R** – the highly-reflective waterproofing coating, which in the summer of 2018 was applied on the roof of the largest fish market in Europe. Our product can reduce the roof temperature by even 70%, as a result of which the temperature inside the building drops by up to 10°C. It is a part of a major EUR 3 million worth of project carried out by Mecamadrid.
- **introduction of our Tytan Professional Fix² GT mounting adhesive the Polish and Spanish markets** – based on hybrid technology, the adhesive is eight times faster than traditional mounting adhesives and it takes maximum three hours to fully cure. It has a very high initial bonding strength, which helps finish the work in a short time and without the use of additional supports during application.

When creating new solutions, our overarching idea was to ensure that they facilitate the work of users, e.g. by increasing the speed of work, which has a direct impact on development of the user's business. We also endeavour to maintain high quality and, wherever possible, very good pro-environmental parameters, as an answer to the growing requirements of professional contractors regarding the materials used. Such solutions allow us to develop products that set new standards and define new boundaries. One of the examples of such an approach is COOL-R, which reduces demand for electricity necessary for interior cooling while reducing CO₂ emissions to the atmosphere.

The end of 2018 brought a sad and tragic event for the whole Selena Group – the unexpected death of our colleague and CEO of Selena FM S.A. Marcin Macewicz. Marcin worked with us for 20 years. We had lots of joint plans for the years to come and his passing was painful for all of us.

The last quarter of 2018 was for a period of personnel changes in the Management Board. In December 2018, Elżbieta Korczyńska joined the Management Board of Selena FM S.A. as a Management Board member and acting CFO. Next, the Supervisory Board appointed me as Management Board President after removing me from the role of Supervisory Board Chairman. In addition, the Supervisory Board resolved to appoint the following persons to the Management Board: Dariusz Ciesielski (Vice President for Sales) and Bogusław Mieszczak (Management Board Member for Operations). Then, in the first quarter of 2019, Christian Dölle joined the Management Board as Vice President for Marketing. In such a composition, the Management Board of Selena FM S.A. will focus its efforts on executing the new corporate strategy.

In 2019, we are faced with the challenges primarily related to implementation of our new solutions responding to the needs of the construction sector and individual users. Thanks to close cooperation with the market and the synergies of international divisional teams, we want to create not only innovative products but, above all, comprehensive systems whose main advantage will be to facilitate fast building. This is why we concentrate on deploying innovative technologies which improve durability of work and are key to one of the aspects that professionals seek most, namely speed. This mainly relates to the new fast standard for assembly of final fix joinery and framed partition systems as well as fast bathroom finishing. We would also like to strengthen the Group's position in the markets where we already operate. The Group's fastest growing market – with a growth rate of more than 30% year-on-year – is China, but our firm is also making headway in the United States, where we started to operate in 2001.

It is the work of the entire Selena Group team that has made it possible to attain our goals for 2018. Therefore, I would like to once again thank all employees for their joint effort and commitment that has resulted in development of a new business approach in Selena Group in 2018 and has contributed to a stronger trading performance compared to last year.

My thanks also go to you, Business Partners, and financial institutions for the trust put in us. I would like to assure you that together with the Management Board and the Supervisory Board we will work hard implementing our new strategy so that in 2019 and beyond we have a position among global manufacturers of construction chemicals as a brand that is even more attractive for end users.

Sincerely,

Krzysztof Domarecki

Management Board President of Selena FM S.A.