

MANAGEMENT BOARD REPORT ON THE ŚNIEŻKA'S GROUP ACTIVITIES in 2022



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Data in PLN thousand

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Sirs,

The war, which was the result of Russian aggression against Ukraine, fundamentally changed our environment in many aspects: not only social and political, but also economic. On February 25, 2022, just one day after it broke out, we suspended the operating activities of our company Śnieżka-Ukraina. We immediately took measures to support our employees and protect our assets. Importantly, the production operations at the plant in Yavoriv, Ukraine, were resumed on April 11. It was feasible, inter alia, owing to the location of our plant there - i.e. one of the seven production facilities of the Śnieżka Group - out of the war zone, and also thanks to the engagement of the local team.

The war beyond our eastern border coincided with a global economic slowdown and a long-term recovery from the perturbations triggered by the COVID-19 pandemic. Consequently, the economies of numerous countries were strongly affected by this unfavourable combination of factors. As regards our industry, all manufacturers recorded, inter alia, a sharp increase in the prices of many raw materials, as well as fuels, energy and services, a high increase in interest rates and related interest costs and a decrease in consumer indexes. The latter factor had a direct impact on the performance of manufacturers of decorative products. On the largest markets for our Group - i.e. in Poland and Hungary - the industry recorded decreases in sales in terms of volume. Despite such a tough and unstable economic environment, last year the Group increased its share on all three core markets for us - Polish, Hungarian and Ukrainian.

In 2022, we generated sales revenues of PLN 791.7 million, only moderately lower y/y. The performance was shaped primarily by increases in product prices triggered by the higher production costs and the continuation of the trend from previous years of consumers opting for premium products, yet also by the decline in the purchasing power of the society as following the inflationary pressure.

Obtaining comparable year-on-year revenues of the Group was also possible owing to a properly shaped marketing and sales strategy as well as pricing policy. It assumes i.a. maintaining a balance between keeping market shares and realized margins.

What is essential to us, we recorded an increase in sales in Poland, which is our key market. This allowed to offset the decline in revenues on the Hungarian market, caused primarily by the weakening of the Hungarian forint (an increase was recorded in the local currency). On the Ukrainian market, we recorded a decrease in sales in the aftermath of the war. However, since April last year the fighting takes place mainly in the eastern and south-eastern parts of this country twice as large as Poland. It is worth noting that despite the war, we observed a recovery in demand in Ukraine during the year, especially during the peak season. This is related to the relatively calmer situation, particularly in the western and central regions, where renovation works have been partially resumed. The situation on the Ukrainian market, however, remains uncertain and demanding and difficult to forecast.

I also consider the level of the consolidated net profit (PLN 41.3 million) to be optimal in these circumstances. It is worth mentioning that our Group implemented a large-scale investment program between 2018 and 2022, aimed at optimizing logistics processes and digital transformation.

Data in PLN thousand

As part of these activities we launched a new Śnieżka Group Logistics Centre last year, according to schedule. This is the largest single investment in fixed assets in the history of our company. Thanks to its efficient implementation, we have improved our logistics processes. They are now fully scalable and supported on a daily basis by advanced IT technologies. This investment enabled us to increase the quality of processes and reduce their costs.

Having been developing the Śnieżka Group for several decades, not only do we take into account the efficiency of financial performance, but also the impact of our operations on the environment. I am personally convinced that the sustainable development trend is to shape the future and development directions of Śnieżka. We desire to live up to our stakeholders' expectations with care for the opportunities and needs of future generations.

Thus, we have defined our ambitions, and in particular we have precisely determined the goals and initiatives in the *Śnieżka 2023+ Sustainable Development Strategy*. It is a response to the growing awareness and expectations of our stakeholders, including our business partners, consumers, employees, local partners and institutions providing us with financing. We have defined three pillars on which our responsibility is based: Environment, People and Business. As part of them, we have identified a total of nine priority areas for further development of Śnieżka in the spirit of sustainable development, setting strategic and operational objectives for each of them.

Such an approach to sustainable development is to allow us to achieve our business goals and build value for our shareholders. There is also no doubt that it is an organization developing sustainably and more resistant to unexpected events occurring in its environment.

The past year was a difficult time for all of us - we faced circumstances that were difficult to predict. I would like to thank the entire Team as well as our partners for their strong cooperation in a formidable period. Through reliable cooperation, we were able to provide our customers with the highest quality products and our stakeholders with reasons to be satisfied with the constantly growing market position of Śnieżka. I believe that our solidarity, proven in difficult times, will allow us to strengthen and develop the Śnieżka Group safely.

Piotr Mikrut

President of the Management Board

The Śnieżka Group – Management’s report on the activities for 2022

Data in PLN thousand

SELECTED FINANCIAL INFORMATION

The Śnieżka Group – consolidated data

	in PLN '000		in EUR '000	
	as at / for the period of 12 months ended as at 31 December 2022	as at / for the period of 12 months ended as at 31 December 2021	as at / for the period of 12 months ended as at 31 December 2022	as at / for the period of 12 months ended as at 31 December 2021
I. Net revenues from sales of products, goods and materials	791 686	794 863	168 864	173 646
II. Profit from operating activities	69 421	75 455	14 807	16 484
III. Gross profit	53 013	76 810	11 308	16 780
IV. Net profit	41 272	64 340	8 803	14 056
- Net profit attributable to shareholders of the parent company	36 684	59 705	7 825	13 043
- Net profit attributable to non-controlling interests	4 588	4 635	979	1 013
V. Comprehensive income for the period	24 435	66 256	5 212	14 474
- Comprehensive income for the period attributable to shareholders of the parent company	22 922	60 909	4 889	13 306
- Comprehensive income for the period attributable to non-controlling interests	1 513	5 347	323	1 168
VI. Net cash flows from operating activities	98 169	124 121	20 939	27 115
VII. Net cash flows from investing activities	(47 467)	(108 529)	(10 125)	(23 709)
VIII. Net cash flows from financing activities	(43 770)	(16 111)	(9 336)	(3 520)
IX. Total net cash flows	6 932	(519)	1 479	(113)
X. Total assets	794 015	802 960	169 303	174 579
XI. Liabilities and provisions for liabilities	472 773	468 997	100 807	101 969
XII. Long-term liabilities	244 850	270 552	52 208	58 823
XIII. Short-term liabilities	227 923	198 445	48 599	43 146
XIV. Equity	321 242	333 963	68 497	72 610
- Equity attributable to the shareholders of the parent company	292 942	304 099	62 462	66 117
- Equities attributable to non-controlling interests	28 300	29 864	6 034	6 493
XV. Share capital	12 618	12 618	2 690	2 743
XVI. Number of shares / weighted average number of shares (items)	12 617 778	12 617 778	12 617 778	12 617 778
XVII. Earnings per ordinary share in PLN/EUR	3.27	5.10	0.70	1.11
- Earnings per share attributable to shareholders of the Parent Company	2.91	4.73	0.62	1.03
XVIII. Diluted earnings per ordinary share in PLN/EUR	3.27	5.10	0.70	1.11
- Diluted earnings per ordinary share attributable to shareholders of the Parent Company	2.91	4.73	0.62	1.03
XIX. Carrying amount per share in PLN/EUR	25.46	26.47	5.43	5.75
XX. Diluted carrying amount per share in PLN/EUR	25.46	26.47	5.43	5.75
XXI. Declared or paid dividend per share attributable to shareholders of the parent company (in PLN/EUR)	2.50	3.60	0.53	0.78

The Śnieżka Group – Management’s report on the activities for 2022

Data in PLN thousand

FFIL ŚNIEŻKA SA - standalone data

	in PLN ‘000		in EUR ‘000	
	as at / for the period of 12 months ended as at 31 December 2022	as at / for the period of 12 months ended as at 31 December 2021	as at / for the period of 12 months ended as at 31 December 2022	as at / for the period of 12 months ended as at 31 December 2021
I. Net revenues from sale of products, goods and materials	510 920	484 916	108 978	105 935
II. Profit from operating activities	57 994	66 861	12 370	14 606
III. Gross profit	25 724	62 944	5 487	13 751
IV. Net profit	23 608	60 335	5 036	13 181
V. Comprehensive income for the period	24 984	59 481	5 329	12 994
VI. Net cash flows from operating activities	73 925	(47 135)	15 768	(10 297)
VII. Net cash flows from investing activities	(19 352)	(58 853)	(4 128)	(12 857)
VIII. Net cash flows from financing activities	(60 345)	107 374	(12 871)	23 457
IX. Total net cash flows	(5 772)	1 386	(1 231)	303
X. Total assets	832 808	836 646	177 575	181 903
XI. Liabilities and provisions for liabilities	609 633	606 912	129 988	131 955
XII. Long-term liabilities	473 549	514 990	100 972	111 969
XIII. Short-term liabilities	136 084	91 922	29 016	19 986
XIV. Equity	223 175	229 734	47 586	49 949
XV. Share capital	12 618	12 618	2 690	2 743
XVI. Number of shares / weighted average number of shares (items)	12 617 778	12 617 778	12 617 778	12 617 778
XVII. Earnings per ordinary share in PLN/EUR	1.87	4.78	0.40	1.04
XVIII. Diluted earnings per ordinary share in PLN/EUR	1.87	4.78	0.40	1.04
XIX. Carrying amount per share in PLN/EUR	17.69	18.21	3.77	3.96
XX. Diluted carrying amount per share in PLN/EUR	17.69	18.21	3.77	3.96
XXI. Declared or paid dividend per share attributable to shareholders of the parent company (in PLN/EUR)	2.50	3.60	0.53	0.78

The Euro exchange rates applied for conversion of the financial statements:

	12 months of 2022	12 months of 2021
Particular items of the condensed statement of comprehensive income were translated at the average EURO exchange rate in the period	4.6883	4.5775
	as at 31 December 2022	as at 31 December 2021
Particular items of the financial position statement were translated at the EURO exchange rate at the end of the period	4.6899	4.5994

Data in PLN thousand

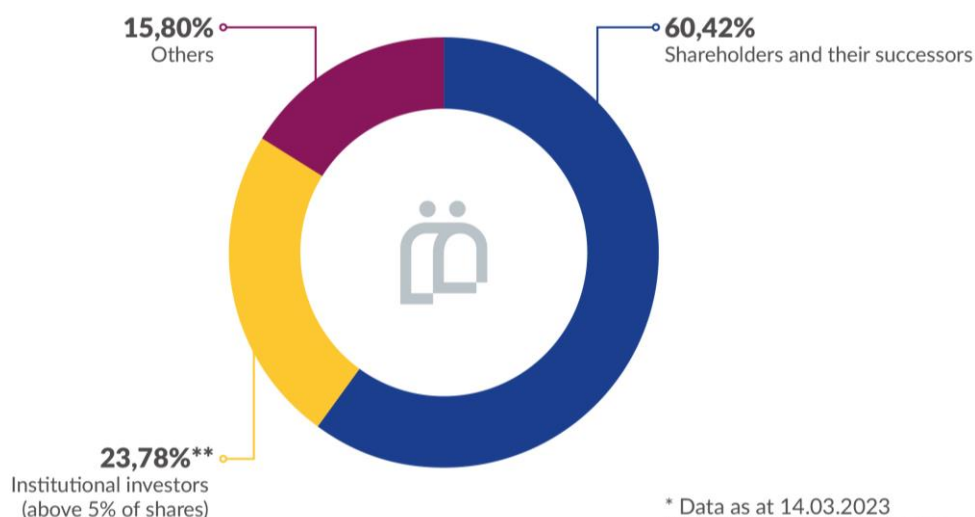
CONCISE DESCRIPTION OF THE ŚNIEŻKA GROUP

What makes us different



Shareholding structure of FFIL Śnieżka SA*

(share in the share capital in %)

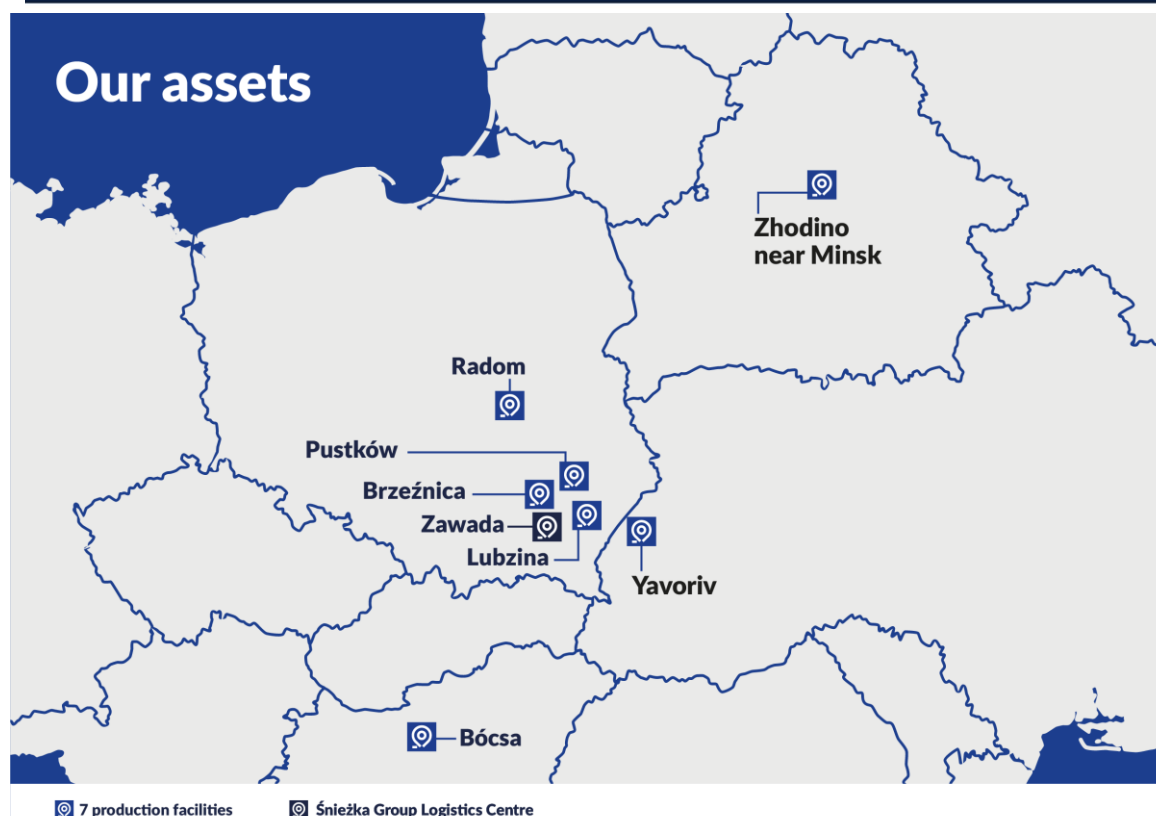


* Data as at 14.03.2023

** PTE Allianz Polska: 14,39%

PTE Nationale-Nederlanden: 9,35%

Data in PLN thousand



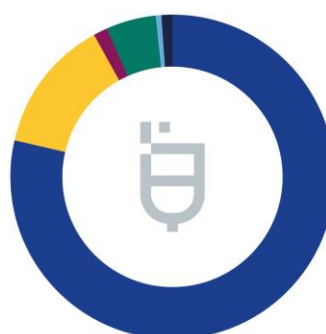
Sales revenues of the Śnieżka Group in 2022

by countries and product categories

Countries



Product categories



Data in PLN thousand



Key brands of the Group



Data in PLN thousand

1. Comment to performance in 2022

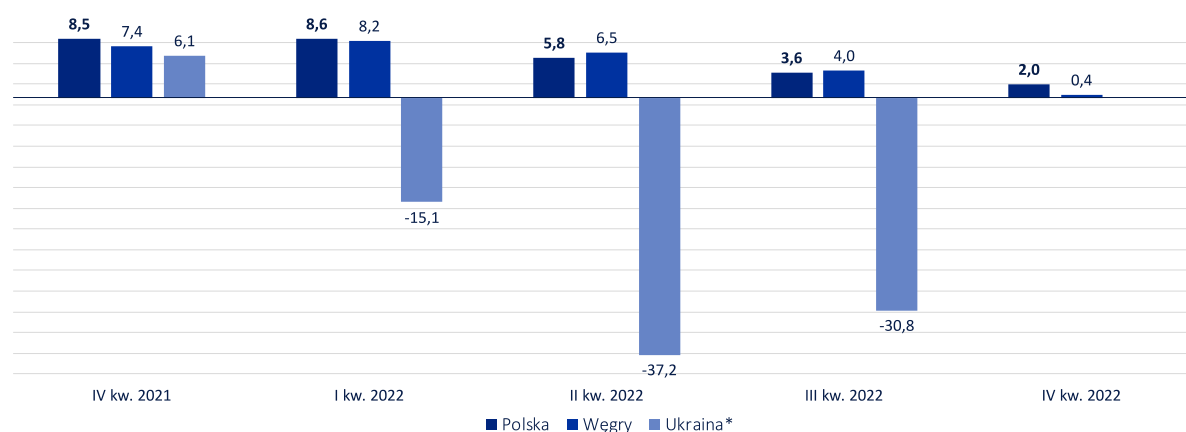
1.1 Macroeconomic situation and industry condition

1.1.1 Macroeconomic situation

The Russian aggression in Ukraine, which began in February 2022, affected the international community in both geopolitical and economic context. The Polish economy, as a country neighbouring Ukraine, felt this shock through a number of phenomena, the most important of which are: a sharp increase in the prices of energy, certain services, food and other raw materials, an intensive influx of refugees from Ukraine, a significant reduction in economic exchange with the Russian Federation and Belarus, and an increase in consumer anxiety.

The war coincided with a global economic slowdown and continued recovery from the economic effects of the crisis caused by the COVID-19 pandemic¹.

Figure 1. Annual gross domestic product dynamics for the key markets of the Group (in%)



Source: GUS, Hungarian Central Statistical Office, State Statistics Service of Ukraine* (the data on GDP in Q4 of 2022 were not available as at the date of publication of the Report).

Poland

In 2022, the Polish economy continued the growth observed in 2021, although its dynamics was noticeably lower. According to the preliminary estimates of the Central Statistical Office, the gross domestic product in 2022 was higher by 4.9% y/y in real terms, while the annual GDP growth in 2021

¹ Source: European Commission, Autumn 2022 Economic Forecast: The EU economy at a turning point https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2022-economic-forecast-eu-economy-turning-point_en.

Data in PLN thousand

was 6.8%. The preliminary estimate of GDP for Q4 of 2022 indicates a 2.0% growth rate against 8.5% growth in 2021 in the same period².

Industrial production in 2022 recorded an increase of 9.3% compared to an increase of 14.7% in 2021. In each subsequent quarter, the dynamics was lower and lower³. Retail sales increased in 2022 by 2.9% year on year. Construction and assembly production sales also improved - by 6.5% y/y.

The labour market still records low unemployment rates, which at the end of December 2022 amounted to 5.2%, which denotes a decrease by 0.6% y/y. Concurrently, the average salary in the enterprise sector in Poland in 2022 amounted to PLN 6,653.67, which means a nominal increase of 13.0% compared to the previous year. However, in real terms (after taking inflation into account), wages were decreasing from Q2, and in Q4 the real decline in wages amounted to 4.3% on an annual basis.

As for the housing construction, another increase was observed yet weaker than in previous years. According to preliminary data, in 2022, 238.6 thousand sq. m. apartments were commissioned (increase by 1.7% y/y). The sector, which has recorded high growth dynamics in recent years, started to slow down significantly in the face of higher borrowing costs and difficult access to home loans. This is reflected in the number of building permits issued or notifications with a construction project (in 2022 - 297.4 thousand, which means -12.8% y/y) and notifications of commenced construction (in 2022 - 200.3 thousand, which means -27.8% y/y).

Throughout 2022, CPI inflation reached 14.4% y/y, and in Q4 alone it amounted to 17.3% y/y. The central NBP forecast indicates that the inflation peak is to be expected in Q1 2023 (approx. 19.6% y/y), and in the entire 2023 it will amount to 13.1% y/y⁴.

The World Bank forecasts a decline in the pace of global recovery to 1.7% in 2023. As for Poland's GDP, the forecast is 0.7% in 2023⁵. The European Commission estimates the national GDP in 2023 at 0.4% and inflation at 11.7%⁶. The International Monetary Fund expects a slightly lower GDP dynamics of 0.3% in 2023⁷.

² Source: CSO.

³ Data source referring to Poland: CSO, *Socio-economic situation of the country in 2022.*, January 2023 - unless otherwise indicated.

⁴ Source: National Bank of Poland, Inflation and GDP projections – November 2022.

⁵ Source: The World Bank, Global Economic Prospects, January 2023.

⁶ Source: The European Commission, Economic forecast for Poland, February 2023.

⁷ Source: International Monetary Fund, World Economic outlook update, January 2023.

Data in PLN thousand

Hungary

The Gross Domestic Product in Hungary in 2022 reached 4.6%. In the fourth quarter, according to the flash estimate, the GDP dynamics increased by 0.4% compared to the corresponding period of the previous year, while in the previous quarters it reached respectively: 8.2%, 6.5% and 4.0%⁸.

In 2022, the average gross salary in Hungary amounted to HUF 515,766 (approx. PLN 6,193), which means an increase of 17.5% compared to the same period of the previous year. The unemployment rate in December reached 3.9%, which means an increase by 0.2% y/y.

Consumer prices in Hungary rose on average in 2022 by 14.5% compared to the previous year, and their increase in December was 24.5%.

In the period between January and December 2022, the volume of industrial production increased by 5.8% year on year, and in December alone - by 2.0% compared to December 2021. The volume of construction production in 2022 exceeded the previous year's level by 3.0%, and in December alone it decreased by 3.9% compared to December 2021. In 2022, 6.3% more buildings were commissioned than in the corresponding period of 2021, and the number of building permits for new apartments in the country increased by 10.3%.

The World Bank's forecast for Hungary's GDP for 2023 is 0.5%⁹. According to the European Commission, economic growth in this country may be at the level of 0.6% in 2023, while inflation may amount to approx. 16.4%¹⁰. The International Monetary Fund forecasts that Hungary's GDP will reach 1.8% in 2023¹¹.

Ukraine

The year 2022 was the most difficult in the history of independent Ukraine due to Russia's armed aggression against this country. This invasion contributed to enormous damage to the national economy.

Electricity shortages limited economic activity and at the end of 2022 the vast majority of companies reduced production. Some of them stabilized their operations by taking advantage of power generators or adjusting their working hours to the schedules of energy supplies. The consequences of trouble with electricity supplies and the weakening of the labour market led to employment reduction. Job insecurity and lack of financial resources remain major concerns for internal and external migrants¹².

⁸Data source referring to Hungary: Hungarian Central Statistical Office (KSH) - unless otherwise indicated.

⁹ Source: The World Bank, Global Economic Prospects, January 2023.

¹⁰ Source: The European Commission, *European Economic Forecast. Autumn 2022*, November 2022.

¹¹ Source: The International Monetary Fund, <https://www.imf.org/en/Countries/HUN#countrydata>.

¹² Source: National Bank of Ukraine, <https://bank.gov.ua/>

Data in PLN thousand

The Ministry of Economy of Ukraine estimates a decline in GDP for 2022 at (-)30.4%, however, the continuation of Russian attacks on Ukraine's energy infrastructure (initiated in October) may lead to an even greater than forecast decline in gross domestic product¹³.

The level of inflation in the reporting period increased. Nevertheless, despite the challenges of war, price growth remained moderate and slower than forecast by the National Bank of Ukraine¹⁴ - in December 2022, inflation amounted to 26.6% y/y. The basic interest rate at the end of 2022 remained at 25% (in January it was increased to 10%, and in June to 25%)¹⁵.

The main reasons for the acceleration of inflation remain the effects of warfare, including electricity shortages and the occupation of some regions of Ukraine, which significantly affects the production costs of enterprises and sometimes leads to shortages of certain products.

From July 2022, the National Bank of Ukraine adjusted the official exchange rate of the UAH to the USD by 25%, to 36.5686 UAH/USD. This step helped to increase the competitiveness of Ukrainian producers, unify the exchange rate conditions for various business groups and households, and support the resilience of the economy during the war. The official exchange rate of the UAH to the US dollar remains fixed. Given the high level of uncertainty caused by the war, the fixed official exchange rate is the main anchor stabilizing expectations and a key means to achieve the priority objectives of the National Bank of Ukraine. They are intended to ensure price and financial stability, which is an important precondition for economic recovery¹⁶.

From February 24, 2022 until the date of publication of the report, the data of the Ukrainian statistical office on average wages and unemployment rates were not published.

The real estate and construction market underwent notable changes from January to December 2022. This was influenced by mass migrations, destruction of buildings, increased demand for the purchase and rental of houses and apartments in the western regions of Ukraine. Most construction projects were suspended, only some developers in certain regions resumed construction to a limited extent in the second half of 2022. One of the main problems in today's real estate market is the fall in demand during the year by 90-95%. Developers, however, are not lowering prices.

By November 2022, the total amount of direct documented damage to Ukraine's infrastructure caused by Russia during the war was \$135.9 billion. Most of all, the strikes were directed at residential and non-residential buildings, critical and social infrastructure. Most damage to residential buildings was recorded in the Donetsk, Kiev, Luhansk, Chernihiv and Kharkiv oblasts. In Kiev alone, 348 residential

¹³ Source: Ministry of Economy, <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=4470bafb-5243-4cb2-a573-5ba15d9c8107&title=MinekonomikiPoperedno>

¹⁴ Source: National Bank of Ukraine, https://bank.gov.ua/admin_uploads/article/MM_2023-01.pdf?v=4

¹⁵ Source: National Bank of Ukraine, <https://bank.gov.ua/ua/monetary/stages/archive-rish>

¹⁶ Source: <https://nerukhomi.ua/ukr/news/ryinok/pidsumki-neprostopo-2022-roku-dlya-budivelni-galuzi-top-vazhlivih-podij.htm>

Data in PLN thousand

buildings (mostly blocks of flats) worth \$0.9 billion have been destroyed or damaged since the beginning of the war¹⁷.

The World Bank forecasts that Ukraine's GDP is to assume positive dynamics in 2023 and will amount to 3.3%. The forecast was raised against the forecast from June 2022, when it was lower by 1.2%¹⁸.

1.1.2 Raw materials and currencies

Raw materials

The year 2022 was characterized by a significant increase in the prices of raw materials used in the production of paints and packaging. In the first half of 2022, the majority groups of raw materials suffered from the price increase of the following: whites, dispersions, polymer resins, pigments, solvents, fillers and calcium carbonates. The prices of packaging also increased such as: plastic, metal and paper. In the second half of the year, prices began to stabilize, but in the last months of 2022 they returned to an upward trend due to increases in electricity prices.

The price increase of raw materials and packaging in 2022 was driven by changes in the EUR/PLN and USD/PLN exchange rates, as well as sharp increases in electricity and gas prices. In addition, the geopolitical situation is destabilizing some groups of raw materials and supply chains in Europe and across the globe.

In 2022, short-term restrictions on access to certain shopping items occurred. The continuity of supplies of raw materials to the Śnieżka Group companies was also influenced and may still be affected by difficulties on the Belarusian and Ukrainian borders.

At the end of 2022, no other significant events or threats in the area of procurement took place that would have a significant impact on ensuring the continuity of supplies of raw materials.

Changes in the exchange rates of the Group's key currencies

In 2022, the zloty depreciated against major currencies. The average NBP rate of the European currency in 2022 was PLN 4.69¹⁹, while in 2021 - PLN 4.57. In the reporting period, the EUR/PLN exchange rate fluctuated between approx. PLN 4.49 and 4.96. The depreciation of PLN against EUR calculated on the basis of the exchange rate from the end dates of the analysed period amounted to 2.0% (with the exchange rate at the end of 2022 at PLN 4.69), with a relatively low volatility coefficient of quotations (1.9%), calculated on the basis of the deviation standard and arithmetic mean.

In 2022, PLN weakened significantly against the US dollar. The average rate of the US currency in 2022 was PLN 4.46, while in 2021 - PLN 3.86. In the reporting period, the USD/PLN exchange rate fluctuated

¹⁷ Source: <https://thepage.ua/ua/news/rinok-neruhomosti-2022-rik-stav-najskladnishim-lun>

¹⁸ Source: The World Bank, Global Economic Prospects, <https://www.worldbank.org/en/publication/global-economic-prospects>.

¹⁹ It was rounded to two decimal places (except for Ukrainian UAH).

Data in PLN thousand

between approx. PLN 3.92 and 5.04 (max. vs min. = 128%). The depreciation of PLN against USD calculated on the basis of the exchange rate from the end dates of the analysed period amounted to 8.4% (with the exchange rate at the end of 2022 at PLN 4.40), with a relatively high volatility coefficient of quotations (6.3%).

The valuation of PLN during the reporting period was determined by both external factors, including the war in Ukraine, the global increase in inflationary pressure, the interest rate policy of the leading central banks, and internal factors, including further decisions of the Monetary Policy Council on interest rates or negotiations with the European Union regarding the launch of the National Reconstruction Programme.

Figure 2. EUR and USD quotations against PLN



Source: NBP.

Until mid-2022, the Hungarian forint exchange rate was in a weakening trend against the Polish currency, recording significant fluctuations along the way. In the second half of the year, the Hungarian currency also weakened, yet less dynamically. The average exchange rate of HUF 100 in 2022 was PLN 1.20, while in 2021 - PLN 1.27. In the reporting period, the HUF/PLN exchange rate fluctuated between approx. PLN 1.12 and 1.29 (max. vs min. = 115%). The depreciation of PLN against HUF calculated on the basis of the exchange rate from the end dates of the analysed period amounted to 6.0% (with the exchange rate at the end of 2022 at PLN 1.17), with a relatively high volatility coefficient of quotations (4.0%).

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Data in PLN thousand

Figure 3. HUF quotations against PLN



Source: NBP.

In 2022, due to the extraordinary situation on the Ukrainian market, the Group introduced a change in the rules regarding the translation of financial statements of Śnieżka-Ukraine, for which the Ukrainian hryvnia (UAH) is the functional currency.

Due to the freezing of the UAH exchange rate by the National Bank of Poland, the Group adopted, as at December 31, 2022, the closing rate set by the National Bank of Ukraine, at which the Group exchanges UAH into PLN, i.e. UAH 1 = PLN 0.1205.

The policy applied by the Group applies when converting items denominated in a foreign currency is described in item 2.4.6 of the Consolidated Financial Statements for 2022.

Data in PLN thousand

Figure 4. UAH quotations against PLN



Source: The National Bank of Ukraine (NBU).

1.2 Condition of the sector

The main markets where the Śnieżka Group operated in 2022 were as follows: Poland, Hungary and Ukraine. In the reported period, the Group's revenues generated on these three markets accounted for 93.8% of consolidated sales revenues.

In the reporting period, the market in Poland and Hungary experienced a decrease in terms of quantity, while in Poland it also shrank in terms of value, and in Hungary - it recorded a higher value of sales. This was mainly followed by increases in the selling prices of products, maintaining of the premiumization trend observed in previous years and the decline in the real purchasing power of consumers in the face of high inflation and the tightening of the monetary policy of central banks.

In 2022, the industry of paint and wood decoration products in Ukraine faced an enormous shock, which was the aggression of the Russian Federation. In the first weeks of the war the production plants were shut and their operations were resumed in the second quarter of 2022. After the initial weighty decline in demand, the market's performance was far better in the second half of the year, although it did not approach the levels recorded in 2021.

In addition, the condition of the industry on the markets in question in 2022 was affected by increases of prices of raw materials, energy and exchange rate fluctuations, which impacted the extent of the raise in selling prices.

Data in PLN thousand

Poland

According to the Group's data, in 2022 the decorative paints market shrank both in terms of value and volume.

There are numerous reasons for this, yet the main ones include high inflation dynamics; the uncertainty caused by the war in Ukraine; general concern about the economic situation of the country, but also the high base effect after several years of market growth in 2018-2021. According to the Polish Association of Paints and Adhesives Producers, the market of paints and agents for wood protection and decoration in Poland fell in 2022 by several per cent year on year, with a simultaneous double-digit decrease in volume.

The economic situation on the Polish market of paints and agents for wood protection and decoration is also dependent on the consumer sentiment. The situation of the Polish market of paints and wood agents in 2022 was affected by a very low level of consumer confidence. The average level of the Current Consumer Confidence Indicator (BWUK)²⁰ in 2022 was at the lowest level (-39.8) since the beginning of the measurement in 1999²¹. The lowest level of the indicator was observed in October (-45.5), and since then the dynamics has remained positive (although still below -40.0). A similar phenomenon is observed in the Leading Consumer Confidence Indicator (WWUK), although consumers throughout 2022 were slightly more optimistic about the next 12 months (-29.5)²².

According to the Company's internal data, as in previous years, decorative paints were used primarily for renovation or restoration of apartments²³, while - as the Group estimates - the decision to purchase them was less frequent when it was necessary to finish a new apartment. Consumers are looking for high-quality products with good coverage properties that can be painted efficiently.

In 2022, no changes occurred among the main players on the Polish market of paints and preparations for wood protection and decoration. The entities with the largest shares on the Polish market currently include: Śnieżka Group companies, PPG Deco Polska and AkzoNobel Polska. According to the Company's estimates, their share in the total sales of decorative products in Poland is over 80%.

²⁰ BWUK and WWUK indicators range from -100 to +100. Values above zero indicate an improvement in the economic situation whereas negative values indicate its deterioration.

²¹ Source: CSO, Consumer situation - December 2022.

²² Ibidem.

²³ Source: Group internal study.

Data in PLN thousand

Hungary

According to the Group's estimates, in 2022 the Hungarian market of paints and agents for wood protection and decoration recorded a quantitative decrease in sales, while reaching a sales value higher than in 2021.

In 2022, the industry faced a number of challenges, the sources of which are attributable primarily to high inflation dynamics, the tightening monetary policy of the Hungarian central bank, general concern about the economic situation and partly - uncertainty triggered by the war in Ukraine.

According to the Group's data, the largest consumption of paints and wood decoration products on the Hungarian market was related to renovation works and refreshing flats and houses. As in Poland, Hungarian consumers pay attention to the ease of painting and good coverage properties when choosing products²⁴.

The year 2022 did not bring significant changes among major players operating on the Hungarian market. The largest entities operating in Hungary in the segment of paints and products for wood decoration and protection are: Poli-Farbe from the Śnieżka Group, PPG Trilak and AkzoNobel Coatings. Their total market share is estimated at approx. 75% of the entire market.

Ukraine

Until the outbreak of the war, i.e. until February 24, 2022, the operational activity of paint and varnish manufacturers ran smoothly. Due to the armed conflict, at the end of February all companies in the industry suspended their activities in Ukraine. Śnieżka-Ukraina company on April 11, 2022, as one of the first in its industry, resumed both production (initially for one shift, then full-time) and sales on the Ukrainian market.

According to the Group's estimates, the total value of the market of paints and agents for wood protection and decoration in Ukraine decreased in the first half of the year by approximately 50% compared to 2021. Q3 brought a clear animation on the market, although still far from the sales levels recorded before the outbreak of the war. In Q4, demand for decorative products decreased again, which was related to damage to critical infrastructure (energy infrastructure, mobile phone range).

Since October 2022, Ukraine has been the target of massive rocket attacks that damage the energy infrastructure, and as a result - power cut, including in production plants. Consequently, some restrictions were put in place on the use of electricity and its use according to the developed schedules. Businesses have adapted to the restrictions based on their capabilities - some enterprises continue to work using power generators, others follow energy supply schedules.

Despite interrupted work in the fourth quarter, there were no downtimes in the supply of paints and varnishes on the market, which were delivered from manufacturers' warehouses.

²⁴ Source: Group internal study.

Data in PLN thousand

Dozens of companies in the industry located in the eastern regions of Ukraine in 2022 reported great difficulties with logistics, raw material supplies and low demand for products in key regions that are now close to the front. The situation in the western and central regions of Ukraine is somewhat better.

The armed conflict also affected the availability of raw materials. Some of the raw materials acquired by Ukrainian producers came from Russia, Belarus or Turkey, and were produced in areas that fell under Russian occupation. Currently, producers have redirected their supply chain to the EU and other countries, which significantly increased the prices of selected product groups. During the conflict, companies involved in the sale, delivery and processing of oil industry products were damaged or destroyed (increase in fuel prices). Additionally, supply chains were disrupted in regions close to active hostilities. As a result, the costs went up.

Several enterprises in the east of the country were forced to evacuate their production plants from areas behind the front line or covered by military operations. Others could not or did not have time for this, which forced them to suspend their activities in the occupied territories.

As a result of the war, two large producers (Knauf, Polisan) suffered damage to the production infrastructure. One of them was able to rebuild its production capacity (Polisan). To the Company's knowledge, in 2022 no new producers appeared on the market.

As for the consumers (both households and construction companies), a steady decline in demand is noticeable in all product categories.

Other information on the core markets where the Group operates

Additional information on the markets where the Group operates and the competitive environment on major markets has been presented in a report on non-financial information, in point 3.2.6 of the Management’s Report on the activities (hereinafter referred to as the “Report”).

1.3 The most important events

The most important events and agreements concluded in 2022:

- January 1, 2022 - Commissioning of the warehouse section within the Logistics Centre in Zawada and taking over by it the function of Finished Goods Warehouses located in Brzeźnica, Lubzina and Pustków.
- February 24, 2022 - A decision on temporary limitation of operating activities in Śnieżka-Ukraine Sp. zoo. in connection with the situation on the territory of Ukraine. The decisions concerned the stoppage of deliveries and the temporary stoppage of production from February 25, 2022 (report no. 2/2022 of February 24, 2022),
- March 3, 2022 - information on maintaining the limitation of operating activities at Śnieżka-Ukraine Sp. z.o.o. (report no. 3/2022 of March 3, 2022),
- April 11, 2022 - decision to resume operating activities in Śnieżka-Ukraine Sp. z.o.o. (report no. 4/2022 of April 11, 2022),

Data in PLN thousand

- May 31, 2022 - an Ordinary General Meeting was held, which:
 - approved the Management' report on the activities and the financial statements for 2021;
 - divided the net profit for 2021 in the amount of PLN 60,355 thousand by establishing dividend in the amount of PLN 2.50 per share, i.e. in the total amount of PLN 31,544 thousand. The remaining part of the profit in the amount of PLN 28,790 thousand was decided to allocate to supplementary capital;
 - approved the Management' report on the activities of the Śnieżka Group and the financial statements of the Group for 2021;
 - granted a vote of acceptance to the members of the Company's bodies for performing their duties in 2021;
 - appointed members of the Supervisory Board for a new term of office,
 - approved the "Report on the remuneration of Members of the Management Board and Supervisory Board of FFIL Śnieżka S.A." for 2021,
- August 1, 2022 - dividend payment,
- December 22, 2022 - an annex to the multi-product loan agreement with ING Bank Śląski S.A (report no. 15/2022 of December 22, 2022),
- December 22, 2022 - a multi-purpose loan agreement with Bank Polska Kasa Opieki S.A.(report no. 15/2022 of December 22, 2022),
- December 22, 2022 - an amendment to the multi-purpose line of credit agreement with BNP Paribas Bank Polska S.A (report no. 15/2022 of December 22, 2022),
- December 22, 2022 - a non-revolving loan agreement with BNP Paribas Bank Polska S.A (report no. 15/2022 of December 22, 2022).

The most important events after the balance sheet date

After the balance sheet date, the Company did not conclude any important agreements and no events of a significant nature occurred in the Group.

The most important agreements concluded by the Company in 2022 and after the balance sheet date have been described in detail in item 1.10.2. of the Report.

1.4 Sales performance

1.4.1 The Śnieżka Group

In 2022, the Śnieżka Group generated sales revenue of PLN 791,686 thousand, i.e. 0.4% lower than in the previous year.

Data in PLN thousand

The consolidated performance was positively affected by higher sales on the Polish market, which has a dominant share in the Group's total revenues. Negatively - lower sales on the Hungarian (as for PLN, an increase was recorded in the local currency) and Ukrainian markets.

The Group's performance was impacted by the outbreak of the armed conflict in Ukraine and its consequences on the operating activities of Śnieżka-Ukraine, consumer demand (particularly on the Ukrainian market) and the economy. In the reporting period, the Group observed deteriorating consumer sentiment caused, inter alia, by increase in inflationary pressure and the projected decline in GDP. The Group also recorded a decrease in the purchasing power of households, which, in addition to a double-digit increase in prices, was reflected in interest rate increases implemented to counteract the effects of inflation.

The Group's performance was positively influenced by two factors: the trend of premiumization, which has been going on for several years, i.e. purchasing higher quality products (primarily in Poland and Hungary), and the long-term pricing strategy. In spite of the difficult economic environment, in 2022 the Group increased its shares in all three core markets - Polish, Hungarian and Ukrainian.

The sales performance in the period January-December 2022 on the main markets (and the most important factors that contributed to them) are as follows:

- **Poland** (67.9% share in the revenue structure, +1.6% y/y)

Sales revenues generated by the Group on the Polish market amounted to PLN 537,220 thousand and thus were 1.9% (PLN 10,108 thousand) higher compared to the previous year.

The increase in the value of sales in Poland resulted primarily from: properly shaped pricing policy - an element of which is to maintain a balance between maintaining market shares and realized margins - marketing and sales activities and on-going migration of customers towards premium products.

- **Hungary** (17.3% share in the revenue structure, -0,9% y/y)

In Hungary, the Group's revenues amounted to PLN 136,779 thousand and were 5.4% lower than a year earlier - largely by virtue of the weakening of the Hungarian forint against the zloty. The dynamics of revenues in the local currency on the Hungarian market was positive and amounted to 5.2%, with a decrease in sales in terms of volume.

- **Ukraine** (8.6% share in the revenue structure, -1,5% y/y)

In Ukraine, the Group generated revenues of PLN 68,245 thousand, i.e. 15.0% lower compared to the previous year. The drop in sales on the Ukrainian market is primarily the consequence of the outbreak of war. Among other things, Śnieżka-Ukraine temporarily suspended its operations, i.e. from February 25, 2022, it stopped deliveries and production. Production was resumed on April 11, 2022.

The outbreak of war in Ukraine disrupted supply chains and forced manufacturers to diversify their supply sources. Difficulties with logistics and low demand for products were also a

Data in PLN thousand

problem in regions that until recently had a large share in sales and were in the vicinity of military operations.

In view of the situation in Ukraine, the performance of the Group on the market in question, remains a positive surprise. In the 2nd and 3rd quarters of the previous year, i.e. at the peak of the season, the demand for paints and varnishes was resuming to its level recorded immediately after the outbreak of the war. This is primarily the effect of a moderately better situation in the western and central regions of Ukraine, where renovation works have been partially recommenced. The Management Board of the Company indicates, however, that the circumstances on the Ukrainian market remain uncertain and demanding.

On other markets ("Other" segment), the Group generated sales revenues of PLN 49,442 thousand, i.e. 15.2% higher than the year before.

In total, the Group's revenues generated in 2022 on foreign markets accounted for 32.1% of its total revenues.

In the reporting period, the following changes occurred in the Group's operating segments:

- since Q1 of 2022 - due to the decrease in turnover and thus the importance of the Belarusian market for the Group - the existing operating segment "Belarus" has been transferred to the "Other" segment, which presents the Group's revenues on foreign markets, excluding Hungary and Ukraine;
- in March 2022, the Group ceased its operations in Russia. In 2021, the Russian market (included in the "Other" segment) accounted for approx. 1% of revenues. Currently, no sales are conducted on that market by the Group.

Table 1 Sales revenues of the Śnieżka Group by countries

	for the period of 12 months ended as at 31 December 2022	Structure	for the period of 12 months ended as at 31 December 2021	Change (y/y)
Poland	537 220	67.9%	527 112	1.9%
Hungary	136 779	17.3%	144 546	-5.4%
Ukraine	68 245	8.6%	80 273	-15.0%
Other*	49 442	6.2%	42 932	15.2%
Total sales	791 686	100.0%	794 863	-0.4%

* Revenues from the Belarusian market were included in the "Other" segment, and data for 2022 - restated.

The Group's sales structure is dominated by decorative products. In 2022, the Group generated revenues from their sales in the amount of PLN 623,534 thousand - i.e. 0.5% higher than the year before. Decorative products accounted for 78.8% of the Group's total sales revenues. Construction chemicals featured the second highest share in the Company's sales structure (13.5%). The Group's revenues from the sale of products in this category amounted to PLN 106,497 thousand and were 0.2% higher than in the previous year.

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Data in PLN thousand

Table 2 Sales revenues of the Śnieżka Group by product categories

	for the period of 12 months ended as at 31 December 2022	Structure	for the period of 12 months ended as at 31 December 2021	Change (y/y)
Decorative products	623 543	78.8%	620 547	0.5%
Construction chemicals	106 497	13.5%	106 329	0.2%
Industrial products	9 820	1.2%	10 551	-6.9%
Goods	39 062	4.9%	44 996	-13.2%
Other revenues	5 887	0.7%	6 663	-11.6%
Materials	6 877	0.9%	5 777	19.0%
Total sales	791 686	100.0%	794 863	-0.4%

1.4.2 FFIL ŚNIEŻKA SA

Since the change of the business model that took place in January 2021, Śnieżka SA has generated revenues primarily from:

- the sale of products and goods (based on agreed transfer prices) to Śnieżka Trade from Colours Sp. z o.o., responsible in the Group for marketing and sales to customers and other Group companies;
- dividends received from subsidiaries.

Additional revenues, constituting a small share of the total, are generated by FFIL Śnieżka SA from the sale of raw materials for production and services to its subsidiaries.

In 2022, FFIL Śnieżka SA generated sales revenues of PLN 510,920 thousand, i.e. 5.4% higher than in the corresponding period of the previous year. The predominant share in the Company's total revenues in the reporting period was the sale of products and goods to Śnieżka ToC, recognized in the "Poland" segment. Compared to the previous year, sales in this segment increased by 5.2%, i.e. by PLN 24,688 thousand.

In addition, in the reporting period, FFIL Śnieżka SA also generated revenues of PLN 11,665 thousand - for the most part from the sale of raw materials to its subsidiaries located in Hungary, Ukraine and Belarus. The Company's revenues from sales to foreign markets (segments: "Hungary", "Ukraine" and "Other") accounted for 2.2% of its total revenues.

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Data in PLN thousand

Table 3 Sales revenues of the FFIL ŚNIEŻKA SA by countries

	for the period of 12 months ended as at 31 December 2022	Structure	for the period of 12 months ended as at 31 December 2021	Change (y/y)
Poland	499 255	97.8%	474 567	5.2%
Hungary	2 642	0.5%	1 159	128.0%
Ukraine	8 391	1.6%	8 803	-4.7%
Other	632	0.1%	387	63.3%
Total sales	510 920	100.0%	484 916	5.4%

In the breakdown by product categories, the Company's sales structure - as in the case of the entire Group - was dominated by decorative products, the share of which in revenues amounted to 75.4% (+5.9% y/y). The second and third places in the sales structure were taken by: construction chemicals (7.8%) and goods (6.3%) and other revenues (6.1%) respectively. In all these categories, the Company recorded a y/y increase.

Table 4 Sales revenues of the FFIL ŚNIEŻKA SA by product categories

	for the period of 12 months ended as at 31 December 2022	Structure	for the period of 12 months ended as at 31 December 2021	Change (y/y)
Decorative products	384 903	75.4%	363 338	5.9%
Construction chemicals	39 752	7.8%	38 483	3.3%
Industrial products	179	0.0%	252	-29.0%
Goods	32 349	6.3%	29 732	8.8%
Other revenues	31 212	6.1%	28 872	8.1%
Materials	22 525	4.4%	24 239	-7.1%
Total sales	510 920	100.0%	484 916	5.4%

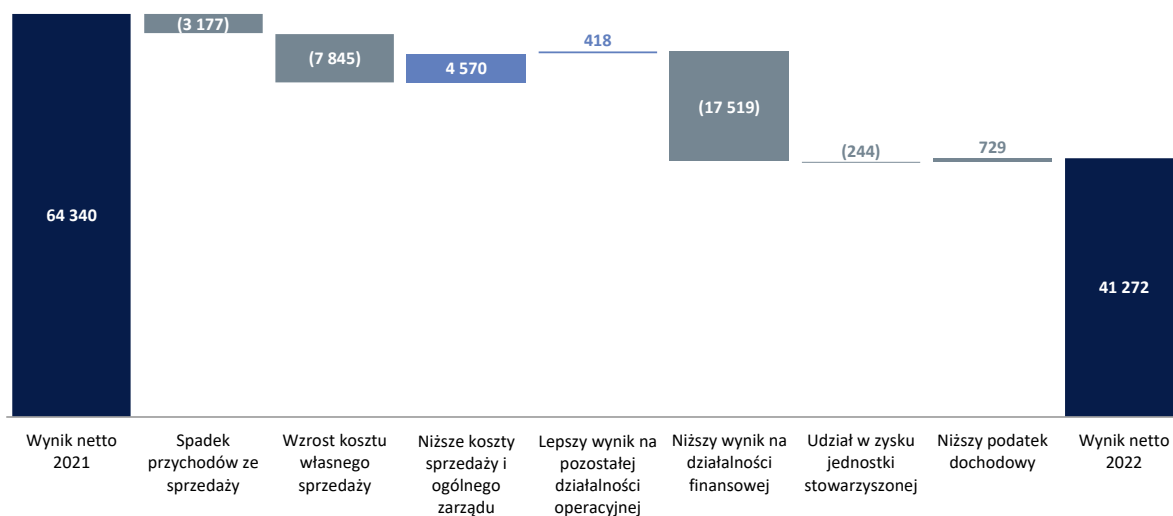
1.5 Major factors affecting the financial performance

1.5.1 The Śnieżka Group

In 2022, the Śnieżka Group generated a consolidated net profit of PLN 41,272 thousand, which is 35.9% lower than in the corresponding period of the previous year. Net profit attributable to the parent company's shareholders amounted to PLN 36,684 thousand (-38.6% y/y).

Data in PLN thousand

Figure 5. The impact of individual items in the statement of comprehensive income on the Group's net performance



The Group's bottom line in 2022 was primarily affected by:

- persistent unfavourable external conditions related to increases in raw material prices - partly offset by increases adjusting the prices of the Group's products to their production costs;
- slight decrease in sales revenues by -0.4% (PLN 3,177 thousand), with higher turnover on the Polish market and on the markets recognized in the "Other" segment, and lower turnover recorded on the Hungarian market, converted into PLN by -5.4 % and on the Ukrainian market (-15%);
- deterioration of the performance on financial activities by PLN 17,519 thousand, mainly due to higher costs of interest on loans contracted;
- an increase in cost of sales by 1.6% (PLN 7,845 thousand), to PLN 487,453 thousand, due to the sustained increase in the prices of raw materials used in production;
- an increase in general administrative expenses by 5.4% (PLN 4,719 thousand), resulting primarily from an increase in salaries and costs of energy and gas;
- a decrease in selling costs by -6.1% (PLN 9,289 thousand) as a result of adjusting budgets and marketing and sales activities to the current market and economic situation;
- higher performance by PLN 418 thousand on other operating activities - as a result of the sale in April 2022 of the thermal insulation board factory in Pacsa, Hungary, owned by Poli-Farbe;
- lower income tax by 5.8% (PLN 729 thousand).

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Data in PLN thousand

Table 5 The basic elements of the profit and loss account of the Śnieżka Group

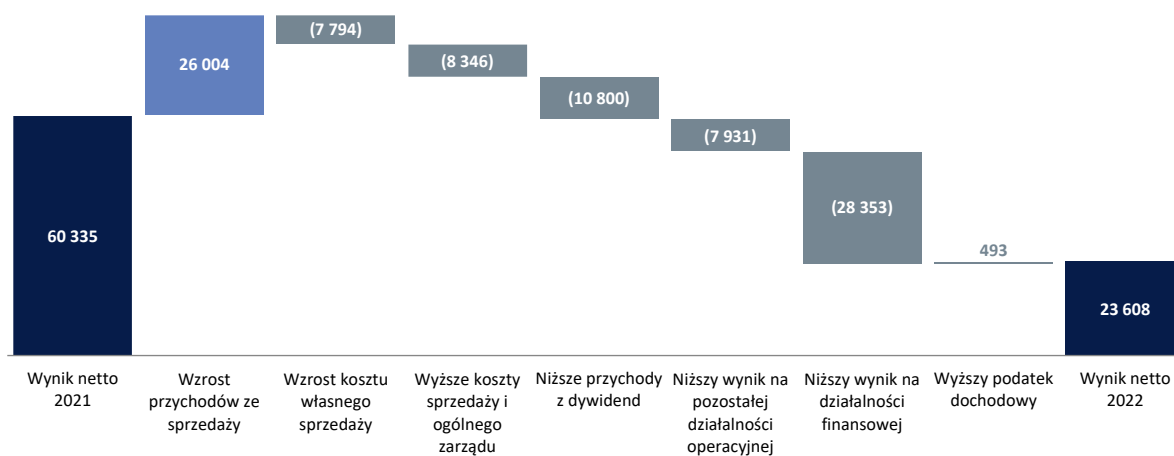
	for the period of 12 months ended as at 31 December 2022	for the period of 12 months ended as at 31 December 2021	Change (y/y)
Sales revenues	791 686	794 863	-0.4%
Cost of sales	487 453	479 608	1.6%
Selling costs	142 605	151 894	-6.1%
General administrative expenses	92 836	88 117	5.4%
Profit on other operating activities	629	211	198.1%
Profit on financial activities	(16 542)	977	-
Share in associate’s profit	134	378	-64.6%
Gross profit	53 013	76 810	-31.0%
Profit on operating activities (EBIT)	69 421	75 455	-8.0%
Profit on operating activities + depreciation (EBITDA)	106 177	111 418	-4.7%
Income tax	11 741	12 470	-5.8%
Net profit, including:	41 272	64 340	-35.9%
<i>Profit attributable to shareholders of the parent company</i>	<i>36 684</i>	<i>59 705</i>	<i>-38.6%</i>

No other factors or events occurred in 2022 than those described in the report, including those of unusual nature, having a significant impact on the consolidated financial statements.

1.5.2 Fabryka Farb i Lakierów Śnieżka SA

In 2022 FFIL ŚNIEŻKA SA generated net profit in the amount of PLN 23,608 thousand, i.e. 60.9% lower than the previous year.

Figure 6. The impact of individual items in the statement of comprehensive income on the FFIL Śnieżka SA’s net performance



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Data in PLN thousand

The Company's bottom line in 2022 was primarily affected by:

- an increase in sales revenues by 5.4% to PLN 510,920 thousand;
- an increase in cost of sales by 2.0%, to PLN 394,835 thousand, as a result of the continuing pressure to increase the prices of raw materials used in production;
- an increase in selling costs by 16.1%, to PLN 25,280 thousand, resulting primarily from an increase in depreciation related to the commissioning of the Śnieżka Group Logistics Centre and an increase in general administrative expenses by 8.4%, to the level of PLN 62,423 thousand, following mainly an increase in wages and costs of energy and gas;
- income from dividends from subsidiaries in the amount of PLN 31,375 thousand, i.e. by 25.6% (PLN 10,800 thousand) lower than in the previous year;
- performance deterioration by PLN 7,931 thousand on other operating activities as a result primarily of revaluation of the put option in the parent company's report (related to the possible acquisition by FFIL Śnieżka SA of the remaining 20% of shares in Poli-Farbe Vegyipari Kft);
- significantly higher loss on financial activities (PLN -32,270 thousand vs. PLN -3,917 thousand in 2021), mainly due to higher interest on loans and borrowings;
- lower income tax by 18.9%.

Table 6 The basic elements of the profit and loss account of FFIL ŚNIEŻKA SA

	for the period of 12 months ended as at 31 December 2022	for the period of 12 months ended as at 31 December 2021	Change (y/y)
Sales revenues	510 920	484 916	5.4%
Cost of sales	394 835	387 041	2.0%
Selling costs	25 280	21 777	16.1%
General administrative expenses	62 423	57 580	8.4%
Interest revenue	31 375	42 175	-25.6%
Profit on other operating activities	(1 763)	6 168	-128.6%
Profit on financial activities	(32 270)	(3 917)	723.8%
Gross profit	25 724	62 944	-59.1%
Profit on operating activities (EBIT)	57 994	66 861	-13.3%
Profit on operating activities + depreciation (EBITDA)	79 202	86 748	-8.7%
Income tax	2 116	2 609	-18.9%
Net profit	23 608	60 335	-60.9%

Data in PLN thousand

In order to increase the usefulness of the financial statements for its recipients, following the principle of materiality, the Company changed the presentation of dividend income from subsidiaries (including Śnieżka ToC, Poli-Farbe and Śnieżka-Ukraina). The company presents them in a separate line of the profit and loss account, as part of operating profit ("Dividend income") - not in the result on financial activities.

1.6 Financial standing

1.6.1 The Śnieżka Group

The level of the Group's balance sheet values is influenced by the phenomenon of seasonality related to the volatile intensity of renovation and construction works in particular periods of the year (described in more detail in sec. 1.7 of the Report).

Table 7 The Group's assets

Group's assets	31.12.2022	31.12.2021	Change (y/y)
Fixed assets, including:	572 889	577 297	-0.8%
- Tangible fixed assets	496 131	489 627	1.3%
- other fixed assets	76 758	87 670	-12.4%
Current assets, including:	220 946	225 663	-2.1%
- Inventory	124 553	136 005	-8.4%
- Trade and other receivables	65 339	63 210	3.4%
- Cash and cash equivalents	19 916	16 190	23.0%
- other current assets	11 138	10 258	8.6%
Non-current assets classified as held for sale	180	-	-
Total	794 015	802 960	-1.1%

As at 31 December 2022, the value of assets of the Śnieżka Group amounted to PLN 794,015 thousand, which is a slight decrease (by PLN 8,945 thousand, i.e. 1.1%) compared to the end of December 2021.

The value of the Group's fixed assets (representing 72.2% of its total assets) decreased by 0.8% over the year to PLN 572,889 thousand.

The value of the Group's current assets reached PLN 220,946 thousand, which denotes a decrease by -2.1% compared to December 31, 2021. The main part of the Group's current assets were inventories valued at PLN 124,553 thousand. Their value compared to the end of the previous year decreased by a total of 8.4%. Broken down into individual items, the value of raw material inventories increased (the effect of their price increase), while the value of finished goods inventories decreased, which is the consequence of dynamic inventory management in response to current demand.

The second largest item was trade receivables and other receivables worth PLN 65,339 thousand, which is 3.4% higher than the year before. In addition, as at December 31, 2022, the Group held PLN

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Data in PLN thousand

19,916 thousand cash (increase by 23.0% y/y) and non-current assets classified as held for sale with a value of PLN 180 thousand.

Table 8 The Group's liabilities

Group's liabilities	31.12.2022	31.12.2021	Change (y/y)
Total equity, including:	321 242	333 963	-3.8%
- Equity (attributable to the shareholders of the parent company)	292 942	304 099	-3.7%
- Equity of non-controlling interests	28 300	29 864	-5.2%
Total liabilities	472 773	468 997	0.8%
Long-term liabilities	244 850	270 552	-9.5%
- Long-term interest-bearing loans and borrowings	225 886	247 553	-8.8%
- Other long-term liabilities	18 964	22 999	-17.5%
Short-term liabilities, including:	227 923	198 445	14.9%
- Trade and other liabilities	103 216	103 201	0.0%
- Short-term liabilities on loans and borrowings	70 904	39 105	81.3%
- Other short-term liabilities	53 803	56 139	-4.2%
Total	794 015	802 960	-1.1%

As at 31 December 2022, the Group had equity in the amount of PLN 321,242 thousand, i.e. lower by 3.8% than by the end of December 2021. At the same time, its level of external debt increased. Consequently, the Group financed its operations from its own resources at 40.5%, which denotes a decrease of this ratio by -1.1% over the year.

At the end of the reporting period, the Group's long-term liabilities amounted to PLN 244,850 thousand, which is a decrease of 9.5% (PLN 25,702 thousand) y/y. Liabilities due after twelve months from the balance sheet date accounted for 30.8% of the balance sheet total.

The Group's short-term liabilities amounted to PLN 227,923 thousand, higher by 14.9% y/y and accounted for 28.7% of the balance sheet total. Their increase is mainly due to the change in the debt structure. As a result of this change, current bank loans increased by PLN 31,799 thousand, up to PLN 70,904 thousand and as at 31 December 2022 accounted for 8.9% of the balance sheet total.

Compared to the end of December 2021, the Group's trade and other liabilities remained at the same level. This resulted, inter alia, from dynamic inventory management in response to current demand with the observed increase in the prices of raw materials used in production. In addition, the Group's other short-term liabilities decreased by 2,336 thousand PLN (-4.2% y/y) - primarily owing to lower income tax liabilities and lower provisions for employee benefits. This item also includes the valuation (PLN 44,848 thousand) of the put option for the purchase of shares in Poli-Farbe (it is included in the short-term item, as in 2023 such a liability may be potentially due).

Data in PLN thousand

Put and call options

The Group's Balance Sheet includes a put option, i.e. a liability under the option to purchase shares of Poli-Farbe Vegyipari Kft. held by a minority shareholder. It reduces the Group's equity. The essence of this option is that Lampo Kft. – the other shareholder of Poli-Farbe Vegyipari Kft. – has the right to sell (put option), and FFIL Śnieżka is obliged to purchase the remaining 20% of shares in this company. Whereas the call option entitles the Company, in special circumstances, to acquire the remaining 20% of shares.

1.6.2 Fabryka Farb i Lakierów Śnieżka SA

Similarly as in the case of the Group, the level of balance sheet values of FFIL Śnieżka SA is affected by seasonality.

Table 9 FFIL ŚNIEŻKA SA's assets

Company's assets	31.12.2022	31.12.2021	Change (y/y)
Fixed assets, including:	659 754	634 062	4.1%
- Tangible fixed assets	422 896	396 375	6.7%
- Shares and stocks in other entities	202 856	201 938	0.5%
- other fixed assets	34 002	35 749	-4.9%
Current assets, including:	173 054	202 584	-14.6%
- Inventory	84 185	97 849	-14.0%
- Trade and other receivables	76 879	87 244	-11.9%
- Cash and cash equivalents	1 547	7 319	-78.9%
- other current assets	10 443	10 172	2.7%
Total	832 808	836 646	-0.5%

On December 31, 2022, the Company's assets amounted to PLN 832,808 thousand, which is a decrease by PLN 3 838 thousand (0.5%) compared to the end of December 2021.

The value of the Company's non-current assets (representing 79.2% of its total assets) increased by 4.1% during the year, to PLN 659,754 thousand. This was mainly due to the increase in property, plant and equipment by PLN 26,521 thousand (6.7% y/y) stemming primarily from the finalization of the construction of the Śnieżka Group Logistics Centre and investments in IT.

The value of the Company's current assets amounted to PLN 173,054 thousand, i.e. it was 14.6% lower than on December 31, 2021. The core assets were inventories, which were 14.0% lower than in the previous year, valued at PLN 84,185 thousand. The decrease in inventories - despite the increase in the prices of raw materials, which translates into an increase in the prices of finished products in stock - is a result of the optimization of supply chain management i.a. by launching the Logistics Centre and investments in the digitization of the supply chain. The second largest current assets were trade and other receivables (PLN 76,879 thousand), which decreased by -11.9% compared to 2021.

Data in PLN thousand

At the end of December 2022, the Company had 1,547 thousand cash and cash equivalents (-78.9% y/y) and PLN 10,443 thousand of other current assets in the form of income tax receivables.

Table 10. FFIL ŚNIEŻKA SA's liabilities

Company's liabilities	31.12.2022	31.12.2021	Change (y/y)
Equity	223 175	229 734	-2.9%
Total liabilities	609 633	606 912	0.4%
Long-term liabilities, including:	473 549	514 990	-8.0%
- Long-term interest-bearing loans and borrowings	464 472	504 363	-7.9%
- Other long-term liabilities	9 077	10 627	-14.6%
Short-term liabilities, including:	136 084	91 922	48.0%
- Trade and other liabilities	69 509	63 591	9.3%
- Current portion of interest-bearing loans and borrowings	58 094	17 287	236.1%
- Other short-term liabilities	8 481	11 044	-23.2%
Total	832 808	836 646	-0.5%

As at 31 December 2022, FFIL Śnieżka SA financed its operations with its own funds in 26.8%, which denotes a slight decrease in this ratio (by 0.7%) compared to the end of December last year. This is the result of increased external financing.

At the end of the reporting period, the Company's long-term liabilities amounted to PLN 473,549 thousand (decrease by PLN 41,441 thousand y/y) and accounted for 56.9% of the balance sheet total. Their decrease is mostly the consequence of change in the debt structure. The Company's short-term liabilities increased by 48% (PLN 44,162 thousand). This balance sheet item was largely affected by the increase in the Company's current credit liabilities by PLN 40,808 thousand (up to PLN 58,094 thousand), as well as an increase in trade and other liabilities by PLN 5,917 thousand (up to PLN 69,509 thousand), which resulted mainly from the increase in the prices of raw materials used in production.

As at the balance sheet date, the Company's other short-term liabilities decreased (in total by PLN 2,563 thousand), which was for the most part owing to a decrease in provisions for future employee benefits.

As part of the liabilities presented in the report, the Company has loans from its subsidiaries - Śnieżka ToC and Poli-Farbe, which is an element of optimal liquidity management within the Group. As at 31 December 2022, the total value of the loans in question amounted to PLN 252,713 thousand, including:

- from Śnieżka ToC: PLN 236 215 thousand (long-term liabilities) and PLN 5,006 thousand interest (short-term liabilities), in total: PLN 241,221 thousand;
- from Poli-Farbe: PLN 11,321 thousand (long-term liabilities) and PLN 171 thousand (short-term liabilities), in total: PLN 11,492 thousand.

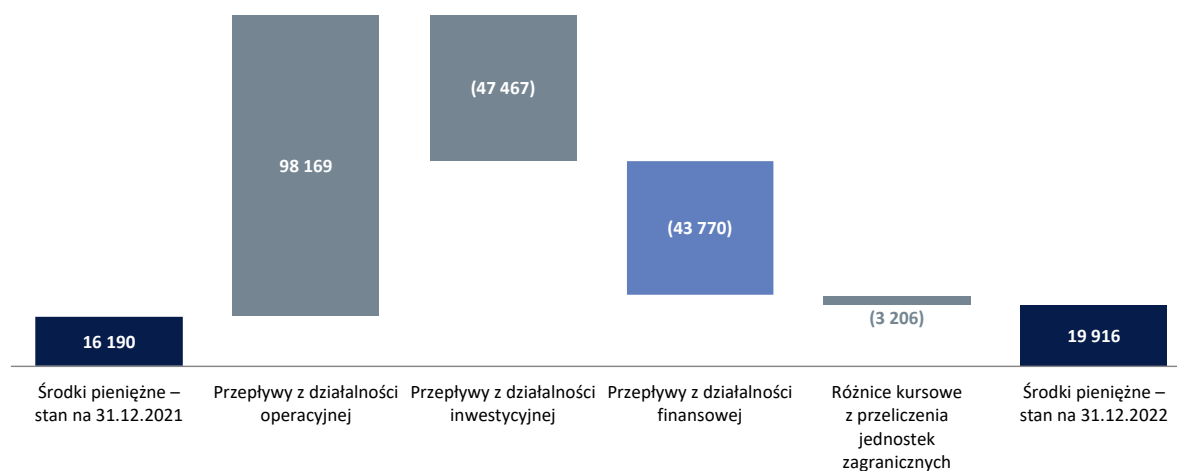
Data in PLN thousand

1.7 Cash flows

1.7.1 The Śnieżka Group

In 2022, the Group generated positive cash flows of PLN 3,726 thousand (adjusted for exchange differences from foreign entities) against also positive in the amount of PLN 677 thousand a year earlier.

Figure 7. The Group’s cash flows in 2022



At the end of the reporting period, cash and cash equivalents of the Group amounted to PLN 19,916 thousand. This performance was affected by:

- **positive cash flows on operating activities in the amount of PLN 98,169 thousand.**

Their amount was positively influenced primarily by the gross profit generated by the Group in the amount of PLN 53,013 thousand and adjustments made in the amount of PLN 68,946 thousand - including interest costs of PLN 21,712 thousand and paid income tax (PLN 23,808 thousand).

- **negative cash flows on investing activities in the amount of PLN 47,467 thousand.**

The Group companies spent a total of PLN 53,276 thousand for the purchase of tangible fixed assets and intangible assets. The vast majority of this amount is due to the expenses incurred by FFil Śnieżka SA in connection with the construction of the new Logistics Centre in Zawada.

- **negative flows on financial activities at the level of PLN 43,770 thousand.**

In addition to the proceeds from the existing lines of credit in the amount of PLN 393,878 thousand, - resulting from investment needs and current operating activities - the greatest impact on cash flows

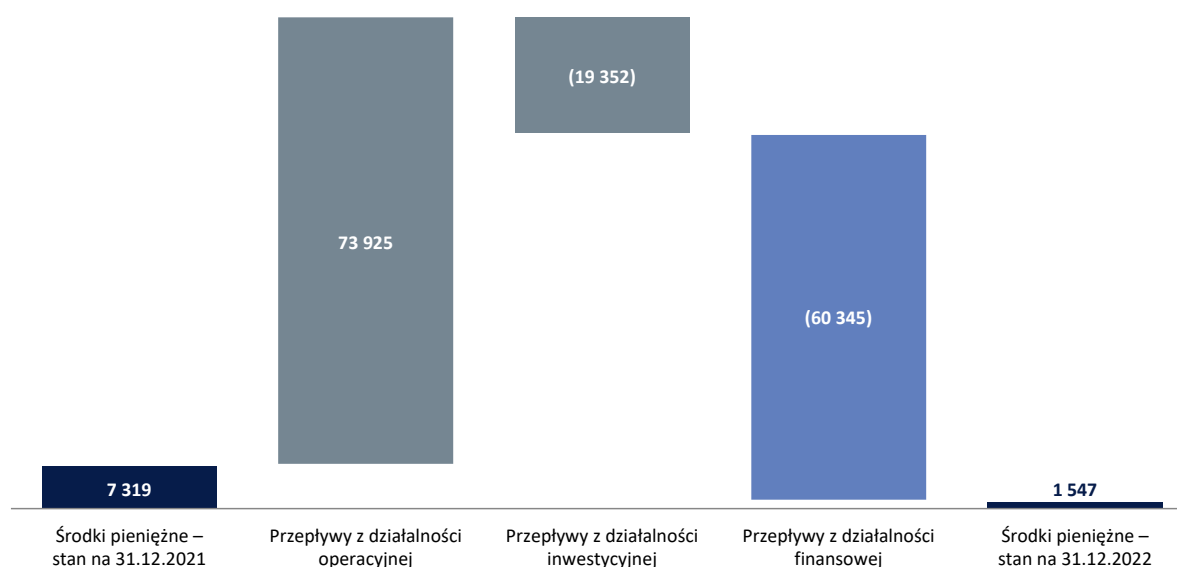
Data in PLN thousand

on financial activities had a partial repayment of loans (PLN 381,335 thousand), including paid interest in the amount of PLN 20,717 thousand.

1.7.2 Fabryka Farb i Lakierów Śnieżka SA

In 2022, the Company achieved negative cash flows of PLN 5,772 thousand (against positive cash flows of PLN 1,386 thousand a year earlier).

Figure 8. FFIL ŚNIEŻKA SA's cash flows in 2022



At the end of the reporting period, the Company's cash amounted to PLN 1,547 thousand. They were a result of:

- **positive cash flows on operating activities in the amount of PLN 73,925 thousand.**

Their value was positively influenced by the gross profit after adjustments in the amount of PLN 86,457 thousand as well as income tax paid (PLN 12,532 thousand).

- **negative cash flows on investing activities in the amount of PLN 19,352 thousand.**

The Company spent PLN 50,636 thousand, largely in connection with the investment in the Śnieżka Group Logistics Centre. While, the Company recorded proceeds from dividends received in the amount of PLN 31,008 thousand.

- **negative cash flows on financing activities in the amount of PLN 60,345 thousand.**

Data in PLN thousand

The largest positive effect on this item had proceeds from the existing lines of credit and loans (in total PLN 359,008 thousand). The greatest negative impact resulted from: the repayment of partial loans and borrowings (PLN 359,226 thousand) and the payment of dividends (PLN 31,544 thousand).

1.8 Financial ratios

1.8.1 The Śnieżka Group

Group’s profitability ratios

In 2022, the Śnieżka Group achieved lower margins at all profit levels than in the previous year, i.e. net (by 2.9%), EBIT (by 0.7%) and EBITDA (by 0.6%) Gross margin on sales was also lower by 1.2%. This is primarily the result of higher costs - both manufacturing (increase in the prices of raw materials used for production and packaging) and general administration, as well as a significant increase in financial costs.

In the reporting period, ROA ratios were also lower (as a result of an increase in assets with a simultaneous decrease in net profit), as well as ROE (mainly due to lower net profit).

Table 11. The Group’s profitability ratios

	Year 2022	Year 2021
EBIT margin in % (EBIT / Sales revenues) x 100%	8.8%	9.5%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	13.4%	14.0%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	38.4%	39.7%
Net profit (loss) margin in% (net profit / sales revenues) x 100%	5.2%	8.1%
Return on Assets (ROA) * (Net Profit / Total Assets *) x 100%	4.8%	8.0%
Return on equity (ROE) ** (Net profit / equity - attributable to the shareholders of the parent company) x 100%	12.1%	20.0%

* Total net profit of the Group for the last four quarters divided by the average value of total assets of the Group at the end of the last 5 quarters.

** Total net profit attributable to the shareholders of the parent company (AJD) for the last 4 quarters divided by the average value of equity attributable to AJD at the end of the last 5 quarters.

Data in PLN thousand

Group's liquidity and debt ratios

As at December 31, 2022, the total debt of the Group increased by 1.1% (to 59.5%), which stems from a slightly faster increase in liabilities compared to the increase in assets. A decrease in the ratio of coverage of fixed assets with equity by 1.8% results from faster decrease in the value of equity than the value of fixed assets.

Compared to the previous year, the Group's liquidity ratios deteriorated. The leading current liquidity ratio decreased from 1.1 to 1.0, mainly due to an increase in liabilities.

At the end of 2022, the Group's net debt/EBITDA ratio was 2.66 compared to 2.49 a year earlier.

The Śnieżka Group manages its interest debt in a conservative manner, assuming the optimal debt level at the level of 1x EBITDA. Its current, higher level results from the on-going investment cycle. At the same time, in order to ensure financing at the optimal level, the Company prolongs its loan agreements. FFIL Śnieżka SA has concluded loan agreements with banks, a factoring agreement and loan agreements with subsidiaries: Poli-Farbe Vegyipari Kft. and Śnieżka Trade of Colours Sp. z o.o.

Due to the completion of the investment cycle, the Management Board of FFIL Śnieżka SA made a decision to temporarily reduce investment expenditures to those inevitable for the effective operation of activities. In 2022, the total value of the Group's expenditures was more than half lower than in the previous year and amounted to approximately PLN 53.5 million. In the long run, it is scheduled to reduce investment expenditures to the level of depreciation.

Table 12. The Śnieżka Group's liquidity and debt ratios

	31.12.2022	31.12.2021
Current liquidity ratio (Current assets / Short-term liabilities)	1.0	1.1
Quick liquidity ratio (Current assets - inventories)/Short-term liabilities	0.4	0.5
Cash liquidity ratio (Cash and cash equivalents / Short-term liabilities) x 100%	0.09	0.08
Total debt ratio (Total liabilities / Total assets) x 100%	59.5%	58.4%
Fixed-assets-to-equity ratio (Equity/Fixed assets) x 100%	56.1%	57.8%

Data in PLN thousand

Group's rotation ratios

In 2022, the Group's cash conversion cycle shortened by 8 days - despite a slight extension of the collection period. The said improvement was brought about by a notable acceleration of inventory turnover (by 10 days) and shortening of the liabilities cycle (by somewhat more than 1 day).

Table 13. The Śnieżka Group's rotation ratios

	Year 2022	Year 2021
Inventory cycle (Inventory x 360 / Cost of sales) in days	92.0	102.1
Receivables cycle (Trade and other receivables x 360 / Sales revenues) in days	29.7	28.6
Current liabilities cycle (Trade and other liabilities x 360 / Cost of sales) in days	76.2	77.5
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	45.5	53.3

1.8.2 FFIL ŚNIEŻKA SA

Company's profitability ratios

In 2022, FFIL Śnieżka SA achieved worse margins than in the previous year at the level of: operating profit (-2.4%), EBITDA (-2.4%) and net profit (-7.8%). The above was significantly affected by: an increase in administrative expenses (sales costs and general administrative expenses), lower proceeds from dividends from subsidiaries and a significant increase in debt servicing costs.

In the reporting period, however, gross margin increased by 2.5% to 22.7%. This is a derivative of the higher growth rate of revenues (+5.0% y/y) compared to the growth rate of cost of sales (+2.0% y/y).

In the current model, the profits from the sale of products generated by Śnieżka ToC (which is responsible for marketing and sales activities in the Group) are transferred to FFIL Śnieżka SA in the form of dividends. Similarly to previous years, the Company also receives dividends from other subsidiaries. In the reporting period the total revenues of the Company from dividends amounted to PLN 31,375 thousand.

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Data in PLN thousand

Table 14. FFIL ŚNIEŻKA SA's profitability ratios

	Year 2022	Year 2021
EBIT margin in % (EBIT / Sales revenues) x 100%	11.4%	13.8%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	15.5%	17.9%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	22.7%	20.2%
Net profit (loss) margin in% (net profit / sales revenues) x 100%	4.6%	12.4%
Return on Assets (ROA) * (Net Profit / Total Assets *) x 100%	2.7%	7.7%
Return on equity (ROE) ** (Net profit / equity - attributable to the shareholders of the parent company) x 100%	10.4%	27.7%

* Total net profit of the Group for the last four quarters divided by the average value of total assets of the Group at the end of the last 5 quarters.

** Total net profit attributable to the shareholders of the parent company (AJD) for the last 4 quarters divided by the average value of equity attributable to AJD at the end of the last 5 quarters.

Company's liquidity and debt ratios

At the end of 2022, the overall debt of the Company increased by 0.7% to 73.2%. Equity to fixed assets ratio decreased by 2.4%, which is a derivative of an increase in non-current assets (construction of the Logistics Centre) accompanied by a decrease in equity.

Compared to the previous year, the Company's liquidity ratios deteriorated. This is primarily the result of a decrease in the level of current assets and an increase in short-term liabilities. The current liquidity ratio decreased from 2.2 to 1.3, which is largely due to a notable increase in the current portion of interest-bearing loans and borrowings by PLN 40,808 thousand.

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Data in PLN thousand

Table 15. The FFIL ŚNIEŻKA SA's liquidity and debt ratios

	31.12.2022	31.12.2021
Current liquidity ratio (Current assets / Short-term liabilities)	1.3	2.2
Quick liquidity ratio (Current assets - inventories)/Short-term liabilities	0.7	1.1
Cash liquidity ratio (Cash and cash equivalents / Short-term liabilities) x 100%	0.01	0.08
Total debt ratio (Total liabilities / Total assets) x 100%	73.2%	72.5%
Fixed-assets-to-equity ratio (Equity/Fixed assets) x 100%	33.8%	36.2%

Rotation ratios

In 2022, the Company's cash conversion cycle was approximately 68 days, which denotes its shortening by 29 days compared to the previous year. This is vastly the result of extending the liabilities cycle (by approx. 4 days), faster inventory turnover (by 14 days) and shortening the receivables cycle (by approx. 11 days). Since the change of the Group's operating model, a significant part of the receivables of FFIL Śnieżka SA comes from Śnieżka ToC, which is related to the takeover of commercial contracts by it.

Table 16. FFIL ŚNIEŻKA SA's rotation ratios

	Year 2022	Year 2021
Inventory cycle (Inventory x 360 / Cost of sales) in days	76.8	91.0
Receivables cycle (Trade and other receivables x 360 / Sales revenues) in days	54.2	64.8
Current liabilities cycle (Trade and other liabilities x 360 / Cost of sales) in days	63.4	59.1
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	67.6	96.6

1.9 Seasonality

The activity of the Śnieżka Group's companies is characterized by the phenomenon of seasonality. It is related to the intensity of renovation and construction works in particular periods of the year, which is generally higher in spring and summer. The Group usually generates higher revenues in the second and third quarters of each financial year. They constitute approx. 60% of its annual sales revenues.

Data in PLN thousand

The occurring phenomenon of seasonality also affects:

- the change in the need for working capital, which is a lot higher in the second and third quarters of the financial year compared to the end of December of the previous year,
- the output level in selected companies of the Group in particular months of the year and - to a certain extent - the resulting level of employment (seasonality does not apply to FFIL Śnieżka SA, in which the production cycle lasts all year round).

1.10 Other information

1.10.1 Investments

In 2022, the total capital expenditures in the Śnieżka Group amounted to PLN 53,493 thousand - including leasing PLN 11,418 thousand - and were by 55.9% (PLN 67,751 thousand) lower than in the previous year. At the same time, the level of expenses was at a similar level to the estimates presented in the Management Board's Report on Activities for 2021 (i.e. the amount of approx. PLN 55 million).

Investment activities carried out in the Śnieżka Group in 2022 were a continuation of the assumptions in this regard from previous years. The implementation of individual tasks was performed in accordance with the approved material and financial plan, with some adjustments resulting from the Group's current needs or necessity to adapt to volatile conditions of the external environment.

The investments realized by the Group in 2022 were focused primarily on:

- automation and improvement of the efficiency of logistics processes,
- maintaining a high level of production capacity and efficiency of production lines,
- digital transformation to increase business efficiency,
- development of infrastructure for research and development and quality control,
- optimization of manufacturing costs.

The Group's investments were financed essentially from own funds and bank loans.

Investments in FFIL ŚNIEŻKA SA

The majority of the Group's investment expenditures were outlays on development purposes carried out by FFIL Śnieżka SA. The total capital expenditures in FFIL Śnieżka SA amounted to PLN 44,774 - including leasing PLN 11,418 thousand - and were by 58.9% (PLN 64,112 thousand) lower than a year earlier. Investments focused primarily on the logistics area and were related to the erection of the Logistics Centre in Zawada.

In 2022 in the Company:

Data in PLN thousand

- further necessary construction works were carried out in the Logistics Centre (within the building and land development) - after the first stage of the investment (logistics and warehouse) was commissioned at the beginning of the year;
- automated pallet wrapping and labelling stations were completed and put into use on the premises of the Śnieżka Group Logistics Centre;
- new manual forklifts and automated AGV forklifts were delivered and put into operation at the Logistics Centre;
- modernization and optimization of water-borne paint production lines at the Lubzina and Pustków departments were carried out;
- new IT software was implemented and existing IT software was developed as part of the digital transformation project;
- the equipment base in the area of research and development and quality control underwent modernization;
- the fleet of means of transport was expanded.

The most important investments in other Group companies

In 2022:

- shop equipment was purchased and the IT area was expanded as part of the digital transformation project in Śnieżka Trade of Colours Sp. z o. o.,
- shop equipment was purchased, the raw material storage area was expanded, some buildings were modernized and the fleet of means of transport was expanded in Poli-Farbe Vegyipari Kft.,
- the vehicle weighing system was modernized, the IT area in the field of Cybersecurity was expanded (interactive training) in Śnieżka-Ukraina Sp. z o.o.

Plans and financing of investment projects

The Management Board of FFIL Śnieżka SA assumes that the investment plans of the Group and the Company for 2023 are to be implemented in accordance with the plan. They will focus on: construction of renewable energy source systems, expansion and modernization of production lines and development of IT systems as part of the follow-up of the digital transformation project.

Own funds and loan agreements signed with banks allow for safe financing of the investment plans scheduled for 2023. The total value of investment expenditure in the Group for this period may amount to approx. PLN 42 million.

Data in PLN thousand

At the same time, due to the uncertain and demanding situation on the markets and the on-going military operations in Ukraine, the Management Board does not preclude undertaking actions to strengthen the financial liquidity of individual companies of the Śnieżka Group and temporarily reduce expenses not directly related to operating activities.

1.10.2 The most essential agreements

Loan agreements

In 2022 the Group concluded (or annexed) loan agreements that have a significant impact on its current financing structure.

The Company concluded agreements (or annexes to agreements) with three banks that have so far financed its current business activities, with ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A. and Bank Polska Kasa Opieki S.A. and BNP Paribas Bank Polska S.A. The purpose of signing these agreements is to finance the current needs of Śnieżka S.A. and Polish subsidiaries related to their business activity. The agreements and annexes to the agreements were signed on December 22, 2022.

As a result of concluding the above-mentioned agreements, the structure of financing current business activity was subject to change by dividing it into long-term financing in the form of non-revolving loans made available at the beginning of the loan period and repaid quarterly, and short-term financing in the form of revolving working capital loans.

If the parties to the loan agreements are subsidiaries Śnieżka Trade of Colours sp. z o.o., Radomska Fabryka Farb i Lakierów S.A. or both, the obligations arising from them are joint and several.

The agreements and annexes concluded by the Group in 2022:

An annex to the multi-product loan agreement with ING Bank Śląski S.A.

The subject of the annex is as follows:

- release of a revolving working capital loan in the amount of PLN 50 million to finance the current business activity of Śnieżka S.A., and under this loan sublimits were released for the Śnieżka Trade of Colours sp. z o.o. subsidiary in the amount of PLN 10 million and for RAFIL SA in the amount of PLN 3.5 million. This loan may be available in PLN, EUR or HUF; the loan repayment date is December 31, 2027;
- release of a non-revolving loan in the amount of PLN 110 million to refinance the capital expenditure incurred by Śnieżka, with PLN 30 million released in December 2022 and the remaining PLN 80 million in January 2023; the final repayment date of the loan is December 31, 2027 (PLN 11 million instalments to be repaid in the third and fourth quarters of each year, beginning from 2023).

As far as the loans in question are concerned, a variable interest rate applies, calculated on the basis of the WIBOR 1M rate and the bank's margin for the PLN currency, based on the EURIBOR 1M rate and

Data in PLN thousand

the bank's margin for the EUR currency, and based on the BUBOR 3M rate and the bank's margin for the HUF currency.

The loan collateral is based on a contractual mortgage on the real estate belonging to Śnieżka S.A. located in Zawada near Dębica, together with the assignment of rights under the insurance policy and blank promissory notes. The other terms and conditions of the agreement do not deviate from commonly applicable ones for this type of agreements.

A multi-purpose loan agreement with Bank Polska Kasa Opieki S.A.

The subject of the agreement is:

- release of a revolving working capital loan in the amount of PLN 50 million to finance the current business activity of Śnieżka S.A., under this loan sublimits were released for the Śnieżka Trade of Colours sp. z o.o. subsidiary in the amount of PLN 10 million and for RAFIL S.A. in the amount of PLN 1 million; the loan may be available in PLN or EUR; the loan repayment date is December 18, 2027;
- release of a non-revolving loan in the amount of PLN 50 million to refinance the capital expenditure incurred by Śnieżka S.A. the final repayment date of which falls on December 18, 2027, and the loan is to be repaid in quarterly instalments of PLN 2.5 million, beginning from the first quarter of 2023.

As far as the loans in question are concerned, a variable interest rate applies, calculated on the basis of the WIBOR 1M rate and the bank's margin for the PLN currency, based on the EURIBOR 1M rate and the bank's margin for the EUR currency.

The loan collateral is based on a contractual mortgage on the real estate belonging to Śnieżka S.A. located in Pustków, together with the assignment of rights under the insurance policy, registered pledge on fixed assets, blank promissory notes. The other terms and conditions of the agreement do not deviate from commonly applicable ones for this type of agreements.

Agreements with BNP Paribas Bank Polska S.A.

The subject of the agreements is:

- a revolving working capital loan in the amount of PLN 60 million to finance the current business activity of Śnieżka S.A., under this loan a sublimit was released for the Śnieżka Trade of Colours sp. z o.o. subsidiary in the amount of PLN 10 million; the loan may be available in PLN, EUR or USD; the loan repayment date is December 21, 2027;
- a non-revolving loan in the amount of PLN 60 million to refinance the capital expenditures incurred by Śnieżka S.A. with the final repayment date on December 22, 2027, the loan is to be repaid in instalments of PLN 6 million in each third and fourth quarter, beginning from 2023.

As far as the loans in question are concerned, a variable interest rate applies, calculated on the basis of the WIBOR 1M rate and the bank's margin for the PLN currency, based on the EURIBOR 1M rate and

Data in PLN thousand

the bank's margin for the EUR currency, based on the SOFR rate and the bank's margin for the USD currency.

The loan collateral is based on a contractual mortgage on the real estate belonging to Śnieżka S.A. located in Lubzina i Brzeźnica, together with the assignment of rights under the insurance policy, registered pledge on finished products with the assignment of rights under the insurance policy, blank promissory notes. The other terms and conditions of the agreement do not deviate from commonly applicable ones for this type of agreements.

Loan agreements with BNP Paribas Bank Polska S.A. are linked to measurable sustainability factors (Sustainability-Linked Loan). They provide for an adjustment of the credit margin if the Śnieżka Group meets the key performance indicators in the area of sustainable development (ESG) indicated in the agreements.

The Company informed about the conclusion of the above-mentioned loan agreements or annexes to existing agreements in report No. 15/2022 of December 22, 2022.

The Śnieżka Group – Management's report on the activities for 2022

Data in PLN thousand

Insurance agreements

In 2022, the Company concluded the following insurance agreements essential for its business activities:

Company	Institution	Subject of the agreement	Period
FFIL ŚNIEŻKA SA	PZU	Property insurance (buildings, current assets, machinery and equipment) and loss of profit.	1.10.2022 - 30.09.2023
FFIL ŚNIEŻKA SA	PZU	Property insurance in domestic and international transport.	1.10.2022 - 30.09.2023
FFIL ŚNIEŻKA SA	Chubb European Group	Third-party liability insurance for business activity	1.10.2022 - 30.09.2023
FFIL ŚNIEŻKA SA	Chubb European Group	D&O liability insurance	16.09.2022 - 30.09.2023
Śnieżka ToC	PZU	Property insurance (machinery and equipment)	1.10.2022 - 30.09.2023
Śnieżka ToC	PZU	Property insurance in domestic and international transport.	1.10.2022 - 30.09.2023
Śnieżka ToC	Chubb European Group	Third-party liability insurance for business activity	1.10.2022 - 30.09.2023
Śnieżka ToC	Chubb European Group	D&O liability insurance	16.09.2022 - 30.09.2023
Śnieżka ToC	KUKE	Export credit insurance	The agreement is renewed on a regular basis
Poli-Farbe	PZU	Property insurance (buildings, current assets, machinery and equipment) and loss of profit.	1.10.2022 - 30.09.2023
Poli-Farbe	PZU	Property insurance in domestic and international transport.	1.10.2022 - 30.09.2023
Poli-Farbe	Chubb European Group	Third-party liability insurance for business activity	1.10.2022 - 30.09.2023
Poli-Farbe	Chubb European Group	D&O liability insurance	16.09.2022 - 30.09.2023
Śnieżka-Ukraina	PZU	Property insurance (buildings, current assets, machinery and equipment)	15.10.2022 - 14.10.2023

Other Group companies (i.e. Śnieżka-BelPol and Rafil) also hold insurance agreements covering property insurance (machinery and equipment) and third party liability insurance.

The agreements concluded after the balance sheet date

Following the balance sheet date, the Company did not enter into any significant agreements.

Data in PLN thousand

1.10.3 Other

Factors and events, including of unusual nature, having a significant impact on the statements

Owing to the outbreak of war in Ukraine between February 24 and April 11, 2022, the operating activities of Śnieżka-Ukraine were suspended (deliveries and production were suspended from February 25, 2022). On April 11, 2022, this company was one of the first on the local market to resume both production and sales. Initially, the plant resumed single-shift production, then returned to full-time operation.

Despite a notable performance drop in Q1 of 2022 on the Ukrainian market, the subsequent quarters turned out to be better than anticipated. Śnieżka-Ukraine is capable of conducting its business activities due to its location outside the current war zone. The company's plant, as one of the few in the decorative paints and construction chemicals industry in Ukraine, is located in the western part of Ukraine - in Yavoriv, in the Lviv region, approx. 20 km from the Polish border.

The assets of Śnieżka-Ukraine are currently not at risk, and the Ukrainian company has production capacity at the level before the limitation of operations. In addition, the company's receivables in Ukraine are not at risk as the sale is partly subject to prepayment. Therefore, there are no reasons to create write-offs for receivables.

The pending armed conflict in Ukraine had a significant impact on the Śnieżka-Ukraine's performance and, consequently, on the entire Capital Group in 2022. Due to external factors and the current market situation, it should be noted that the final sales performance of the Ukrainian company in 2022 appeared to be better than expected. However, due to the in-progress war in this country, it is still difficult to predict what its impact on the company's performance will be in the years to come.

The essential aspects of the effect of the military operations in Ukraine on the Group's performance in the reporting period, as well as the risks to the revenues generated on the Ukrainian market in the future, are also described in the following sections of the Report: 1.4 („Sales volumes”), 2.1 („Prospects and essential factors for Group's performance” – factor „Armed conflict on the territory of Ukraine”), 4.1 („Risk associated with macroeconomic situation” – section „Consequences of the war in Ukraine”) and 4.10 („Risks characteristic to the major foreign markets on which the Group operates”).

Warfare adversely affected the Group's operations on the Ukrainian market by:

- depreciation of the zloty (similarly to other currencies in Central and Eastern Europe), which may translate into an increase in the prices of the Group's products, and, on the other hand, to the weakening of the purchasing power of individual customers;
- increase in inflation and the consequent weakening of the purchasing power of individual customers;
- difficult collection of the Group's receivables;

Data in PLN thousand

- disturbances in the supply chains of imported raw materials, components and fuels, as well as temporarily constricted access to some of them;
- increase in fuel, natural gas and electricity costs;
- rating downgrades for selected countries in the conflict region and a general further increase in the risk of running business in these countries;
- extension of communication routes to selected countries and the resulting increase in transport costs;
- a decline in consumer sentiment in the Group's core markets and a possible decrease in demand in the Group's main markets, as a result.

The Management Board of the parent company monitors the conditions on the Ukrainian market on an on-going basis and adjusts its activities and plans to the current circumstances. Due to external factors and the current market situation, the Company's Management Board is currently unable to estimate the impact of the war on the Group's future performance on the said market.

Due to the extraordinary situation on the Ukrainian market, the Capital Group introduced a change in the rules regarding the translation of financial statements of the company operating in Ukraine, for which the Ukrainian hryvnia (UAH) is the functional currency. The Group adopted, as at December 31, 2022, the closing rate set by the National Bank of Ukraine, at which the Group exchanges UAH into PLN, i.e. UAH 1 = PLN 0.1205. The rules for translating financial statements of foreign entities are described in more detail in the Consolidated Financial Statements for 2022 in section 2.4.6.

In accordance with IAS 36 "Impairment of assets" in connection with the on-going war in Ukraine, the Capital Group analysed the key assets located in Ukraine (details are included in Note 2.2.7 of the Consolidated Financial Statements for 2022). This analysis did not provide any evidence of a significant risk of impairment of assets and their impact on future estimated cash flows. Thus, no write-offs for impairment of assets were made.

No other factors or events occurred in 2022 than those described in the financial statements, including those of unusual nature, having a significant impact on the statements of the Group and the Company.

Loans and borrowings (including handling costs)

The handling costs of loans and borrowings in 2022 charged the financial result:

- in the amount of PLN 35,806 thousand in FFIL ŚNIEŻKA SA's statements,
- in the amount of PLN 29,910 thousand in the Śnieżka Group's consolidated statements.

As at 31 December 2022:

- FFIL ŚNIEŻKA SA had external financing agreements with: Bank Pekao, PKO Bank Polski, ING Bank Śląski, BNP Paribas Bank Polska and Citibank, with a factoring company - ING Commercial

Data in PLN thousand

Finance and a leasing company - ING Lease. In addition, the Company had loan agreements in force with its subsidiaries: Śnieżka Trade of Colours Sp. z o.o. and Poli-Farbe Vegyipari Kft.

- Poli-Farbe Vegyipari Kft. had external financing agreements with: Raiffeisen and CIB.
- Śnieżka-Ukraina did not have any external financing agreements signed.
- Śnieżka-BelPol did not have any external financing agreements signed.

Information on significant loan, factoring and loan agreements concluded (or annexed) in 2022 is described in section 1.10.2 herein.

Granted sureties

As at 31 December 2022 neither the Company nor its subsidiaries granted any guarantees or sureties to a single entity.

Significant proceedings

In March 2021, the Company received the result of a customs and tax audit carried out by the Head of the Sub-Carpathian Customs and Tax Office in Przemyśl on the accuracy of the declared grounds and payment of corporate income tax for 2016.

The Customs and Tax Office decided that in the audited period, the Company overestimated the tax deductible costs by PLN 13.8 million in connection with the expenses incurred for the acquisition of rights to use intangible assets and indicated a tax arrears of PLN 2.62 million. The amount of interest amounted to PLN 0.88 million.

The Company paid the tax liability in the amount of PLN 2.62 million together with interest in the amount of PLN 0.88 million in September 2022. At the same time, the Management Board did not agree with the findings of the inspection and appealed to the Head of the Sub-Carpathian Customs and Tax Office.

On December 23, 2022, the Company was served with the final decision of the Head of the Sub-Carpathian Customs and Tax Office in Przemyśl, upholding the findings of the tax office inspection. Upon the recommendation of the proxies, the Management Board of the Company decided to file a complaint against the above-mentioned final decision to the Provincial Administrative Court in Rzeszów, as in their opinion the decision had been issued in violation of the law.

In November 2022 a customs and tax inspection was initiated against the Company regarding the accuracy of the declared tax bases and payment of corporate income tax for 2017. Currently, inspection activities are carried out against the Company, consisting in requesting the Company to submit documentation related to the settlement of corporate income tax for 2017.

Having analysed the above case, the Company recognized in the statement of comprehensive income the amount of tax arrears paid (PLN 2.62 million) under "Income tax" together with interest on tax arrears (PLN 0.88 million) under "Financial costs". In the opinion of the Management Board, the above-

Data in PLN thousand

mentioned amount satisfies the risk related to the unfavourable outcome of tax inspections for the Company for 2016 and 2017.

Transactions with related entities

In 2022 neither the Company nor its subsidiaries concluded any transactions with related entities other than arm’s length transactions. Transactions between the aforementioned associates are made on equivalent terms to those that prevail in arm’s length transactions. All transactions with related entities are described in the consolidated financial statements for 2022, in note 3.23.

Data in PLN thousand

2. Prospects and development plans of the Group

2.1 Prospects and essential factors for Group's performance

The performance of the Śnieżka Group in 2023 will be primarily influenced by the performance of FFIL Śnieżka SA (parent company) and Śnieżka Trade of Colours Sp. z o.o.

In addition, due to the significant share in the Group's consolidated revenues and profits, the performance of selected subsidiaries operating on key foreign markets will be of crucial importance, particularly Poli-Farbe Vegyipari Kft. (Hungary) and Śnieżka-Ukraina Sp. z o.o. (Ukraine).

The Company's Management Board estimates that the main external factors that will affect the performance of the Group and individual companies in the coming quarters will be:

1. Demand for the Group's products and possible changes in consumer behaviour

The Śnieżka Group monitors consumer sentiment, financial condition of consumers and their purchasing intentions in the product categories most important for the Group in its key markets (Poland and Hungary).

Demand in the coming months may be affected by the noticeable deterioration in consumer sentiment, a decrease in purchasing power, as well as a greater propensity to save and temporary reductions in large expenditures, e.g. in connection with the increase in inflation and the monetary policy pursued by the NBP, which largely boils down to cooling down the economy by limiting lending, and thus limiting the amount of money on the market. According to the analyses of the Central Statistical Office, the average annual consumer sentiment in Poland - aggregated in the current consumer confidence indicator (BWUK) - in 2022 was the worst in the history of the survey as yet. The leading indicator of consumer confidence (WWUK), describing the trends in individual consumption expected in the next 12 months, also remains at low levels²⁵.

In the reporting period, the Group observed a decrease in demand for decorative products on the Polish market, which is responsible for over 2/3 of its sales revenues. On the Hungarian market, the sales volume remains at a similar level as in the previous year, while on the Ukrainian market the lower demand is the aftermath of the armed conflict - although the scale of this decline is lower than expected.

The Group analyses how global factors (e.g. the effects of the war in Ukraine) and local factors (e.g. raising interest rates in response to dynamically rising prices) affect GDP in individual countries, with which the decorative paints industry is strongly connected. A constant element of the activities carried out is the monitoring of situation in this sector on key markets, which provides the possibility of predicting alternations in consumer attitudes, as well as adapting the offer as well as marketing and sales activities to volatile conditions.

²⁵ Source: CSO, Consumer situation - December 2022.

Data in PLN thousand

2. Armed conflict on the territory of Ukraine

Military operations in the territory of Ukraine had a negative impact on the Group's operations and performance on the Ukrainian market.

Due to the armed conflict in Ukraine, the plant of Śnieżka-Ukraina temporarily suspended its operations, from February 25, 2022. This contributed to a sharp decrease in the Group's sales revenues in the "Ukraine" segment in Q1 of this year. The plant resumed operations on April 11, 2022, as one of the first in the industry, both in terms of production (initially one shift, then full-time) and sales on the Ukrainian market.

According to the Company's knowledge at the time of the publication of this report, the property of Śnieżka-Ukraina is not endangered (its production plant is located in Yavoriv, Lviv region).

At the moment, there are no premises that would indicate the loss of the ability to continue further business operations in Ukraine. Nevertheless, the in-progress armed conflict and the concentration of the Russian army on destroying the energy infrastructure cause disruptions in the energy supply, which may affect the efficiency of the production plant. It may also have a negative impact on renovation works, and thus the demand for the company's products.

The on-going warfare in Ukraine may have an essential effect on the future performance of Śnieżka-Ukraina and, as a result, the entire Capital Group. Having analysed the situation of the entire year, it should be noted that the final sales performance of the Ukrainian company in the reporting period appeared to be better than expected. Concurrently, due to external factors and the current market environment, the Management Board of the Company is currently unable to estimate the impact of the war on the future performance of the Group on the said market.

The Śnieżka Group monitors the conditions in Ukraine on a regular basis and adapts its activities and plans to the current situation. It also continues to monitor its core markets, constantly verifying, inter alia, the impact of the armed conflict in Ukraine on the condition of economies, the sentiment and financial condition of consumers or their purchasing plans.

The exposure to risk of assets held in Ukraine as at December 31, 2022 is as follows (data in PLN thousand):

Exposure to the risk of Śnieżka Group's assets held in Ukraine	31.12.2022
Tangible fixed assets	19 905
Inventory	14 931
Short-term receivables	4 524
Cash	4 396
Other assets	510
Total assets	44 266
Net assets (Equity)	41 160

3. The situation in global trade and its impact on the pace of economic growth

Data in PLN thousand

The reading from the Goods Trade Barometer of the World Trade Organization (WTO) in November 2022 was 96.2 points (lowering the level compared to the August reading of 100 points). According to October forecasts, the WTO expected a slowdown in trade and production growth in the second half of 2022 and in 2023. According to the institution's experts, the weakening was influenced by several disturbances, the most important of which concern the war in Ukraine, high energy prices, inflation and monetary tightening policy. According to the same source, the volume of global trade in goods in 2023 is to increase by 1% (compared to the estimated increase of 3.5% in 2022), while the global GDP is to grow at a rate of 2.3% y/y (against 2.8 % in 2022). Despite a relatively strong deceleration, the dynamics of both indicators according to the WTO will remain positive²⁶.

The global trade situation translates into trade on the key markets the Group operates on - and, as a result, also on the condition of the economies of the countries that constitute the core sales markets for the Group's products. The sector of paint and wood products and the level of consumption of renovation and construction products are correlated with the level and dynamics of GDP. This is particularly essential in the case of Poland (the key market of the Group from the perspective of the sales revenues generated), where private consumption remains one of the main driving forces of the economy.

The greatest threat from the trade's perspective is the escalation of the conflict in Ukraine, which affects the sales dynamics in the industry both directly (due to the Group's presence on the Ukrainian market) and indirectly (by affecting the prices of energy raw materials).

4. Changes in the prices of raw materials and packaging and their availability

The Company's Management Board envisages that due to the current economic and political situation in Europe and in the world, including the war in Ukraine, at the turn of 2023 and 2024, in some areas of raw materials, there may be another increase in the prices of raw materials, packaging and other goods. Determining the level of prices of key raw materials used in production may be subject to a significant error. At the same time, restrictions in access to raw materials intensified work on the search for substitutes for raw materials necessary for the production of paint and varnish products.

The Company also monitors the changes to the European Union regulations on an on-going basis, describe later in this chapter, and takes appropriate steps to adapt to them. At present, the Company does not anticipate any events related to the purchase of raw materials that could jeopardize its proper functioning.

5. Changes in currency exchange rates

The Group's bottom-line may be significantly affected by changes in currency exchange rates, in particular: EUR/USD, EUR/PLN, USD/PLN, HUF/PLN and UAH/PLN. The biggest current currency risk for the Śnieżka Group is associated with the further strengthening of the EUR/PLN exchange rate, which may further boost the cost of purchasing raw materials used for production.

²⁶ Source: https://www.wto.org/english/news_e/pres22_e/pr909_e.htm

Data in PLN thousand

6. Increase in energy prices affecting production costs

In the current macroeconomic and geopolitical environment, a strong cost pressure sustains as regards energy prices, which affects the increased production costs. The Group conducts analyses aimed at implementing investments that will significantly increase the share of green energy in its energy consumption structure in two key markets, i.e. in Poland and Hungary. These activities are part of Śnieżka 2023 + Sustainable Development Strategy.

7. The European Union regulations on paint and other products of the Group

The legal regulations of the European Union relating to the paint and varnish industry are becoming more and more restrictive. They are also characterized by increasing complexity. For example, the legal regulations governing the content of biocides allowed in the formulation of paint are becoming more and more stringent. The greater emphasis is placed on the use of natural components in paint, which on the one hand are responsible for greater environmental friendliness and safety of the product, and on the other hand, shorten its usability. The adaptation works are therefore focused on ensuring that the eco-friendliness is followed by equally high durability and usability of the products.

The Group constantly monitors legal changes that may affect production and implements measures to dynamically accommodate the technological process to these changes. The currently amended legal acts, the adaptation of which should be taken into account in the near future, are the Regulation of the European Parliament and of the Council No. 1272/2008 on classification, labelling and packaging of substances and mixtures (the so-called CLP Regulation) with amending regulations (the so-called ATP), related to the classification of products and their appropriate labelling, depending on the content of biocides in the final product.

Thanks to own Microbiological Laboratory, the Group is able to perform the tests necessary to meet new legal requirements, and even exceed them, while ensuring the high quality of the offered products.

8. Actions to prevent climate change

In the following years, the situation on the market of construction chemicals, including paint and agents for wood protection and decoration, may also be influenced by measures addressed to stop unfavourable climate change - including regulatory and stimulating measures aimed at implementing the Paris Agreement and the EU strategy - *European Green Deal*.

The Group does not conduct high-emission activities, and the paint and varnish production is low-energy-consuming.

However, a certain part of the entire value chain is high-emission activity (e.g. production of packaging based on petroleum products and extraction or production of certain raw materials used by the Group) and it cannot be ruled out that future regulations on reducing emissions and energy consumption of production plants located in the European Union will affect the business model and the Group's results.

Data in PLN thousand

As at the date of publication of the Report, the carbon footprint for the Śnieżka Group was calculated in the scope of 1, 2 and 3 (described in the Report in section 3.4.3.2). The Company has also developed the 2023+ Sustainable Development Strategy, in which an essential part is the action to prevent climate change.

2.2 Strategic objectives

The Group consistently implements a long-term development strategy consisting in concentration of operations in selected countries of Central and Eastern Europe and building a leading position in the decorative paint segment in selected markets.

The Management Board of the Company reserves that it cannot be ruled out that the on-going war in Ukraine and its long-term effects - fully unpredictable at the time of developing the Group's annual report for 2022 - may in the future result in the need to revise the strategy and strategic objectives of the Company and the Group.

The most important strategic objectives of the Group and FFIL ŚNIEŻKA SA for 2023 and subsequent years are as follows:

- **Strengthening the position in major markets**

The Group's strategy for the coming years assumes concentration on selected markets, primarily Poland, Hungary and Ukraine.

On the market of decorative paint and wood protection products in Poland, the Group remains one of the largest players, and one of the strategic goals for the coming years is to expand its market share. On other foreign markets, the Group will work to maintain or strengthen its market position.

In Hungary - following the completion of the passive optimization process and the reconstruction of the portfolio and reorganization of the commercial forces - the Group puts more emphasis on active optimization, i.e. on increasing market shares in the most attractive product segments.

In Ukraine, the Group focuses on maintaining business continuity and adapting the scale of production to market needs that change during the war.

- **Implementation of the management model for the Group based on the competence centres**

At the beginning of 2021, a new management concept was implemented within the Group, optimizing the cooperation of its companies. As part of this approach, key processes for the Group are developed at the level of two companies:

- FFIL Śnieżka SA, which, apart from the role of defining the Group's strategy and managing the Group, is a competence centre as regards supply chain management (purchasing, distribution, warehousing, logistics, information flow), IT, production and technology as well as research and development (R&D), and plays a role as a shared service centre;

Data in PLN thousand

- Śnieżka Trade of Colours Sp. z o.o., which develops competences in the field of: sales and marketing as well as pricing and revenue, and also market analysis and management of selected trademarks in the Group.

Both of these companies coordinate the activities of individual subsidiaries in the areas of their competence centres.

- **Optimization of logistics processes based on the capabilities of the Śnieżka Group Logistics Centre**

At the beginning of 2022, the warehouse section was put into operation, and at the end of the year, the automation of the processes of the Śnieżka Group Logistics Centre was completed – being the largest investment in the history of the Capital Group. It is a warehouse and office facility that took over the functions of warehouses for finished products in Brzeźnica, Lubzina and Pustków and the implementation of other logistics processes.

In 2022, the Centre was equipped with an innovative technological infrastructure, which includes, i.a.: the latest robotics, labelling and wrapping stations and autonomous trolleys. The facility capabilities, supported by the effects of Śnieżka's digital transformation, ensure full scalability of logistics processes, including smooth inventory management corresponding to the current demand for products. The capacity of the facility is over 40k of pallet spaces located on nine high-bay levels. The centre enables the Group to package finished products in a maximum amount of 2,000 pallets a day.

The implementation of the business objectives of the Śnieżka Group would not be possible without strong pillars, which are:

- strong, reliable brands that initiate and conduct a dialogue with the consumer,
- effective, i.e. efficient and agile distribution channels,
- knowledge about the consumer who is in the centre of attention and effective actions focused on the end customer,
- product innovations in line with trends,
- understanding the strategy and expectations of business partners and defining a common path to the end customer,
- optimization of the product portfolio in individual range groups tailored to the potential of individual markets,
- efficient service for business customers thanks to care for completeness and delivery time.

2.3 Development plans of the Group

The strategic objectives of the Śnieżka Group are focused on selected European and non-European markets, while maintaining the leading position on the markets of Central and Eastern Europe, with

Data in PLN thousand

the dominant role on the Polish market. The Group intends to achieve these objectives by focusing on specific countries and on the strengthening its position in the segment of decorative paint products on three strategic markets: Polish, Hungarian and Ukrainian. For the Group, the assessment of the above mentioned markets as prospective is the basis for the development a long-term presence strategy for those regions.

A factor that may have an impact on the strategic plans of the Group is the geopolitical situation in Eastern Europe. Due to the impossibility of predicting the development of the situation in Ukraine, the Management Board decided not to publish previously prepared development plans on this market.

In the coming years, the Śnieżka Group will continue to work on the further development of brands, products and processes, following the altering needs of customers on various markets. Digital solutions supporting e.g. support for B2B, marketing and e-commerce processes are to be further developed. Their improvement is to enable the Group to better respond to the needs of both its business partners and end customers. It is essential to follow the phenomenon of digitization i.e. universal access to new technologies that have revolutionized consumer behaviour during the purchase mission. The Group estimates that the last years have significantly accelerated this trend and is aware that its activities, in every respect, must follow these changes. One of the core investments that notably increased the possibilities of efficient distribution of products throughout the Group is the modern Logistics Centre.

As far as the development of the Śnieżka Group is concerned, it will also be crucial to constantly monitor consumer sentiments and attitudes, analyse the macroeconomic situation and the condition of the sector of paint, wood care and protection agents and other products on key markets for the Group. Consequently, it will be possible to foresee changes in consumer attitudes and to accommodate the offer to the changing competitive conditions in individual countries. The flexibility of the business is also a challenge, which allows to quickly and effectively adapt to the volatile reality.

Development plans of the Group in Poland

On the Polish market, the Group intends to continue its development in the two largest segments:

- **on the independent market**, consisting mainly of trade and service companies basing their operations on handling contractors, investors and final consumers operating mostly locally.
- **on the market of DIY stores.**

The Company's strategy in the independent market sales channel assumes further development of sales by intensifying activities focused around selected product categories. Its aim is to build the availability of a wide range of the Company's products, quality and promptness of end customer handling in this longest sales channel.

As for the DIY channel an important factor of the Company's development in subsequent years may be increase in the number of points of sale of the home and garden equipment supermarket chain, as well as the potential migration of end consumers between sales channels.

Data in PLN thousand

On the Polish market, the Group plans to continue its current activities, with particular emphasis on focusing on end customer service. At the same time, activities aimed at building a value offer for business partners on the independent market as well as for supermarket chains will be continued. For example, the Group is to continue to support customers through partnership programs. These are projects dedicated to owners, managers, sales teams and contractors. Through them, the Company provide the participants with access to many benefits supporting the operation of their business.

Development plans of the Group in Hungary

On the Hungarian the Group is to continue activities related to the optimization of the product portfolio as well development and adaptation of sales processes to the standards adopted in the Śnieżka Group.

The Group intends to continue its development in the existing sales channels in Hungary:

- on the independent market, consisting mainly of trade and service companies basing their operations on handling contractors, investors and final consumers operating mostly locally,
- on the market of DIY stores and on other retail chains.

The Company's strategy on the independent market channel assumes further development of sales and digital distribution in directly operated stores, as well as through distributors collaborating with the Company. The Group intends to carry on with supporting retail outlets in the partnership program, which offers participants access to many benefits supporting the operation of their business.

In the DIY channel and in other retail chains, migration of end consumers between sales channels may be an important factor. On the Hungarian market, an additional factor in the coming years may be the process of market consolidation.

Development plans of the Group on other export markets

Plans in the area of other export markets assume recognizing the potential of key markets other than those mentioned above and establishing cooperation with new strategic partners based on a narrow product portfolio tailored to a given market. The Group's long-term plans for the development of sales on other, smaller foreign markets assume optimization in the field of brand and product management taking advantage of the full production potential of the Śnieżka Group.

The strategy, mission and vision of the Śnieżka Group are described in section 3.2.8 herein.

3. Statement on non-financial information

3.1 General assumptions and approach of the Group in the area of sustainable development

Activities in the area of sustainable development have been defined in *Śnieżka 2023 + Sustainable Development Strategy*. It is a response to the growing awareness and expectations of consumers and

Data in PLN thousand

business partners. It results from the need to adapt to dynamic market changes and new or near-final stage of drafting legal regulations.

The strategy has been developed for FFIL Śnieżka SA (parent company) and Śnieżka Trade of Colours Sp. z o. o., which act as competence centres in the current operating model of the Śnieżka Group. Ultimately, it will cover the entire Śnieżka Group, i.e. all its companies in Poland and beyond.

The strategy includes 3 key pillars of responsibility towards the environment and actions for sustainable development. As part of them, we have identified a total of 9 areas that define the priorities for the further development of Śnieżka in the spirit of sustainable development.

I PILLAR: ENVIRONMENT *We are responsible for the impact of our activities on the environment and climate.*

Responsibility for the product in its life cycle is permanently inscribed in the DNA of our business model. From the outset of an idea, through research and development analyses, selection of suppliers and the purchasing process, quality control, production, sales and communication, and finally - use.

We assess the impact on the environment as well as the health and safety of users as early as at the stage of product design and formulation. We meticulously select raw materials based on specification, impact on the environment, expected parameters and availability. As part of the purchasing process, we analyse our suppliers in terms of meeting ESG criteria. At the production stage, on the other hand, we put great emphasis on efficiency and optimization of utilities consumption (water, energy).

Priority areas

- **Product responsibility** – *We guarantee high quality and make every effort to ensure so that our products and packaging have a positive impact on the health and safety of customers.*
- **Responsible purchasing** – *We strengthen sustainable development in the supply chain.*
- **Impact of operations on the environment and climate** - *We minimize our environmental footprint by implementing optimizations and improving efficiency.*

II PILLAR: PEOPLE - *We are responsible for employees and we carry out activities for the benefit of local communities*

Our employees are the strength of our organization. Their commitment and creativity are the basis of our ideas and solutions that contribute to the establishment of a competitive advantage. Therefore, our priority is to build a safety culture and the continuous development of our team.

The "People" pillar also includes cooperation and listening to the needs of the community inhabitants in the vicinity of our operations. On a daily basis, we care about being a "good neighbour" and a reliable employer, and by creating our own social initiatives we help to minimize social exclusion in the areas defined by us.

Priority areas

Data in PLN thousand

- **Employee involvement and development** – *We focus on employee involvement and development in a safe, diverse and inclusive work environment.*
- **Health and safety at work** – *We build a culture of safety.*
- **Social involvement** – *We implement social projects based on our competences and we are involved in the development of local communities.*

III PILLAR: BUSINESS - *We build an organization based on an effective management system and business ethics*

The basis for the effective implementation of the principles of sustainable development is a well-organized organization management system. It allows to minimize the risk and ensures that key decisions are made in accordance with the interests of the company and its stakeholders. As a result, it contributes to building the company's value in the long term.

Thus, in our activities, we care about the transparency of market and communication activities, compliance with regulations and business ethics, which translates into high standards of cooperation with shareholders, business partners and contractors. We also develop IT systems to ensure digital security of our customer's organizations and data, as well as internal control systems. We also manage risk in the most important areas of our business.

Priority areas

- **Compliance** - *We ensure compliance of our activities with laws, regulations and standards.*
- **Cybersecurity** – *We focus on cybersecurity.*
- **Risk management** - *We formalize a comprehensive approach to risk management, including climate risk.*

Data in PLN thousand

Figure 1. “Śnieżka 2023 + Sustainable Development Strategy” pillars and priority areas



As part of the strategy, we have defined 21 strategic objectives and 71 operational ones that are to be implemented by our companies: FFIL Śnieżka SA and Śnieżka ToC both in the short and long run. In order to effectively implement the strategy, we also assigned responsibility at the level of specific organizational units.

By implementing the assumptions of the new strategy, we are performing selected UN Sustainable Development Objectives for 2030. Consequently, we become part of a global initiative aimed at improving the quality of life of communities and counteracting the negative effects of climate change. FFIL Śnieżka SA and Śnieżka ToC (and ultimately the other companies of the Group) are involved in the implementation of the following 5 out of 17 objectives:



How was *Śnieżka 2023 + Sustainable Development Strategy* conceived

The process of developing the strategy commenced at the turn of 2021 and 2022. Its shape is the result of previous activities, external analyses, involvement of employees, management staff and the Management Board, as well as stakeholder research.

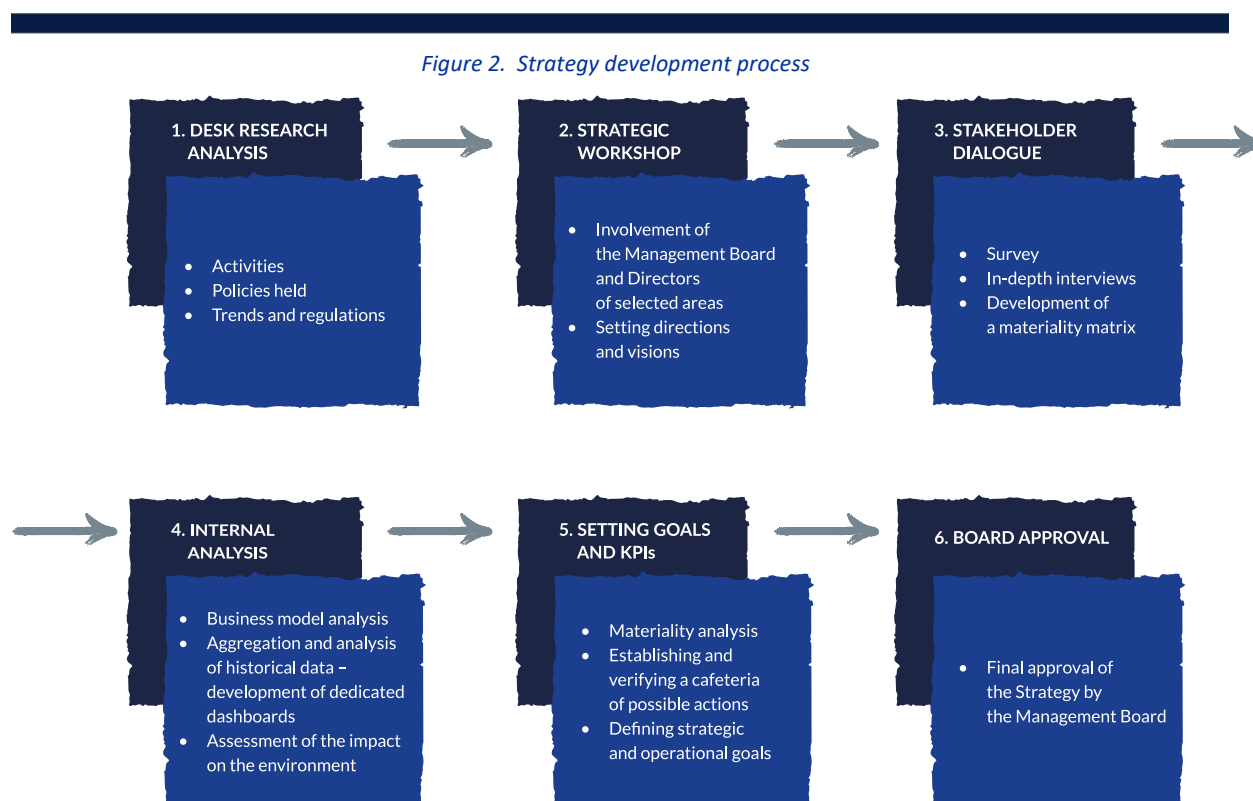
The work began with an in-depth analysis of the activities carried out so far, the policies and procedures in place, the ESG management system and the business model. The competitive and regulatory environment was also subject to assessment. In the next step, the Management Board of FFIL Śnieżka SA defined the vision and ambitions regarding the possible directions and priorities of the strategy.

The involvement of our stakeholders was crucial for the development of the strategy. We conducted a survey among external stakeholders as well as employees and representatives of the management staff - supplemented with in-depth interviews. Consequently, we obtained a set of ESG aspects corresponding to our environment, which were later assessed in terms of relevance to our business model.

We also performed an internal analysis: historical data, segmentation and other statements based on developed dashboards that automate the collection and analysis of quantitative data. In 2022, we also conducted a project to analyse greenhouse gas emissions under Scope 1, 2 and 3. We also updated the *Book of Organizational Values* and published the *Code of Ethics* and the *Code of Suppliers*.

The final step was to develop a materiality matrix, which was the starting point for work on the *Śnieżka2023+ Sustainable Development Strategy*, including defining strategic objectives. At the same time, the matrix presents which issues are crucial in the opinion of stakeholders for the sustainable development of Śnieżka, and which we consider as important for the long-term development and value building by our organization.

Data in PLN thousand



3.2 Concise description of the Group’s business model

3.2.1 Basic information about the Śnieżka Group

The Śnieżka Group is made up of entities operating on the paint and varnish as well construction chemicals market: Fabryka Farb i Lakierów Śnieżka SA (parent company) and its subsidiaries. In seven modern production facilities of the Group located in four countries (Poland, Hungary, Ukraine and Belarus) approximately 140 million kg of various types of products are manufactured both on the domestic and foreign markets. The Group's products are intended for decorating and protecting various types of substrates.

The Śnieżka Group is one of the leaders on the paints and varnishes market in Poland in the segment of decorative products²⁷, one of the largest players of decorative paints in Hungary, one of the leaders in the segment of paints in Ukraine²⁸. The Śnieżka Group is classified among the 25 largest paint manufacturers in Europe (according to the “European Coatings” magazine), being at the same time the only representative of the industry in the central-eastern part of the continent.

²⁷ Source: Polish Association of Paint and Adhesive Producers, 2022.

²⁸ Estimated data (due to the war in Ukraine, access to research reports is limited).

Data in PLN thousand

At the end of 2022, the Group employed 1,150 employees - detailed information on this subject is presented in section 3.4.4 herein.

The description of the Śnieżka Group’s business model has been prepared on the basis of internal materials, including documents and procedures. In 2022, no significant changes to the Group’s business model occurred.

3.2.2 Organization and structure of the Group

The Group entities are related by shares and have roles defined within the competence centre structure. Comprehensive organization and responsible management of resources and procurement contributes to efficient operation of the Group and higher profits for the shareholders. The cooperation involves mutually complementary activities, exchange of know-how and synergistic benefits. FFIL Śnieżka SA plays a leading role in these processes.

As part of this approach, key processes for the Group are developed at the level of two companies: FFIL Śnieżka SA and Śnieżka Trade of Colours. FFIL Śnieżka SA, as the parent company, performs control functions in the supervisory bodies of the subsidiaries. In addition, it establishes a development strategy and coordinates the development of the entire Group in all aspects of its operations. It is also a competence centre as regards supply chain management (purchasing, distribution, warehousing, logistics, information flow), IT, production and technology as well as research and development (R&D), and plays a role as a shared service centre. In turn, Śnieżka Trade of Colours Sp. z o.o. develops competences in the field of: sales and marketing as well as pricing and revenue, and also market analysis and management of selected trademarks in the Group. The both companies coordinate the activities of individual Group companies in their areas of competence.

All transactions with related parties carried out by the Company and its subsidiaries are performed at arm's length, i.e. those that would be agreed between unrelated entities, based on the applicable laws in Poland, EU regulations and the laws in force in the countries where the subsidiaries are located, the market value of the transaction is balanced on an annual basis.

Data in PLN thousand

Figure 3. The Śnieżka Group’s structure (as at 31 December 2022)

Group structure and organization



Fabryka Farb i Lakierów Śnieżka SA has been entered into the Register of Entrepreneurs of the National Court Register kept by the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, under KRS number 0000060537. The company was registered with the Central Statistical Office and received the following REGON number: 690527477 and tax identification number (NIP): 8181433438.

The Company’s seat: ul. Chłodna 51, 00-867 Warsaw

Phone (Headquarters): 14 681 11 11 lub 22 221 93 19;

<https://sniezkagroup.com/>

The Company’s production facilities are located in:

- **Lubzina 34 a**, 39-102 Lubzina, Ropczyce and Sędziszów county, Sub-Carpathian province;
- **Brzeźnica**, ul. Dębicka 44, 39-207 Brzeźnica, Dębica county, Sub-Carpathian province;

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Data in PLN thousand

- **Pustków 604**, 39-205 Pustków, Dębica county, Sub-Carpathian province;

The Company also has a Logistics Centre located at: Zawada 79M, 39-200 Zawada, Dębica county, Sub-Carpathian province.

Table 17. A list of entities comprising the Group consolidated or valued using the equity method (as at 31.12.2022).

Name	Seat	Scope of activity	Consolidation (and % in the share capital)
Śnieżka Trade of Colours Sp. z o.o.	Warsaw ul. Czarna 51	marketing and sales of products, market analysis and monitoring, trademarks management	Full consolidation (100%)
Śnieżka-Ukraina Sp. z o.o.	Ukraine Yavoriv Prywokzalna 1A,	manufacture of paints, varnishes, solvents, mortars, putties etc., wholesale and retail sales of construction materials	Full consolidation (83.48%)
Śnieżka-BelPol Sp. z o.o.	Belarus Zhodino, Dorożnaja 3/1,	production of putties and preservatives	Full consolidation (100%)
Poli-Farbe Vegyipari Kft.	Hungary Bócsa III. kerület 2.	manufacture of paint, enamels, insulation systems, putties etc., wholesale and retail sales of construction materials	Full consolidation (80.00%)
Radomska Fabryka Farb i Lakierów SA	Radom ul. Czarna 29	manufacture and sales of anti-corrosive products	Full consolidation (94.15%)
Plastbud Sp. z o.o.	Pustków 164 b	manufacture of Colorex pigment pastes and dyestuffs for Śnieżka’s colour systems, a supplier of some materials and goods for the Group	Equity method (10.07%)

In 2022 the Śnieżka Group’s structure was affected by the following changes:

- **liquidation of POLI-FARBE RO s.r. based in Odorheiul Secuiesc, Romania - a subsidiary of Poli-Farbe Vegyipari Kft.**

The company was liquidated in May 2022 following the completion of the voluntary liquidation procedure.

Data in PLN thousand

- **acquisition by FFIL Śnieżka SA of another 83,316 shares in Radomska Fabryka Farb i Lakierów SA**

Currently, the Company holds 93.09% of votes at the general meeting of Radomska Fabryka Farb i Lakierów SA and as at the date of publication of this Report, the shares held by FFIL Śnieżka SA correspond to 94.15% of the share capital of Radomska Fabryka Farb i Lakierów SA (compared to 92.11% as at December 31, 2021).

3.2.3 FFIL ŚNIEŻKA SA's operations

Fabryka Farb i Lakierów Śnieżka SA is one of the leaders in the Polish market of paints and varnishes in the decorative products segment.

The Company has achieved such a high market position for nearly 40 years of its activity - the beginning dates back to 1984. The Company's roots are linked with the Sub-Carpathian region, where the Group's core production facilities and state-of-the-art Research and Development Centre have been operating to date. Since 2003 the Company - as the only one in the industry - has been listed on the Warsaw Stock Exchange.

The portfolio of FFIL ŚNIEŻKA SA is comprised of products for protection and decoration of various substrates, both for internal and external applications. They comprise, i.a. paints for walls and facades, products for painting wood and metal, putties for walls and wood, as well as thermal insulation systems. The products are sold under the following brands: Magnat, Śnieżka, Vidaron, Foveo-Tech and Rafil.

FFIL Śnieżka SA runs research and development activities by taking advantage of its own professional facilities. The Company has research laboratories (including, chromatographic and microbiological ones), conducting advanced research on products and raw materials used in production.

FFIL Śnieżka SA's products are available in many distribution channels. An important role in sales is played by the independent market, where Śnieżka Trade of Colours Sp. z o. o - in accordance with its area of responsibility - collaborates with business partners based on a standardized model of cooperation.

Distribution of products is also based on cooperation with international and local chains of DIY stores (DIY channel). Śnieżka's products can be found in Leroy Merlin, OBI, Castorama, Bricomarché chain stores as well as in outlets of the PSB Group. The sales of products on the Polish market is also carried out through an online store - www.dekorum.pl - as well as in marketplace channels (Allegro). A multi-channel distribution is one of the assumptions of the Group's sales growth strategy on the Polish market, and at the same time it minimizes the risk associated with too high reliance on one distribution channel or distributor. On foreign markets, the sales of the Group's products are carried out primarily through a middleman model. Its products are distributed by wholesalers, retail stores and DIY stores.

The Company's activity is based on a clearly defined set of values, as well as several years of involvement in supporting the society as part of programs and projects in the area of corporate social responsibility and through the activities conducted by the Śnieżka Foundation.

Data in PLN thousand

On December 31, 2022, the Company employed 606 employees (684 at the end of 2021), which accounted for nearly 52.7% of the entire Group's team.

3.2.4 Activities of other Group companies

Śnieżka Trade of Colours Sp. z o.o. („Śnieżka ToC”)

Śnieżka ToC, similarly to FFIL Śnieżka, is one of the Śnieżka Group's two competence centres.

The scope of the company’s activity is as follows:

- marketing and sales of products - including the development and implementation of strategic solutions in the said areas as well as conducting and supervising operational activities in all markets where the Śnieżka Group conducts its operations.
- pricing, revenue, market analysis and consumer behaviour in terms of launching new brands and products, as well as changes in the current portfolio of companies comprising the Śnieżka Group,
- management of trademarks and other intellectual property resources;
- market monitoring in order to prevent unauthorized use of registered trademarks.

The company was established in 2010 (as TM Investment Sp. z o.o.). On December 31, 2022 the Śnieżka Trade of Colours Sp. z o.o.’s share capital amounted to PLN 303,558 thousand.

The Company employed 113 employees as at December 31, 2022 (136 at the end of 2021).

Poli-Farbe Vegyipari Kft.

Poli-Farbe Vegyipari Kft. (Hungary) was established in 1998.

On December 31, 2022, the company's share capital amounted to HUF 56,500 thousand and was not subject to change compared to February 11, 2019, i.e. the day on which FFIL Śnieżka SA concluded an agreement to acquire 80% of its shares.

Poli-Farbe is a company with an established position in Hungary in the segment of decorative paints for interior use, with one of the most recognizable (sub)brands of paints on the local market in its portfolio. The company is also a producer of enamels and wood preservatives. The Poli-Farbe product range includes: interior decorative water-borne paints, enamels, products for the protection, decoration and care of wood, facade paints, primers, insulation systems, as well as putties.

The company sells its products primarily through wholesalers, retail outlets and a DIY networks such as: Obi, Bauhaus, Tesco, Auchan, Kika and Praktiker.

Data in PLN thousand

On December 31, 2022, the company's share capital amounted to HUF 56,500 thousand and was not subject to change compared to February 11, 2019, i.e. the day on which FFiL Śnieżka SA concluded an agreement to acquire 80% of its shares.

On December 31, 2022, Poli-Farbe Vegyipari Kft. employed 195 employees (254 at the end of 2021).

Śnieżka-Ukraina Sp. z o.o.

Śnieżka Ukraina Sp. z o.o. with was established in 1999.

Śnieżka-Ukraina is a producer of paints and putties, as well as one of the leaders in the production of paints in Ukraine²⁹. Its products are sold under the Śnieżka brand.

The company is the main distributor of FFiL ŚNIEŻKA SA’s products on the local market. The Company sells products mainly through wholesalers, retail outlets and local DIY networks such as Epicentr, Nowa Linia, (Ukrainian entities) and Leroy Merlin (foreign entity).

On December 31, 2022, the company's share capital amounted to UAH 415,7 thousand and was not subject to change compared to the end of 2021.

On December 31, 2022, the Company employed 172 employees (210 at the end of 2021).

Śnieżka-BelPol Sp. z o.o.

Śnieżka-BelPol Sp. z o.o. (Belarus) was established in 2003.

Śnieżka-BelPol Sp. z o.o. is a significant manufacturer of putties, paints and varnishes on the Belarusian market with a predominant position in the segment of putties. It sells its products under the Śnieżka brand via wholesale stores, DIY chains and retail outlets.

On December 31, 2022, the company's share capital amounted to BYN 293,9 thousand and was not subject to change compared to the end of 2021.

By the end of 2022, the company employed 16 employees (whereas 24 at the end of 2021).

Radomska Fabryka Farb i Lakierów SA

Radomska Fabryka Farb i Lakierów SA („Rafil”) was established in 1995.

Rafil is a company specializing in the production of anticorrosive undercoats and topcoats for heavy-duty anticorrosion application in the heavy industry. It also produces alkyd, polyvinyl, polyurethane,

²⁹ Estimated data (due to the war in Ukraine, access to research reports is limited).

Data in PLN thousand

epoxy and heat-resistant systems. Currently, it is one of the most recognizable brands in its industry in Poland.

The company also manufactures products for a wide range of customers. Paints, rich in colour, tailored to private recipients’ needs, are produced following the same standards and recipes as highly specialized industrial ones.

Rafil's products are sold through a distribution network consisting of wholesalers and contractors from all over the country.

On December 31, 2022 the company’s share capital amounted to PLN 4,102 thousand.

By the end of 2022, the company employed 48 employees (53 at the end of 2021).

Plastbud Sp. z o.o.

Cooperation with related entities also applies to Plastbud Sp. z o.o. in Pustków, which manufactures Colorex pigment pastes and dyestuffs for Śnieżka’s colour systems. Plastbud Sp. z o.o. is a Group’s supplier of some raw materials and goods.

3.2.5 Commercial brands

The owner of the commercial brands of the Śnieżka Group is Śnieżka Trade of Colours Sp. z o.o. (with the exception of brands belonging to Poli-Farbe Vegyipari Kft.) Śnieżka ToC, as the owner of the trademarks, markets the Group's products both directly (through cooperation with independent stores, DIY chains, end customers) and indirectly (through their sale to other Group companies).

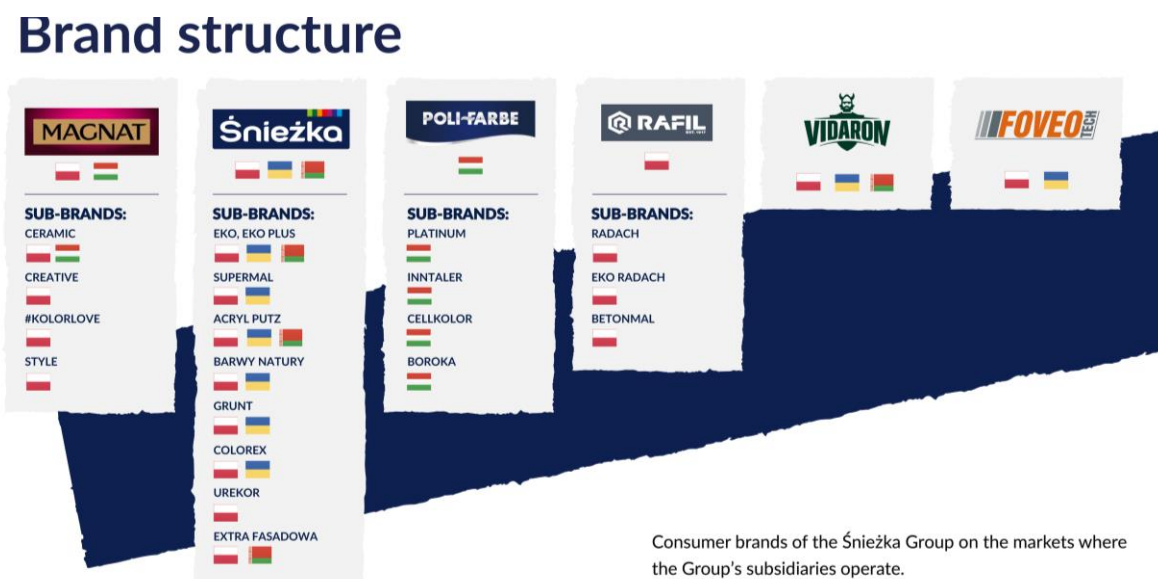
In the reporting period, the products of the Śnieżka Group were sold under the following key commercial brands:

- **Magnat** - the products for the most demanding customers, who value quality and style. The portfolio of this innovative premium brand includes high quality ceramic paints featuring colour durability, remarkable colour range, resistance to stains and dirt as well as heavy duty purposes. The brand's portfolio also includes a selection of high-quality white paints. Magnat stands also for textures, providing numerous decorative options.
- **Śnieżka** - being the core brand of the Group, which offers a wide range of products. Its portfolio is comprised of products for protection and decoration of various substrates, both for internal and external applications (i.a. paints for walls and facades, products for painting metal and wood as well as putties for smoothening walls). It is a comprehensive offer meeting customers’ needs at every stage of a flat or house finishing or renovation.
- **Poli-Farbe** - is an umbrella brand, which offers a wide portfolio of products for the protection and decoration of various surfaces. It comprises one of the most recognizable (sub)brands on the Hungarian market: Platinum and Inntaler (including interior and facade emulsions), Cellkolor (paint for wood and metal) and Boróka (agents for wood protection and decoration).

Data in PLN thousand

- **Vidarón** - is a top quality brand for wood protection and decoration. The brand's offer has been prepared for all of those who are willing to take care of wood used both indoors or outdoors in a comprehensive manner. The brand portfolio includes, inter alia,: high-quality preservatives ensuring comprehensive wood protection, both from the inside (priming agent) and from the outside (topcoat agent), as well as renovation agent intended for pre-painted wood, stain and varnish as well as oils and varnishes.
- **Rafil** - is a brand providing undercoat and surface anticorrosive industrial paints. Its portfolio consists of alkyd, polyvinyl, polyurethane, epoxy and heat-resistant systems. The brand's offer includes products with a reduced content of organic solvents and waterborne products. Rafil also offers roof coatings, floor paints as well as paints for fences, windows and doors.
- **Foveo-Tech** - is a brand of facade products based on decorative plasters and facade paints, available in a wide range of colours. They are widely used in both newly built and existing buildings. These are materials for renovating buildings for thermal insulation, structural protection and exterior appearance.

Figure 4. Consumer brands on the markets where the companies of the Śnieżka Group operate



3.2.6 Description of the Śnieżka Group’s industry and markets

In 2022, the Śnieżka Group actively sold its products on a dozen or so markets - in Poland and on sixteen foreign markets.

The most important markets for the Group in 2022 were: Poland, Hungary and Ukraine. In 2022, the Group's consolidated sales revenues on the said markets accounted for 93.8%.

Data in PLN thousand

The leading sales market (for products and goods) of the Śnieżka Group in 2022 was the Polish market with a 67.9% share (+1.9% y/y). The other essential countries, where the Group companies operate, are as follows: Hungary (17.3% share; -5.4% y/y), Ukraine (8.6% share, -15.0% y/y).

The paints and varnishes market in Poland

Several dozen companies operate on the Polish paints and varnishes market. FFIL Śnieżka remains one of the leaders. The largest players on the domestic market are as follows: The Śnieżka Group, PPG Deco Poland (brands: Dekoral, Bondex, Sigma, Malfarb, Domalux, Drewnochron, Tikkurila, Jedyńka, Beckers, Polifarb Dębica), AkzoNobel Polska (brands: Sadolin, Dulux, Nobiles, Sikkens, Hammerite). Together, these entities account for over 80% of total sales.

According to FFIL Śnieżka's estimates, the sales of decorative products on the Polish market is carried out at the following distribution points of sale:

- around 80-100 1st degree distributors (redistributing products purchased directly from the manufacturer);
- around 750-850 chain DIY stores,
- approximately 5,500-6,000 retail stores offering paints.

In the broadly understood deco category, the main distribution channels are currently the dominant independent channel and DIY stores, whose advantage in this market is gradually growing. According to the Śnieżka Group's data, the penetration of its products among B2B customers is at a high level. The Śnieżka Group estimates that the products from the portfolio are available in the vast majority of stores on the independent market and in DIY stores, where penetration may exceed 90%.

The paints and varnishes market in Hungary

Several dozen companies operate on the Hungarian paints and varnishes market. The Poli-Farbe company, which has belonged to the Śnieżka Group since May 2019, remains one of the market leaders. The largest entities operating in Hungary are as follows: Poli-Farbe (submarki Poli-Farbe and MAGNAT brand), PPG Trilak (brands: Héra, Trinát, Lazurán, Thermotek, Bondex i Dryvit) oraz Akzo Nobel Coatings (brands: Dulux, Sadolin, Hammerite and Supralux). Their total market share is estimated at around 75%. The smaller manufacturers in 2022, with a several per cent of market share, included: Tikkurila, JUB, Helios, Meffert and Caparol.

According to company's estimates, the sales of decorative products on the Hungarian market is carried out at the following distribution points of sale:

- around 20-30 1st degree distributors (redistributing products purchased directly from the manufacturer);
- around 700-900 construction depots,

Data in PLN thousand

- approximately 600-800 specialist stores, where the predominant range of products are decorative paints;
- around 50-60 DIY stores;
- about 150-200 other retail chains, i.e. points with a wide range of products on offer: food, electronic/household appliances accessories, household chemicals, etc.

In the broadly understood deco category, the main distribution channels are the independent channel and DIY stores. These values, however, differ when selling different product groups. According to the Śnieżka Group's data, the penetration of its products among B2B customers is at a high level. The Śnieżka Group estimates that the products from the portfolio are available in the vast majority of stores on the independent market and in DIY stores, where penetration may exceed 90%. The company also has a portfolio in other retail chains, in which it identifies the sales potential of the category of decorative products.

The paints and varnishes market in Ukraine

Before the aggression of the Russian Federation against Ukraine in February 2022, there were about 150-200 manufacturers of paints and varnishes in Ukraine. On this market, the Group competes with both international and domestic producers. The biggest players in the production of decorative paints on the Ukrainian market are as follows: Śnieżka-Ukraine (brands: Śnieżka, Vidaron, Foveo-Tech), Tikkurila (brands: Tikkurila, Kolorit), Meffert Hansa Farben (brands: MGF and DUFA), Henkel (Ceresit brand), ZIP (brands: Triora, Zebra, RUTA, STAR Paint, Freska, Mixor), DAW (brands: Caparol, Alpina), Eskaro (brands: Eskaro, Aura, Condor), Feidal, Polisan (brands: Maxima, Farbex, Delfi and DekArt), Olejnikov.

Before the war, the Group's products were available throughout Ukraine, but most of its revenues were generated in its western and central parts. During the on-going military operations in some parts of Ukraine, it is not possible to precisely determine the availability of products.

According to the Company's data available before the warfare, sales on the Ukrainian market were conducted at the following distribution points:

- around 80-120 1st degree distributors (redistributing products purchased directly from the manufacturer);
- around 5000-6000 stores with a wide product portfolio comprising various paints and varnishes;
- around 80-120 DIY stores.

The shape and condition of the sector will be influenced by the armed conflict in Ukraine, as well as the future geopolitical situation, which is its derivative. According to the Śnieżka Group's data, the penetration of its products among B2B customers is at a high level. The Śnieżka Group estimates that the products from the portfolio are available in the vast majority of stores on the independent market and in DIY stores, where penetration may exceed 90%.

Data in PLN thousand

The remaining markets where the Group operates

The other markets where the Group conducted sales in 2022 include: Moldova, Slovakia, Romania, Kazakhstan, Armenia, Lithuania, Georgia, Algeria, Czech Republic, Kyrgyzstan, Serbia and Italy.

Until the aggression in Ukraine, the Group also sold in the territory of the Russian Federation - the Russian market in 2021 corresponded to approx. 1% of revenues. In March 2022, the Group ceased its operations in Russia.

3.2.7 Key trends and factors affecting development of the industry and of the Group

Macroeconomic factors

From the point of view of the Śnieżka Group's revenues, the Polish market is crucial. The condition of the Polish market is best illustrated by the value and dynamics of gross domestic product (GDP), whose main driving force has so far been domestic demand. The consumption of goods and services by individual consumers was stimulated by numerous factors, while the most important ones identified by the Group are the level of remuneration (average wages in the national economy), unemployment rate and social transfers - including various government programs providing financial benefits to specific beneficiaries, tax relieves and other allowances.

Important - but to a lesser extent, as the Group's products are used primarily for the renovation of houses and apartments by end customers, and less frequently for finishing new buildings by general contractors - is also the situation in the construction industry for the Group. The factors that reflect the economic situation in this area include construction and assembly production (i.e. investment and renovation works carried out domestically by construction companies) and the level of new investments in the housing construction (the number of dwellings commissioned) and commercial segment.

Also, trends in consumer confidence (current and anticipative) are helpful in assessing the economic situation, which show the level of consumer optimism in terms of the economic situation, and thus the tendency of building savings and spending by households.

Not only did the above macroeconomic factors affect the Group, but also development of the entire paint and varnish industry.

In the reporting period, the products of the Śnieżka Group, apart from the leading market, i.e. Poland, were sold mainly in Hungary and Ukraine. Due to the plans for the further development of the Group on foreign markets, the global macroeconomic situation (GDP, private consumption, level of wages, unemployment, economic situation in the construction industry, etc.) will be important, mainly in Europe, but also in selected countries outside the Old Continent.

The macroeconomic factor affecting the performance and the pace of the Group's development will also be the behaviour of currency exchange rates (in particular EUR/USD, EUR/PLN, USD/PLN, HUF/PLN and UAH/PLN).

Data in PLN thousand

Additional factors that may affect the Group's results are the inflation rate and decisions of central banks, which may affect the purchasing power of consumers. In addition, the development of prices of raw materials used in the production of products and the production of packaging and their availability will be important for the development of the Group and the entire industry.

At the same time, NBP central forecasts indicate that in 2023, 2024 and 2025 the Polish economy will slow down, but will still remain on the path of growth, reaching GDP dynamics of 0.7%, 2.0% and 3.1% respectively in the following years³⁰.

Situation in the paints and varnishes sector

In 2022, the decorative paints market shrank both in terms of value and volume. There are numerous reasons for this, yet the main ones include high inflation dynamics; high inflation dynamics; the uncertainty caused by the war in Ukraine; general concern about the economic situation of the country, but also the high base effect after several years of market growth in 2018-2021. According to the Polish Association of Paints and Adhesives Producers, the market of paints and agents for wood protection and decoration in Poland fell in 2022 by several per cent year on year, with a simultaneous double-digit decrease in volume.

The Management Board envisages that in 2023 the changes observed in previous years are to continue, i.e. maintaining price optimizations on the paint market due to the current cost pressure. Invariably, important factors shaping the demand for decorative products on the market include, i.a.: the purchasing power of households, trends in decorating and furnishing interiors, gardens and outdoor spaces, as well as the general level of consumer optimism (influencing the tendency to reduce or increase one's spending on non-essential consumer goods).

In previous years, the Group observed that on the Polish, Hungarian and Ukrainian markets there was a trend of going for better quality products, ensuring more favourable functional properties and parameters (e.g. painting comfort and durability). This phenomenon contributed to an increase in the frequency of purchases of more expensive products (from the premium segment). The Management Board anticipates that in the future, the growing interest in ecological and health-care products that support the wellbeing of customers will be of significant importance from the industry's point of view.

The main place to buy paint products are brick-and-mortar stores. Similarly to other categories, also in the deco category, the share of online sales is on the increase. Despite the fact that the dynamics of this channel exceeds the dynamics of traditional sales, online sales remain on a low level. E-commerce sales are carried out by both producers and trade partners who have their own stores, often using the services of online trading platforms.

FFiL Śnieżka SA remains one of the three largest producers in the industry in Poland - in 2022 the company's market share was on the increase. One of the strategic goals for the coming years is to maintain the leading position of the Company. The Group is also to work to maintain or strengthen its

³⁰ Source: National Bank of Poland, Inflation and GDP projections – November 2022.

Data in PLN thousand

position on the main foreign markets - provided that the strategic plans of the Group will be influenced by the geopolitical situation in Eastern Europe, particularly in Ukraine.

The Company's Management Board reserves that the events, unpredictable at the time of publication of the Report, may in the future affect a partial or complete change of the environment and the list of factors influencing the situation in the sector.

At the level of the Śnieżka Group, Śnieżka ToC constantly monitors the situation in the paint and varnish sector on its key markets. This provides it with the ability to predict changes in consumer attitudes and adapt its offer to the volatile competitive conditions in individual countries. The Group also continues activities aimed at increasing availability of its products.

3.2.8 Strategy, mission and vision

The strategic objectives of the Śnieżka Group are focused on selected European and non-European markets, while maintaining the leading position on the markets of Central and Eastern Europe, with the dominant role on the Polish market. The Group intends to achieve these objectives by focusing on specific countries and on the strengthening its position in the segment of decorative paint products on three strategic markets: Polish, Hungarian and Ukrainian. For the Group, the assessment of the above mentioned markets as prospective is the basis for the development a long-term presence strategy for those regions.

Group assumes that those goals will be realized while taking into account the following assumptions:

- implementation of the management model for the Group based on the competence centres (operating in FFIL Śnieżka SA i Śnieżka ToC);
- maintaining the image of an attractive and reliable partner for both suppliers and customers of the Group, competing through innovation and flexibility defined, inter alia, as development of R&D, building quality advantage and high embrace to changes;
- developing multi-channel sales, taking into account the focus on in-depth segmentation of customers and creating a competitive value offer for them.
- competing through competence: promoting employee growth and building the high value of human capital.

The Group intends to increase its potential by focusing on selected markets and further development of the brand offer: Magnat, Śnieżka, Poli-Farbe, Vidaron, Rafil and Foveo-Tech.

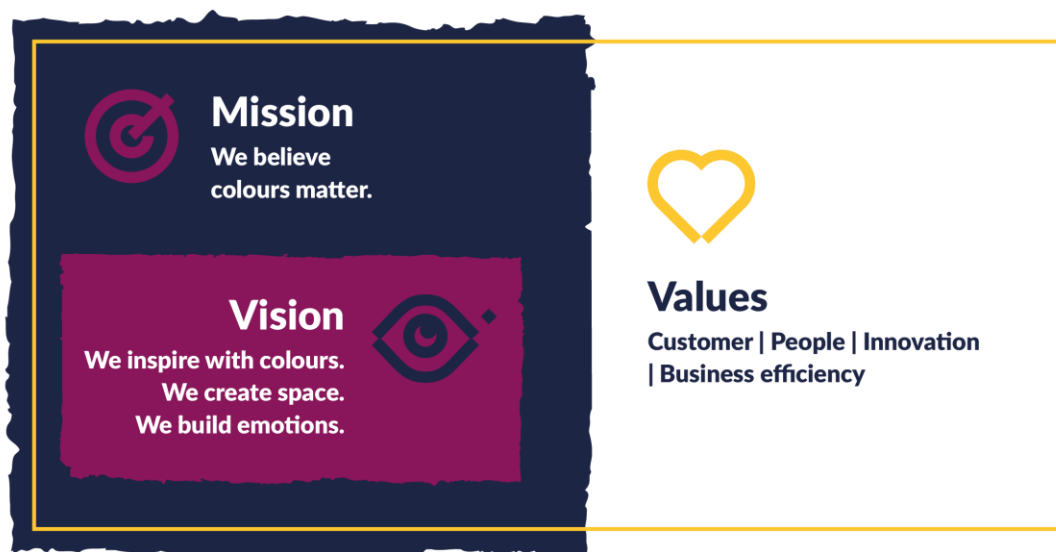
Within the framework of its development strategy, the Group is interested in organic growth but also growth through equity investments. The Management Board of the parent company has set a goal to build strong and permanent relations both with its trading partners, employees, shareholders and consumers. The Group will continue to support its trading partners, distributors and retailers as regards information, marketing and training, by developing for them a competitive value offer.

Data in PLN thousand

Sustainable growth consistent with the adopted strategy ought to allow the Śnieżka Group to achieve the leading position on its key markets. The Management Board of the Company reserves that it cannot be ruled out that the on-going war in Ukraine and its long-term effects - fully unpredictable at the time of developing the Group's annual report for 2022 - may in the future result in the need to revise the strategy and strategic objectives of the Company and the Group.

Figure 5. Mission, vision and values of the Śnieżka Group

Mission, vision, values



3.2.9 Organizational values

An important support in the effective implementation of strategic assumptions is the list of organizational values developed in the Company, with the involvement of its entire team, which is an integral part of building high commitment in the Company. Since 2016, the organizational values of FFIL Śnieżka SA set the operating principles and foundations of attitudes at all levels of the organization and support the way of achieving business objectives.

In 2022, the *Book of Organizational Values* was updated, focusing on:

- unifying the basic elements of the organizational culture (vision, mission, organizational values) of the Capital Group prior to implementation in subsidiaries;
- precisely defining each value, supplementing them with pillars (key words) and assigning them characteristic behaviors.

Organizational values of the Śnieżka Group:

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- **Customer** - understanding the customer's perspective and providing optimal products and services. The pillars of this value are: Customer perspective and win-win strategy.
- **People** - creating a culture of commitment and responsibility by building a climate of cooperation and development in a safe work environment. The pillars of this value are: Safety, Competence, Cooperation.
- **Innovation** - constant search and implementation of new (digital) solutions and better ways of doing things. The pillars of this value are: Openness to change, Creativity and initiative.
- **Business efficiency** - standardization of activities, rational management of resources and decision-making based on data and facts, taking into account a strategic perspective. The pillars of this value are: Resource Management, Strategic Perspective, Figures and Facts.

In the Company, organizational values strictly determine the manners of performing tasks by employees at all positions and are the basis for periodically conducted development talks.

The process of updating and implementing the Book of Organizational Values

Work on updating the Book of Organizational Values began with workshops with the Management Board and senior management (period from January to March 2022). In May, the training covered 100% of the managerial staff. The aim of the workshop was to prepare managers to work with the new Book of Organizational Values and to prepare them to pass on this information to their teams.

In June 2022, an internal educational campaign was carried out, and all employees of FFIL Śnieżka SA and Śnieżka ToC were provided with packets containing the Book of Organizational Values by their superiors. 100% of the managerial staff confirmed that the employees had been familiarized with the updated Book of Organizational Values. The activities of the superiors were supported by materials sent via newsletters.

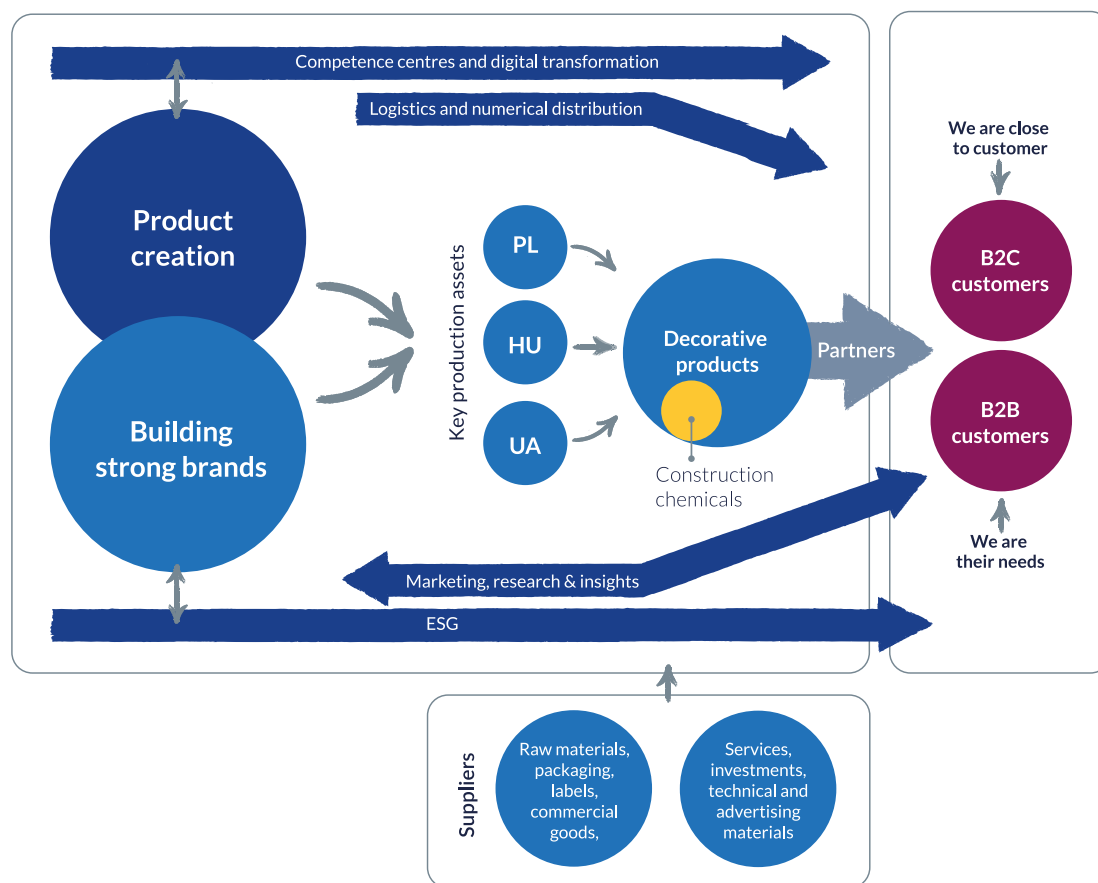
In Q3 of 2022, the values were implemented in Poli-Farbe and Śnieżka-Ukraine. The implementation was carried out by interdisciplinary HR and communication teams with the participation of general directors, based on the standards of the Capital Group. By the end of December 2022, all employees of the indicated foreign companies were familiarized with the Book of Organizational Values of the Śnieżka Group. In both companies, actions are planned for 2023 to support the comprehension of organizational values and value-based work.

3.2.10 Business model and value chain

At the heart of the Group's business model is the ability to create high-quality products and create and manage strong, recognizable brands (including: Magnat, Śnieżka, Poli-Farbe, Vidaron, Rafil and Foveo-Tech). It results from several elements that stand the Śnieżka Group out from the market.

Data in PLN thousand

Figure 6. Śnieżka Group’s business model



Since 2020, the Group has been operating under a management model based on competence centres. The Commercial Division was transferred from the structures of FFIL Śnieżka SA to a 100% subsidiary controlled by the Group - Śnieżka Trade of Colours Sp. z o. o. Competences in the field of marketing and sales activities as well as pricing and revenue were allocated to it, as well as market analysis and management of selected trademarks. In turn, FFIL Śnieżka SA acts as a competence centre in the field of supply chain management (purchasing, production, distribution, warehousing, logistics, information flow), IT and technology, research and development (R&D) and quality control. The parent company acts also as a shared services centre. In recent years, the Group has successfully completed the largest company digitization project in Central and Eastern Europe. The transformation project has upgraded business processes and the manner of working with data in all areas of Śnieżka's operations, including: e-commerce, logistics, human resources management, finance and sales management.

An important aspect of the Group's operations is innovation management. It has its own Research and Development Centre with advanced research laboratories. It focuses on ensuring the highest quality of products and their development as well as on new formulation solutions. Owing to the close cooperation of the Research and Development Centre with the product development unit, it is possible to create new, innovative products that respond to current market trends.

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The Group analyses market expectations on a regular basis. As part of it, a market research team was built to monitor the customers' needs from the B2B and B2C segments. It supports marketing and sales departments in the construction and implementation of sales processes that respond to dynamically changing preferences and consumer behaviour.

A substantial change in the approach to product development, brand management, production, logistics and supply chain management is the inclusion of a strong ESG component in the strategy, i.e. sustainable development (under which we take responsibility for the environment, people and business). Our objective is, inter alia, to develop products with a low environmental impact. In the model, the ESG approach is a kind of filter through which not only activities within the Group are analysed, but also the activities, products and services of our suppliers.

Another element of the model are production and logistics assets. The Śnieżka Group is made up of entities operating on the paint and varnish as well construction chemicals market: In modern production facilities of the Group located in four countries, including the three key ones - in Poland, Hungary, Ukraine and Belarus approximately 140 million kg of products are manufactured. An important asset determining the availability of our products on all sales markets is the recently commissioned warehouse and office facility - the Śnieżka Group Logistics Centre - located in Zawada near Dębica. It enables the picking of finished products up to 2,000 pallets a day.

All the described components of the business model allow the Group to be close to its customers and business partners. This closeness is understood as the physical availability of products in retail outlets that ensure and build the appropriate level of customer experience. We know how our customers make purchasing decisions - they expect the physical presence of our products in a short distance from their place of business or residence. In order to live up to this expectation, Śnieżka cares for the development and retention (based on long-term contracts) of a network of commercial partners - both large entities and independent stores. The Group does not own any network of retail outlets, therefore it invests strength and resources in building partner networks in the multi-channel model (omnichannel). The entities involved in cooperation have access to digital tools as well as the ones supporting marketing communication channels.

Due to the business profile, the business model is closely related to the supply chain managed by the Group. For management purposes, suppliers are generally categorized as raw materials (SOET suppliers = Raw materials, Packaging, Labels, Trade goods) and service providers (UITR = providers of Services, Investments, Technical materials, Advertising materials).

The category of the greatest importance for current operations and achieved performance are co-operators supplying the Group with raw materials for the production of decorative products and construction chemicals (whites, dispersions, alkyd resins, pigments, solvents, fillers) and packaging. They include both domestic and foreign entities. The Group takes care to diversify the sources of raw materials. ESG analysis becomes an important selection criterion, which allows us to develop even more sustainable products.

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3.2.11 Suppliers (sources of supply)

As part of its operations, the Śnieżka Group takes advantages of a variety of raw materials and technical materials, such as titanium white, acrylic dispersions, resins, solvents, pigments and fillers as well as plastic, metal and paper packaging.

The Group uses many sources of supply, cooperating with both Polish and foreign entities. The Śnieżka Group purchases strategic raw materials from suppliers with significant production and development capabilities - while maintaining an optimal degree of diversification, the important role of innovation, as well as taking into account economic, social and environmental aspects. All suppliers of the Group are bound by the Supplier Code, described in the Report in section 3.3.7.

The Group works on the basis of purchase agreements with all key suppliers. Also, it is constantly looking for new suppliers (domestic and foreign) in order to optimize the sources of supply, reduce costs and shorten delivery times. In each case, the Group conducts detailed analysis of offers to ensure the best possible conditions for the purchase of raw materials, technical materials or equipment. All activities undertaken by the Group in the area of purchasing policy are aimed at building a competitive advantage by acquiring the latest technological solutions.

In the opinion of the Company's Management Board, current supply agreements do not contribute to dependence on any suppliers in any manner that could adversely affect the operations of the entire Group.

3.2.12 Awards and distinctions for the Śnieżka Group in 2022

In the reporting period, FFIL Śnieżka SA received numerous awards and distinctions. They have been presented in the following categories: corporate, regional and local.

Corporate awards

- **European Coatings magazine ranking**

The Śnieżka Group took 23rd position in the ranking of the European Coatings magazine. The ranking summarized the performance of the 25 largest European manufacturers of paint and varnish products for 2021. Śnieżka is the only one to represent both Poland and the region of Central and Eastern Europe. Śnieżka Group's position in the ranking is the result of an increase in revenues from the sale of products included in the classification. The ranking prepared by the European Coatings magazine (published by the German publishing house Vincentz Network) is based on the manufacturers' annual revenues from the sale of decorative and protective coatings. Only companies with headquarters in Europe are classified in it. Śnieżka has been present in it invariably since 2018.

- **Ranking of the 100 largest manufacturers by the Builder monthly**

The annual list of the 100 largest manufacturers of construction and finishing materials by the Builder monthly brought Śnieżka to the 26th place on the list (according to revenues for 2020). Once again, the Group was also ranked the highest among manufacturers of decorative

Data in PLN thousand

paints. The order on the ranking list is determined by the sales and financial performance obtained in the last financial year, as well as the total assets. The Builder monthly is a prestigious nationwide paper that has been published for over 20 years. For four years, it has been creating a ranking of the 100 largest manufacturers of construction and finishing materials, which is part of the list of the 300 largest companies in the industry. Only companies operating in Poland are included in the list.

▪ **SAP Innovation Awards 2022**

Śnieżka received the SAP Innovation Awards 2022 for the comprehensive process of digital transformation. The project called Change IT was implemented between 2018 and 2021. The effect is to streamline process management and increase Śnieżka's efficiency. Change IT was one of the largest successful digitization projects in the entire region of Central and Eastern Europe. The SAP Innovation Awards are awarded by SAP - one of the largest global developers of business process management software. SAP has distinguished companies that take advantage of modern solutions for 9 years - on the international arena.

▪ **50 Best Employers ranking by Wprost magazine**

The Polish companies of the Śnieżka Group advanced for the second year in a row in the "50 Best Employers" ranking of the Wprost weekly - in the 2021 ranking they took 20th place. Śnieżka is the only representative of paint and varnish manufacturers selected by the editors to this prestigious cluster. This year, the editors focused also on aid activities for Ukraine undertaken by companies. The editors of the Wprost weekly developed the 50 Best Employers ranking based on survey responses obtained from 500 of the largest companies operating in Poland.

▪ **Ranking of the 200 Largest Polish Companies**

For another year in a row, Śnieżka was included in the ranking of the Wprost weekly, which presents companies controlled by Polish owners that can boast of the highest revenues. Total revenues from all markets enabled the Śnieżka Group to take 189th place in the ranking. The Company's presence on the list was again driven by strong performance achieved in Poland. Śnieżka has been present in the 200 Largest Polish Companies ranking of the Wprost weekly since the first edition launched in 2015. The ranking includes only companies controlled by Polish owners: private entrepreneurs, the State Treasury or municipally owned companies.

▪ **Ranking of 100 largest exporters by "Wprost"**

Once again, Śnieżka was awarded the title of the Polish Ambassador by the editors of "Wprost" in the ranking accompanying the "200 Largest Polish Companies" ranking. The ranking includes 100 Polish enterprises with the highest number of exported goods. Śnieżka took 79th place in the ranking.

Regional and local awards

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▪ **Economic Award of the Sub-Carpathian Region**

FFiL Śnieżka SA was awarded a special prize in the 21st edition of the "Economic Award of the Sub-Carpathian Region" competition. The jury of the competition provided Śnieżka with the award for 2021 in the category "Employee-friendly company". In the area of employee care, the committee appreciated the aspects related to the benefits offered by the Company, e.g. additional benefits for mothers returning to work after maternity leave, which stand out on the market. The Company's activities for employees during the pandemic (including communication and ensuring safety), transparency of the remuneration system and forms of employee development were also assessed. The competition is organized by the Business Promotion Centre in cooperation with the Sub-Carpathian Province Governor and the Sub-Carpathian Province Marshal. Awards in the competition are granted to the best and most economically active companies from Sub-Carpathian province.

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3.3 Description of specific due diligence policies and procedures and outcomes of their application

FFiL Śnieżka SA, as a listed company, is responsible for shaping corporate governance. It ensures compliance with the law and consistency of normative acts of the Śnieżka Group and maintains effective systems: internal control, risk management and compliance supervision.

The Corporate Governance - is composed of two categories of internal acts:

- describing static aspects of the organization: articles of association, organizational regulations, document circulation regulations;
- describing dynamic aspects: strategies, policies, codes (rules), standards (soft law), procedures, instructions.

Documents are produced according to a hierarchy, they are closely related in such a manner that higher-level documents form a context (formal support) for lower-level ones.

The Corporate Governance defines a number of processes implemented in all areas of the Śnieżka Group's operations. Access to the current version of documents is provided by an electronic system for documentation supervision and management.

The compliance supervision system is used to test the compliance of the company's operations in all areas and aspects of this activity with applicable law, internal regulations and voluntarily adopted standards, taking into account:

- supranational regulations,
- domestic law – acts and lower-ranking documents;
- corporate internal regulations.

A number of processes implemented within all areas of the Śnieżka Group’s operations are defined by numerous policies, procedures, instructions and regulations. Thus, establishing the framework of the Group’s operations, we do maximize their efficiency, consistency and transparency.

The key due diligence policies and procedures will be presented in the sections that follow, while this chapter is dedicated to the general practice indicating the Group’s care for observance of the strictest due diligence standards in all aspects of the organization’s activities. The Book of Organizational Values adopted by the Company (described in section 3.2.9 of the Report) and the Code of Ethics of the Śnieżka Group (described in section 3.3.1 of the Report) are also of key importance herein.

Internal normative acts, such as: policies, regulations, procedures or instructions are developed, registered and made available to employees in the electronic system supporting the management and supervision of documentation, in a separate module. The publication of new regulations is preceded by a message specifying the scope and subject of the adopted document. Manual workers, who do not have access to the system, are informed about the adoption of new documents by their superiors.

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The access to knowledge of new documents is essential for their appropriate implementation. Employees are automatically notified of any changes to the documentation and have quick access to its current version at any time. As regards the documents considered to be of key importance, the principle of obligatory familiarization with them is additionally applied - this should be confirmed in the monitoring system.

Owing to the internal document management system and other electronic solutions implemented within the group, it is possible to rapidly develop the due diligence procedures, establishing new practices which constantly improve the Group's efficiency and transparency.

Examples of such solutions of this type include, inter alia, the system for supervision and management of internal documentation used in the Śnieżka Group. It is an advanced tool to control access to current versions of documents and eliminate errors resulting from working with incorrect (out-dated) versions of documents. It also effectively reduces the time spent on transferring information between employees when creating documentation. It provides confirmation of the adoption of a given regulation.

Other information on due diligence procedures

The application of due diligence procedures at the level of the entire Group takes place in all departments in relation to the issues managed by them. The source of the due diligence principles are numerous instructions, thanks to which it is possible to ensure continuity and quality of processes, also in volatile market conditions, or when changing personnel handling a given case.

3.3.1 The Code of Ethics of the Śnieżka Group

The Code of Ethics of the Śnieżka Group became effective in the Group in 2022. It is a document based on organizational values and integrating key policies and regulations in the area of sustainable development. It defines the standards and principles that the Group's employees follow in relations with colleagues, clients, suppliers, competitors, the social environment and in relation to the natural environment.

The Code of Ethics is a set of standards that form the basis for daily decisions. Its purpose is to facilitate making the right choices by identifying models and ethical norms that are essential to the Group's operations. The standards of conduct are addressed to all employees of the Śnieżka Group, regardless of their position, full-time employment, time and place of work or the type of assignments performed.

The document addresses the following areas:

- employee relationships,
- environment relations,
- natural environment,
- corporate governance and ethics.

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Employees of the Śnieżka Group have permanent access to the content of the Code of Ethics via the website, internal system and from their superiors.

The Code also specifies the channels for reporting (also confidential) violations of ethical principles, including mobbing or harassment, as well as the protection of persons reporting irregularities.

The Management Board of the parent company in an entity supervising compliance with the Code of Ethics.

3.3.2 A description of the policies and due diligence procedures applied by the Group in relation to employee matters.

In the Group, the most important document defining the foundations and principles of human resource management is the *Personnel Policy of the Śnieżka Group*, which, together with the adopted business strategy, is a guideline for actions taken in the field of employee issues.

The fundamental assumption of the policy is that each employee taken on in the Group contributes value to the organization. Their diversity constitutes capital for the Group as a source of potential and largely influences the successes achieved by the Group. Thanks to the employees' commitment, their skills and attitudes supporting the Group's values, we can set ourselves ambitious goals, and thanks to their implementation - become a benchmark for our competition. Therefore, we invest in our employees and create an organizational culture that favours their development.

A transparent personnel policy, procedures and processes that are clear and understandable to all employees facilitate the management of this area. The Group's personnel policy is firmly rooted in organizational values that determine the manner of proceeding and are the basis of all business relationships.

All the activities concerning the human resources management are conducted in accordance with the applicable law, pursuant to the *Labour Code*. The following documents represent the due diligence procedures in the field of employee issues in the parent company: *The Labour Regulations*, *the Compensation Regulations* and the *Organizational Regulations*. Furthermore, the employee issues are defined in other internal regulations and documents, such as e.g. the *Regulations of the Company Social Benefit Fund*.

The Human Resource Management Department of FFIL Śnieżka SA supervises compliance with the rules and operating in accordance with the law. The parent company plays a leading role in achieving the goals formulated in the HR Policy of the Śnieżka Group. The implementation of solutions in subsidiaries occurs in a gradual manner, which enables systematic accommodation of models from the Polish market to foreign markets, taking into consideration their specificity and local law. In subsidiaries, where documentation and regulations comply with the local law, responsibility for due diligence procedures with regard to employee issues rests with separate personnel organizational units, reporting their activities to the competence centres.

Personnel Policy of the Śnieżka Group is an integral part of the Group's development strategy and obliges companies to carry out the following activities in order to:

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- create the Group's position as an attractive employer, and thus provide it with: access to qualified staff - with both the desired competences and ingrained organizational values - and the retention of employees with key skills and great potential;
- motivate employees to high commitment and effective work, which is to translate into building a competitive advantage;
- create organizational effectiveness at the level of individual companies and the entire Śnieżka Group, by introducing new technologies, standardizing processes and integrating functions and employees.

The HR policy is carried out on the basis of appropriate plans, programs and tools used in the staff-related and HR processes. These include researching staff needs and annual employment planning, defining training needs and creating an annual training plan as well as adjusting the needs of individual areas of current training and development projects, a non-wage benefit plan as well as incentive systems, raises and promotions.

Detailed internal regulations resulting from *Personnel Policy of the Śnieżka Group* and their main assumptions:

- **Recruitment and employment principles** - are based on high anti-discrimination standards. It is based on the principle of equal treatment of candidates and employees and provides them with equal opportunities. An important element is protection of personal data. We review compliance with the assumptions - subjecting the recruitment and employment process to cyclical assessment of candidates and employees, as well as examining their experience.

The main goal of the recruitment processes in the Company is acquiring the best candidates with the required qualifications, competences and values consistent with the values of the organization. The Company spurs employees to take part in internal recruitment. It promotes employee recommendations through the Recommendation Program and rewards the most effective of them. For employees who fit into the Company's organizational culture, respect the organizational values and implement the goals and tasks set for them, it ensures stable work and offers remuneration adequate to the position and experience.

- **The concept of training and development** - assumes that all employees, regardless of age or gender, are able to make use of training and development activities. The main criteria for the availability of training are the organization's business needs and opportunities, the need to have specific knowledge, authorizations, skills or competences on a particular position, as well as development needs diagnosed in the assessment process, consistent with the scope of activity of a given department, position or employee potential.

The Company establishes development programs targeted at specific areas, using the knowledge and experience of the best experts both from outside and inside the organization. The Company conducts, i.a. proprietary internal training program "Śnieżka Academy" aimed at increasing employee competences through training conducted by experts selected among the employees of Śnieżka SA and Śnieżka ToC.

Data in PLN thousand

- **Salary assumptions** – ensure a coherent remuneration system, based on job evaluation (grade categories assigned to individual organizational positions) and analysis of market remuneration. The basis for valuation is the assessment of responsibility of individual positions. The Company also provides for its employees monthly, quarterly or annual bonuses, depending on the type of position held, as well as project bonuses. The Company applies the principle of equal pay for equal work, therefore the adjusted pay gap (the difference between the average gross hourly wages received by women and men) remains below 5%.

3.3.3 Description of the Group's policies and due diligence procedures in relation to diversity

In Poland, in the context of respecting the diversity of employees, the basic legal act is the Labour Code. By virtue of above mentioned Act, internal documents regulating the work of individual companies have been developed.

Śnieżka Group is driven by the principle of equal treatment in its activities (counteracting discrimination and mobbing). The Group has a *Diversity Policy of the Śnieżka Group* which applies to FFIL Śnieżka SA and all its subsidiaries. It is understood as actions aimed at:

- preventing any discrimination based on: gender, race, national and ethnic affiliation, religion, denomination, non-denominationalism, worldview, degree and type of disability, health condition, age, psychosexual orientation or gender identity, as well as family status, lifestyle, as well as other possible discriminatory grounds (policy of equal treatment);
- establishing the diversity management through the development of strategies, policies and programs which shape the work environment in which every employee may feel appreciated, which ultimately contributes to the success of the entire Śnieżka Group.

In the Group, we also commit ourselves to promoting and disseminating the principles of equal treatment and counteracting all forms of discrimination among all stakeholders of the organization.

We believe that by caring for the diversity of employees, we build a work environment that positively influences the creativity, effectiveness and loyalty of employees, expanding the sales market and customer base, and we increase the chances of attracting new talents and stimulating the innovation of the team. Consequently, this translates into the Group's business effectiveness. The objective of the Śnieżka Group's diversity policy is to fully deploy the employees' potential, skills, experience and talents in an atmosphere of respect and support.

3.3.4 A description of policies and due diligence procedures applied by the Group as regards respect for human rights

The Group has introduced the *Respect for Human Rights Policy of the Śnieżka Group*; It applies to all members of the Management Board, representatives of management and employees. This policy supplements and consolidates aspects related to human rights included in other policies, the *Code of Ethics* (described in the Report in section 3.3.1) and other documents regulating the operations of the Group companies.

Data in PLN thousand

In addition, when selecting business partners, suppliers and other cooperating entities, all employees of the Company ought to be guided by the principle of selecting those who are supporting the principles contained in the above-mentioned policy and *the Supplier Code* applicable in the Company (described in the Report in section 3.3.7) or have adopted corresponding policies and codes.

In accordance with the adopted policy, respect for human rights is understood in the Group as exercising due diligence to avoid infringing the rights of others, actively preventing such violations and, if they occur, counteracting their negative effects.

We are aware that the Group's potential negative impact on human rights may be related not only to our direct activities, production or services, but also to the business relationships we establish. We undertake to take corrective actions in the case of a violation (either directly or indirectly) of human rights provided for in the international, generally binding documents by any of the Group companies.

In its operations, the Śnieżka Group is driven by a policy preventing human rights violations by observing applicable law. On the international level, the *Universal Declaration of Human Rights* of 1948 is the most comprehensive legal act pertaining to the area of human rights. The list of basic universally recognized human rights is contained in *the International Bill of Human Rights* (consisting of the *Universal Declaration of Human Rights* and two main instruments for its codification: *the International Covenant on Civil and Political Rights* and *the International Covenant on Economic, Social and Cultural Rights*). The source of standards in this area are also the principles of fundamental rights contained in the eight most important conventions of the International Labour Organization (ILO), set out in *the Declaration on Fundamental Principles and Rights at Work*.

These are benchmarks against which other social actors assess the impact of enterprises on the degree of respect for human rights. Another important document of a practical nature for enterprises are *the UN Guidelines on Business and Human Rights* and the UN Global Compact Initiative, which served as a guide and inspiration for the development of *the Śnieżka Group's Human Rights Policy*.

According to the above-mentioned document, the Śnieżka Group strives to respect human rights in a universal dimension, without evaluating them. However, due to the transparency of our commitments and their availability to our stakeholders, we would like to emphasize the following areas of our commitment to respecting human rights (which are also required from our business partners):

- **Health and safety at work** - we make every effort to provide employees with a healthy and safe workplace in accordance with the applicable health and safety regulations. We undertake actions aimed at minimizing the risk of an accident at work by introducing a number of procedures, as well as providing employees with the necessary equipment and taking care of its proper use.
- **Elimination of exploitation** - we undertake to promote a work environment free from all forms of harassment, exploitation, abuse and violence in accordance with the definitions used in the regulations of each country, where we conduct our business; The Group companies have *the Anti-Mobbing Regulations* and the Anti-Mobbing Committee (described in section 3.4.4.5 of the Report);

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- **Ensuring freedom of assembly** - we do not limit employees' rights to associate and we do not affect the freedom to express their opinions and positions on matters related to their work;
- **Elimination of forced or compulsory labour, human trafficking and all forms of modern slavery** - we are against forced and compulsory labour, human trafficking and all forms of modern slavery in our plants and supply chain. We also liaise with such subcontractors and suppliers, and apply due diligence procedures in the supply chain to prevent indirect benefits from such illegal activities or their promotion;
- **Abolition of Child Labour** – we oppose the use of child labour under the age of 15. We also work with subcontractors and suppliers to prevent and eliminate child labour cases under the age of 15 in a manner that is in the best interest of the child;
- **Compliance with employment conditions** - we comply with all laws relating to terms and conditions of employment, including those relating to basic and overtime working hours and adequate pay. We make every effort to enable all employees to take advantage of the right to sick leave, holiday leave, parental leave, etc. in accordance with the adopted form of employment, and we comply with the arrangements made with employee representatives;
- **Prevention of discrimination** - we are committed to ensuring that every employee and potential employee is treated fairly and with dignity. No cases of discrimination based on: gender, race, national and ethnic origin, religion, non-denominational status, worldview, degree and type of disability, health condition, age, psychosexual orientation or gender identity, as well as family status, lifestyle, such as also other possible discriminatory grounds will be tolerated; (*The diversity policy of the Śnieżka Group* is described in section 3.3.3 of the Report);
- **Respect for the rights of local communities** - we undertake to respect the rights of local communities and take adequate security measures to minimize the negative impact of our activities on local communities and the natural environment.

In addition, within the Śnieżka Group, we follow the principle that in the event of differences between national law and international standards for the protection of human rights, our operations are conducted on the basis of a more restrictive standard. In the event of a conflict between these provisions, we act in accordance with national law and at the same time we look for opportunities that will allow us to respect human rights to the greatest extent possible.

3.3.5 A description of policies and due diligence procedures applied by the Group in relation to the natural environment

The document regulating issues related to environmental protection is: *Quality, Environmental and Health and Safety Policy of the Śnieżka Group*. Therefore, the Group companies apply a number of good practices in the field of environmental protection, including effective use of raw materials, water and energy, emissions of pollutants into the air, water and soil, as well as waste and packaging management.

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We are constantly looking for the best formulas and technological solutions. The selection of appropriate equipment and raw materials has an impact on reducing the Group's impact on the natural environment, but also ensuring the safety of employees. All new investments of the Group are based on the best technological solutions and take into account the above assumptions.

Due to the production nature of operations of the companies comprising the Śnieżka Group - which has a direct impact on the natural environment - the Group is required to hold operating licenses. The Group's production facilities in individual locations are strictly dependent on the permits, which set out specific conditions for using the environment.

The Śnieżka Group holds the necessary environmental decisions, regularly pays its environmental fees (*required by Environmental Protection Regulations*) and fulfils its reporting obligations. In addition, it participates in developing and maintaining a system for the collection, transport, recovery and disposal of waste generated from packaging introduced onto the market. Based on the collected information, the Group also conducts educational campaigns in the field of environmental protection among its employees. Through the implementation of the policy, it strives to strengthen the leading position in the area of the quality of manufactured products and the prevention of pollution while maintaining health and safety at work.

Issues related to environmental issues are described in detail in *the Śnieżka 2023 + Sustainable Development Strategy*.

The basis for developing the *Quality, Environment and Health and Safety Policy of the Śnieżka Group* were the procedures, which have been in place at FFIL Śnieżka SA for years, specifying the principles of due diligence in environmental areas. In 2022, this Policy was updated.

3.3.6 A description of policies and due diligence procedures applied by the Group in relation to climate

The Group's approach to climate issues is reflected in *the Śnieżka Group's Climate Policy* - a key document defining the approach to managing the impact of operations on the climate throughout the value chain.

The climate policy, which extends the approach to environmental protection to include climate-related issues, was developed as a supplement to the *Quality, Environmental and Health and Safety Policy of the Śnieżka Group*. The Policy presents climate objectives and information on how Śnieżka manages and mitigates climate risks (described in section 3.5.2 of the Report).

The starting point for work on the Climate Policy and the provisions of the Śnieżka 2023+ Sustainable Development Strategy was the analysis of risks related to the impact on the environment and climate and parallel recognition of the impact of climate change on the Capital Group. The TCFD (Task Force on Climate-related Financial Disclosures) Guidelines and the analysis of emissions under Scope 1, 2 and 3 developed on the basis of the GHG Protocol (Greenhouse Gas Protocol) were used for this purpose.

In its approach to climate change, the Group places great emphasis on data analysis, based on which it sets long-term reduction targets. This approach applies to strategic decisions and operational activities throughout the entire value chain: starting from research and development processes (work

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on a portfolio of products with the lowest possible environmental impact), selection and purchase of raw materials, through efficiency and optimization of production, logistics and storage, and ending with sales and marketing processes.

The Group has set the following strategic objectives corresponding to the priority areas of climate impact:

- **Energy efficiency** – in order to be able to define priority actions in the field of consumption reduction, we are implementing tools and systems as well as energy consumption measurement processes within the Group companies. As part of the expansion of the management system, we are to introduce full metering of energy consumption broken down by locations, buildings and processes. Based on the analysis of the obtained data, projects contributing to the best results in terms of energy efficiency will be defined and implemented.
- **Transformation towards green energy** - generating green energy by investing in your own photovoltaic system.

Emission management - the Group's carbon footprint is calculated in accordance with the *Greenhouse Gas Protocol (GHG Protocol)* standard and covers scopes 1, 2 and 3 for all the Group companies. Based on the calculations, we will develop a long-term reduction plan.

3.3.7 A description of policies and due diligence procedures applied by the Group in relation to suppliers

Documents regulating issues related to cooperation with suppliers are *the Purchasing Policy* and *the Supplier Code of the Śnieżka Group*, which came into force in the Group in 2022. The Code contains a set of rules, the observance of which should form the basis of joint business relations.

Śnieżka Group's Supplier Code

The Group's objectives is to liaise with business partners who, like Śnieżka, develop in a sustainable manner. In order to be able to cooperate with the Śnieżka Group, each supplier is required to confirm the knowledge and compliance with the rules of the code of conduct, which are attached in a form of a document to each new agreement with suppliers. Suppliers are required to sign *the Acknowledgment of the Śnieżka Group's Supplier Code*, thus declaring their readiness to undertake ethical business activities.

This Code is addressed to all suppliers of goods and services, sellers, contractors, subcontractors, intermediaries, consultants, agents who cooperate with entities of the Śnieżka Group - regardless of the type of activity, method of order execution, place of business or cultural differences. Each supplier is expected to communicate the practices and principles described in the Supplier Code to all its employees.

Śnieżka's expectations towards suppliers have been included in the Supplier Code, regarding:

- environmental and climate protection and sustainable development,

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- respect for human and employee rights, health and safety at work,
- social involvement,
- corporate governance and legal compliance.

The Code also specifies the confidential channel for reporting violations, as well as the protection of whistleblowers.

The Management Board of the parent company in an entity supervising compliance with the Supplier Code.

Procurement policy

The purpose of *the Procurement policy* updated in 2022 is to systematize the purchasing activities of the Śnieżka Group in the field of acquiring suppliers that meet our expectations, taking into account economic and environmental aspects. The policy also defines the main pillars in the purchasing area.

3.3.8 A description of policies and due diligence procedures applied by the Group in relation to anti-corruption

Among the objectives of the *Anti-Corruption Policy* adopted by FFil Śnieżka SA is to establish uniform rules regarding:

- a course of action in the event of fraud or suspicion of fraud committed to the detriment of FFil Śnieżka SA,
- preventing and counteracting abuses to the detriment of FFil Śnieżka SA,
- a course of action in the event of discovering activities that are inconsistent with the principles applicable in the Company,
- ensuring the transparency of the activities of FFil Śnieżka SA towards its business partners.

Each member of our team accepts personal responsibility for actions taken and the manner of taking them. In business relations, we rely on fairness, honesty and transparency.

The *Anti-Corruption Policy* is performed through:

- training employees and informing them about issues connected with this policy;
- spurring employees and associates to report violations of the organization’s policy and unethical behaviours;
- notifying law enforcement authorities about any violations of applicable law.

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No employee who reports detected or suspected corruption or other economic fraud may be dismissed, demoted or suspended for this reason. In addition, the Company has a *procedure for anonymous reporting of violations of law, procedures and ethical standards* that protects anyone who acts in good faith from any retaliation. Currently, the Company is implementing further legal and organizational solutions in line with the Directive of the European Parliament and of the Council on the protection of persons reporting breaches of the European Union law, enabling reporting and ensuring protection against retaliation.

An employee with respect to whom explanatory actions are conducted and who is accused of taking corruptive actions or other economic malpractices will be guaranteed to have an opportunity to present his or her position. The *Anti-Corruption Policy* has been developed on the basis of the principles of due diligence applicable within the Company, which include the following policies and procedures: *The Code of Ethics of the Śnieżka Group, Procurement Policy of the Śnieżka Group, Guidelines on the selection of a supplier for investment orders, orders resulting from the implementation of renovation works and inspections as well as orders resulting from the removal of the effects of a failure at FFil Śnieżka SA*. A good practice with regard to the above is also the internal recommendation to compare price offerings of vendors of services commissioned between at least three entities. The Company also develops solutions supporting counteracting corruption, such as e.g. a purchasing platform.

The Anti-Corruption Policy has been implemented within the Śnieżka Group's companies: Śnieżka Trade of Colours, Poli-Farbe, Śnieżka-Ukraina and Radomska Fabryka Farb i Lakierów SA.

3.3.9 A description of policies and due diligence procedures applied by the Group in relation to social matters

While developing local and nationwide social projects and being engaged in various initiatives, we endeavour so that they correspond in a coherent manner to the values abided by our organization.

The Social Commitment Policy has been implemented within the Śnieżka Group, which is comprehended as a document clarifying the areas and directions of the Group's companies involvement in this area. The overriding aim of all the actions taken is to design them in such a way that they are vehicles of the actual support and assistance in the selected areas, in accordance with the principle of equalling opportunities and sustainable development.

Social activities carried out by Śnieżka Group companies are consistent with the following pillars:

- **Colour** - the Group's social projects and other forms of engagement are cantered around its vision. In relation to activities in favour of society, the message "Colours matter" means "change for the better", "inspiration" and "joy", present in the lives of the beneficiaries thanks to the projects implemented by the Group companies and its brands.
- **Local community** - the Group companies are engaged in crucial activities from the perspective of the inhabitants of their local communities. Also, the Group carries out activities throughout the country, addressed to public entities located in small towns or in areas where social exclusion is high.

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- **Children and youth** – the primary beneficiaries of the Group's social actions are children and youth including their families and immediate milieu. Their support is rendered predominantly in cooperation with, or intermediated by, public bodies.

At the same time, the Group's product brands may create individual, proprietary social engagement strategies in areas consistent with their communication strategies.

The social commitment policy defines the rules for the selection of supported initiatives at the national and local level and indicates that the selection is based on the adopted criteria, consistent with this policy. The Group companies may also engage in local initiatives carried out outside the area of their direct operations, as long as they distinctively fit into the main pillars of the Group's social commitment. At the same time, the Group's product brands may create individual, proprietary social engagement strategies in areas consistent with their communication strategies.

What is regarded as due care procedures with regard to social issues, apart from internal regulations about reviewing applications, inquiries and requests, are published rules and regulations of initiated social activities that describe precisely the principles of support and define beneficiaries.

3.3.10 A description of policies and due diligence procedures applied by the Group in relation to cybersecurity

The purpose of *the Śnieżka Group's cybersecurity policy* is to ensure the security of processed data and to ensure the continuity of services provided in Śnieżka.

This objective is achieved by:

- ensuring compliance of activities with applicable legal requirements,
- ensuring confidentiality, integrity and availability of processed information,
- raising the awareness of employees in the field of security and their involvement in the protection of information in Śnieżka,
- reducing the risk of cybersecurity, including violation of the rights and freedoms of natural persons,
- regularly testing, measuring and evaluating the effectiveness of established technical and organizational measures,
- ensuring readiness to maintain the continuity of the services rendered.

Together with our key provider of information security services, we have developed a "roadmap" for the development and increasing the level of maturity of IT security solutions in the Śnieżka Group.

Non-financial performance indicators, including a description of activities in accordance with the above "road map" - undertaken in 2022, are included in section 3.4.8. of the Report.

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3.4 Non-financial performance indicators

The following non-financial performance indicators result from the priorities defined in the Sustainable Development Strategy. The Strategy includes three Pillars: Environment, People and Business as well as nine priority areas within which we have defined strategic and operational objectives with performance measures. Non-financial performance indicators in this chapter are presented in the allocation to the above strategic division.

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I pillar. ENVIRONMENT

Priority areas	Example of strategic objectives	Example of operational objectives
Product liability <i>We guarantee high quality and we make every effort to ensure so that our products and packaging have a positive impact on the health and safety of customers.</i>	Development of products featuring a low environmental impact	50% of the sales value comes from "eco-labelled" products.
Responsible purchasing <i>We strengthen sustainable development in the supply chain.</i>	Use of packaging containing a certain percentage of recycled material	Plastic packaging - every second packaging contains a minimum of 10% of recycled material Metal packaging - selection of packaging with a minimum of 50% of recycled material
Impact of operations on the environment and climate <i>We minimize our environmental footprint by implementing optimizations and improving efficiency.</i>	Reduction of waste generation Sustainable water management Transformation towards green energy	100% of industrial waste sent for recycling and reuse Reduction of industrial water consumption in Lubzina by 10% Implementation of a photovoltaic system covering 30% of energy demand

3.4.1 Responsible purchasing

In the Śnieżka Group, we meet the purchasing needs in a responsible and sustainable manner. The Group strives to cooperate with reliable and credible suppliers. The Group's goal in the field of responsible purchasing is to acquire suppliers who share its value system and approach to sustainable development as well as corporate governance.

Supplier standards

In selecting suppliers, we rely on the analysis of technical capabilities, experience, possible history of previous cooperation, costs and issues of sustainable development contained in *the Supplier Code* (described in section 3.3.7 of the Report). In the supplier selection process, the principle of equal treatment is applied, and each supplier has the right to provide a commercial offer in accordance with the purchase specification to an existing inquiry. The supplier is selected in accordance with *the Purchasing Procedure*.

From the Śnieżka Group's point of view sustainable purchasing (procurement) is a strategic approach to the procurement process, aimed at reducing risk and consciously managing social and environmental impact. Therefore, in 2022, we took a number of actions, the most important of which was the implementation of *the Supplier Code* addressed to our suppliers.

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By the time the Report was published, nearly 70% of suppliers had familiarized with the Code implemented in Q4 of 2022.

At the same time, we commenced the supplier self-assessment process regarding the ESG issues. At the end of the year, we obtained 34% of completed surveys. All evaluated suppliers fully or partially met our ESG expectations. No contract was terminated with any of them. Our goal is to periodically verify suppliers, both raw materials and services, which will allow us to maintain high standards in the supply chain.

Our goals for 2023:

- 100% of suppliers will receive information and documents of self-assessment regarding the ESG,
- 80% of suppliers will complete ESG self-assessment forms.

Packaging standards

We also strive to use sustainable packaging, i.e. containing a minimum percentage of recycled material. By keeping materials in economic circulation for longer (resulting from the concept of a circular economy), we want to reduce our negative impact on the environment.

Our goals for 2023:

- plastic packaging - every second packaging contains a minimum of 10% of recycled material;
- metal packaging - selection of packaging with a minimum of 50% of recycled material.

3.4.2 Product liability

3.4.2.1 Safe composition of products

We understand the safety of the offered products as:

- safety of raw materials used for their production - attention to their high quality, safety of use and source of origin;
- safety of the production process - the influence of the recipe composition on the safe production process, particularly on the safety of employees directly involved in the process;
- safety of storage and transport of the product - maintaining the product's features and quality during the declared shelf-life, as well as minimizing the risks that may occur at this stage;
- application safety and environmental impact of the product.

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When verifying raw materials for use, the first step is to get familiar with the classification, i.e. the Material Safety Data Sheet, on the basis of which it is determined whether the raw material is safe and whether no restrictions occur (e.g. quantitative) in its use. The source of the raw material is important - we collaborate only with qualified suppliers whose production is carried out in accordance with respect for human rights and who take measures to reduce the negative impact of their operations on the natural environment and climate. Each raw material is subject to a qualitative assessment, and before starting cooperation with the supplier, a specification is signed to ensure constant, agreed quality. The supplier also declares compliance with our expectations set out in the Supplier Code, which are then periodically verified through a self-assessment survey.

During the formulation process (formulation development), the technologist first uses raw materials featuring the best classification, i.e. those that are of natural origin or produced based on renewable raw materials. If this is not possible due to the specificity of the product, only then a raw material from a group with a lower classification is selected. After developing the formulation, the product prototype is verified in terms of quality, performance parameters and microbiological protection allowing for a sufficiently long time of use and storage. The behaviour of the product in the packaging is evaluated, the conditions of application and storage are determined. The impact of the recipe composition on people involved in the production process as well as on the end user and the environment is reviewed. In order to ensure microbiological purity, which in the case of water-borne products has a measurable impact on the quality, a biocide protection system is selected individually for each product. Raw materials and finished products are tested in the microbiology laboratory owned by FFIL Śnieżka SA, and rigorous hygiene procedures apply on the production lines, also revised during microbiological tests.

As for the selected products, we additionally apply for external tests and certificates. Owing to the above efforts, our products can be described as safe, and this is confirmed by certificates (they are described in section 3.4.2.5 "Certification" herein).

3.4.2.2 Our products

Product liability in its life cycle is inscribed in our business model - from the outset of an idea, through research and development analyses, selection of suppliers and the purchasing process, quality control, production, sales and communication, and finally - use. We assess the impact on the environment as well as the health and safety of users as early as at the stage of product design and formulation.

In the process of developing a new product, the first step is to design guidelines. These depend on the identified customer needs and the available, implementable solutions. The assumptions are the basis for the work of technologists who develop the recipe. Its composition is affected by the know-how, raw material base and cost guidelines.

At the research stage, the designed mixture of raw materials is laboratory and application tested. Not only is the formal and legal compliance of individual raw materials and the entire recipe checked, but also many parameters not included in the legal requirements, but having an impact on the quality of the product. The Group uses a number of proprietary research methods to carry out these tests. An important element of design work is the appraisal of the designed product. Obtaining positive results enables the follow-up of the implementation process.

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The next stage is the preparation and launch of the manufacturing process. It is crucial that it runs smoothly, in a way that ensures high quality standards and with satisfactory performance. The introduced process solutions, including automation, support the maintenance of production efficiency and reduce the negative impact on employees and the environment.

If it is necessary to make changes to the raw materials in a product, the product is subject to a process similar to that performed at the stage of its designing. The replaced raw material is assessed against formal and legal compliance, and then it is verified whether the material is compatible with the existing recipe and its properties are tested again.

After obtaining positive results, the product prepared in the Research and Development Department is subject to an independent assessment by the Quality Control Department. Its positive opinion paves the way to arrange the production of the product in terms of technology and organization.

The manufacturing technology is also improved and automated over time. Production efficiency is essential, i.e. good, repeatable quality of products, and also the production process must be safe for the employee and cannot have a negative impact on the environment.

As far as the product's compliance with legal requirements is concerned, attention is paid mainly to the end user's safety. Products are manufactured in compliance with provisions of the Polish and European Union laws. This applies to both the legal provisions on the introduction of construction products (*the CPR Regulation*) and *the REACH and CLP Regulations*. Each product also has a material safety data sheet, technical card and may also have additional certificates (required or voluntary).

The above regulations define provisions of the procedures: *Procedure for introducing new/modified products, Procedure for managing production process, Procedure of product monitoring, Procedure for handling non-compliance*.

3.4.2.3 Research and development activities

Research and development activities of all companies of the Śnieżka Group are carried out in the Research and Development Centre (R&D). This unit consists of the Research and Development Department and the Quality Assurance Department, which operate within the organizational structures of the Parent Company. The essence of the work carried out in the unit is the development and implementation of new products and technological solutions. Focusing the Group's activities on product innovation generates the need to search for raw materials and solutions that are a source of improvement.

They are possible, inter alia, on the basis of: the know-how of an interdisciplinary team, the results of scientific research, a rich raw material base and high-end laboratories. Gradually conducted works, exchange of knowledge and experience between the international team of the R&D Centre increases the innovation of products and technologies used in the Group, and thus contributes to the growth of its competitiveness.

In the R&D Centre, new raw materials and technological solutions are verified in terms of their potential suitability for current or future projects. Monitoring of the raw materials market is also carried out in order to find alternatives optimizing the existing products in the portfolio due to the

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need to adapt them to the requirements introduced in European legislation. The knowledge obtained in this manner made it possible to develop and implement the necessary modifications in certain products.

In the reporting period, the team's work focused on completing recipes for new products launched on the market (products described in section 3.4.2.4 of the Report), as well as on optimizing the recipes of several products available on the market. The development of several products for individual orders from the industrial sector was continued for Rafil.

Optimization works also covered the area of packaging. The tests are carried out on empty packaging and with the product. The behaviour of the product and packaging after aging tests was also subject to assessment. In 2022, a lot of work was devoted to plastic packaging. Positive test results allowed the introduction of packaging containing PCR material, (*post-consumer recycled*) (e.g. in Magnat #KolorLove paints, whose packaging contains 40% of recycled material). It is a recycled material, thanks to which we contribute to the reduction of generated waste.

As part of the work carried out at FFil Śnieżka SA in the area of the Śnieżka 2023+ Sustainable Development Strategy, the R&D team analysed the current product portfolio concerning the impact of products on humans and the environment. Within the scope of the analysis, further steps in this area were mapped to support the adopted strategy.

In 2022, the know-how exchange process was continued at Poli-Farbe, i.e. unification of procedures and implementation of good technological practices.

3.4.2.4 Changes to the Group's portfolio in 2022

The product offer and its development is one of the key aspects of building the Śnieżka Group's competitive advantage. Analyses of consumer needs, market and competition are one of the most important activities performed in the Capital Group. The result of these works are changes in the product offer, which include the implementation of new products, management of the colour offer and the number of SKUs (Stock Keeping Units, codes used to identify and track storage units).

In the reporting period, the Group implemented the following changes on the Polish market:

- A new product was introduced to the Magnat brand offer. The offer of colour emulsions was expanded to include *Magnat #kolorLove*. 40 colours were introduced for sale, which had been designed together with Dorota Szelągowska to ensure that the colour collection meets the expectations of consumers. The *Magnat #kolorLove* product takes advantage of a packaging made of 40% PCR (post-consumer recycled) plastic. The use of PCR packaging contributes to the reduction of plastic consumption;
- the existing colour palette of the *Śnieżka Barwy Natury* paint was reviewed and it was extended by 14 new colours from among the ones most often chosen by consumers;

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- the colour palette of the Śnieżka Extra Fasadowa acrylic paint available on the market so far was changed and 9 new colour versions were proposed to live up to the needs of customers. At the same time, a completely new graphic version of the packaging of this product was introduced to the market;
- the colour palette in the *Magnat Passion* colour emulsion available in the Leroy Merlin chain was updated. 5 colours were replaced with new ones, matching the current colour trends in interior design. The colours were selected so that they perfectly could match the existing ones comprising the *Magnat Passion* collection;
- the range of *Magnat Ceramic Kitchen & Bathroom* paints for kitchens and bathrooms was supplemented with a new capacity - 5L (available in white);
- changes were prepared in the colour offer of Śnieżka Supermal Enamel Olejno-Ftalowa. The existing colour palette was supplemented by 4 new colours with a matt finish, 3 new colours with a gloss finish effect, and white was introduced with a completely new finish effect, i.e. semi-gloss.

In 2022, the Capital Group also introduced changes to the offer addressed to the Hungarian market:

- Poli-Farbe expanded the colour offer in the Poli-Farbe Platinum product by implementing 5 new colours.
- Poli-Farbe Boróka Lazúr was introduced with a new capacity of 4.5L in 10 colours. Consequently, the product is currently available in three volumes (0.75L, 2.5L and 4.5L).

In 2022, the Group's offer on the Ukrainian market expanded by new products:

- 14 new colours of Śnieżka Barwy Natury were introduced for sale.
- a new semi-gloss finish effect in white was added to the Śnieżka Supermal Olejno-Ftalowy product.
- 2 new colours appeared in the Vidaron Impregnat Powłokotwórczy product.
- The offer of Vidaron Lakierobejca (decorative varnish stain) was extended by 3 new colours.
- the offer in the Śnieżka Acryl-Putz sub-brand was extended by introducing: Śnieżka Acryl-Putz Grunt GR46 and a new putty Śnieżka Acryl-Putz Extra Finish SF26.

3.4.2.5 Certification

All the goods produced by the Śnieżka Group are subject to assessment in terms of their impact on the users' health, natural environment and safety of use, and are classified and labelled in accordance with the applicable legislation of the European Union.

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The products manufactured by the Group, which are placed on the market, comply with all regulations applicable on the European market regarding chemicals, such as REACH, CLP, and construction materials, such as CPR.

Mixtures classified as hazardous on the basis of their physical or health effects are reported to the European centralized PCN portal.

The packaging of the Group’s products includes information on: their composition, safe use of the product and the method of disposal. The packaging does not include information on the origin of the product components.

Apart from meeting the requirements for compulsory certification, the Group also takes effort to acquire additional voluntary certificates confirming the highest quality of the products offered and compliance with restrictive norms and standards.




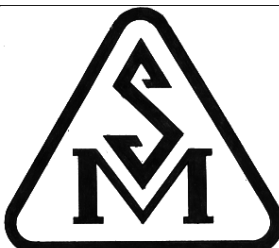
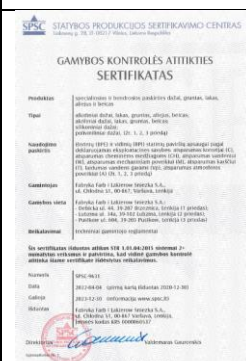
Table 18 Certificates and labels

	<p>Ecolabel</p> <p>It is a European award granted to environmentally friendly products meeting high quality and health standards.</p> <p>The grounds for the award of EU Ecolabel is Regulation (EC) no. 66/2010 of the European Parliament and of the Council of 25 November 2009 on the ecological labelling of particular product groups.</p>
	<p>Product sign, which includes VOC emission class in accordance with the French Decree no. 2011-321 of 23 March 2011 relating to the labelling of construction products with their volatile pollutant emissions.</p> <p>The labelling granted to products manufactured by FFIL Śnieżka SA is a mandatory label on the French market and confirms the low emission of volatile organic compounds.</p>
	<p>“Green Crane” Certificate</p> <p>Assessment and certification is carried out in Ukraine by the public organization "Living Planet". Product certification is conducted in accordance with ISO 14024. During the assessment,</p>








Data in PLN thousand

	<p>environmental requirements for raw materials, environmental aspects of production, technological equipment, environmental standards for finished products and packaging are taken into consideration.</p>
	<p>Safety of toys</p> <p>Products marked with the symbol "safety of toys" meet the requirements of PN-EN 71-2 standards regarding flammability and PN-EN 71-3 and migration of certain elements.</p> <p>Own labelling based on research.</p>
	<p>PN Certificate issued by the Polish Standardization Committee (PKN). The label is a quality and safety guarantee and confirms that the product was certified by the PKN.</p> <p>The certificate granted to products manufactured by FFIL Śnieżka SA - confirms the compliance of products introduced on the domestic market with Polish standards.</p>
	<p>European Technical Assessment for a complex thermal insulation system – or documented assessment of functional properties of a construction product with regard to its principal characteristics, in accordance with the relevant European assessment document.</p> <p>A document confirming the highest functional parameters of products making up the FOVEO TECH S and FOVEO TECH W insulation system is European Technical Assessment ETA 15/0022 and ETA 17/0207. This document applies in the territories of all the European Union states and confirms that the products making up the system are characterized by the highest functional parameters, including impact resistance, fire resistance, vapour permeability and resistance to volatile thermal and humidity cycles.</p> <p>The European Technical Assessment is the most important document confirming quality and</p>

Data in PLN thousand

	durability in the area of construction materials in Europe.
 <p>Notifikovaná osoba č. 1301</p> <p>TECHNICKÝ A SKÚŠOBNÝ ÚSTAV STAVEBNÝ, n. o. BUILDING TESTING AND RESEARCH INSTITUTE Štúrova 3, 821 04 Bratislava, Slovenská republika</p> <p>Certificate of conformity of the factory production control</p>	<p>Plant Production Control Certificate - a certificate confirming the functioning of permanent and internal production control in accordance with the applicable harmonized technical specifications.</p> <p>Certificate issued by the Slovakian notified body, recognized in all EU countries.</p>
	<p>European system</p> <p>It confirms the compliance of the construction product with the requirements of harmonized legislation.</p>
	<p>National system</p> <p>Products with the National Technical Assessment (NTA).</p>
 <p>OCpr-049</p>	<p>Compliance Certificate for products that are subject to mandatory certification in the territory of the Republic of Moldova.</p>
	<p>Compliance Certificate for products that are subject to mandatory certification in the territory of Lithuania.</p>

Data in PLN thousand

	<p>The Certificate of State Registration Of Products (SGR) - is a document confirming the safety of products applicable in the territory of the Customs Union (Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan).</p>
	<p>Compliance certificate for products that are subject to mandatory certification in the territory of Belarus. It is a confirmation of the quality of products in accordance with applicable legal acts.</p>
	<p>Technical Certificate of Belarus issued for construction products.</p>
	<p>Antistatic - reduced dust absorption.</p> <p>Own labelling based on research.</p>
	<p>UV-C radiation resistance.</p> <p>Own labelling based on research.</p>
	<p>Low content of volatile organic compounds.</p> <p>Own labelling based on research.</p>
	<p>Testing of antibacterial properties on plastics and other non-porous surfaces - according to ISO 22196/JIS Z 2801.</p> <p>Own labelling based on research.</p>

Data in PLN thousand

 <p>POWŁOKA ODPORNA NA WILGOĆ, ROZWÓJ GRZYBÓW I PLEŚNI¹</p> <p>ZABEZPIECZA PRZED ROZWOJEM GRZYBÓW</p>	<p>Protection of coatings against fungi PN-EN 15457:2014</p> <p>Meets the requirements of the standard for moulds</p> <p>Own labelling based on research.</p>
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Confirmation of care with regard to transparency of information placed on the packaging of the Group's products is the absence of any important breaches in that field and an on-going monitoring of the relevant labelling in view of the changing provisions of law in this respect.

In the reporting period, no cases of non-compliance in terms of information and correct labelling of the Group's products were recorded. Also, no cases of non-compliance with regulations or voluntary codes regarding the impact of products on health and safety were recorded.

Strategic objective:

Development of products featuring a low environmental impact.

Operational objective:

50% of the sales value comes from "eco-labelled" products.

3.4.2.6 Customers' opinions

The areas which individual companies of the Śnieżka Group focus on are as follows: the end customers' needs, preferences and expectations. At the same time, it is equally important for the Group to comprehend the strategy and expectations of our business partners and to define a common way to reach the end customer.

Śnieżka ToC built a professional market research team responsible for monitoring the needs of B2B and B2C customers in the supported distribution channels. This team cooperates with other departments on a regular basis, supporting the process of developing offers in line with customers' expectations. The effects of this team's work are so-called insights, i.e. the results of research collecting information about the problems and needs of a selected target group, supporting the building of strategic competitive advantages in the area of products and sales.

Therefore, the Group's core activities are focused on building positive consumer experience, in particular through:

- properly designed products,
- a wide product distribution,

Data in PLN thousand

- appropriate communication and marketing tools,
- well-organized sales points based on the principles of merchandising,
- improvement of internal processes.

To assess customers' satisfaction and loyalty, the Śnieżka ToC monitors:

- sales volume and value,
- image of individual brands,
- opinions and expectations of selected groups of business partners,
- opinions of end consumers.

3.4.2.7 Marketing communication

Building strong brands that consumers trust is one of the key goals of marketing activities. In today's competitive world, it is also essential for brands to have a well-defined marketing communication strategy, which is successfully implemented throughout the year. It is an important element of building the brand's position and strength as well as effective brand promotion.

Śnieżka Trade of Colours

On the Polish market in 2022, Śnieżka Trade of Colours conducted various types of marketing activities. In particular, it focused on supporting the Magnat brand, continuing the activities initiated in 2021. It's another year of collaboration with Dorota Szelągowska, a designer and interior decorator.

In the first part of the season, the creation developed for the 2021 campaign was used in marketing communication. The advertising spot with the designer's participation, concerning Magnat ceramic paints, was broadcast on major TV stations, as well as on online channels.

In the reporting period, the Magnat brand portfolio was expanded by a new line of *Magnat #KolorLove* paints. Accordingly, some of the marketing activities carried out in the second half of the year also supported the launch of this product. Part of the colour palette (14 colours) *Magnat #KolorLove* is the result of the brand's cooperation with Dorota Szelągowska.

For the purposes of activities supporting the launch of a new product, a new communication line was created, built around the slogan "Out of love for colour". As part of the campaign, an advertising spot was produced with the participation of the said decorator. The TV campaign of the *Magnat #kolorLove* product was complemented by online activities as well as communication at point of sales.

In 2022, Magnat brand products appeared again in the spring and autumn edition of the popular TV show *Totalne Remonty Szelągowskiej*.

Data in PLN thousand

As for the other brands: Śnieżka, Vidaron and Foveo-Tech on the Polish market in the reporting period, communication activities were carried out at points of sale, through POS materials (POS - a type of advertising materials supporting the sale of products), as well as in online channels, to a varying extent and intensity.

Marketing communication on export markets in relation to the above brands were implemented mainly through POS materials present at points of sale.

Other Group companies

In the reporting period, advertising communication was also carried out by Poli-Farbe. Within the scope of the developed communication strategy on the Hungarian market, marketing communication was performed, in which TV, online channels and points of sale played the most important role. As a result of this, the advertising message reached a wide group of target audience. The products from the portfolio of the Magnat and Poli-Farbe brands were supported by advertising campaigns.

As far as the Magnat products are concerned, in 2022 there was a follow-up of the advertising campaign launched a year earlier with a spot prepared for Magnat Ceramic paints. In addition to TV, brand communication was also conducted on billboards and online channels. The display campaign, video campaign and posts in social media are just some of the activities that supported building the brand image. In the reported period, a consumer lottery was also organized to underpin the sale of Magnat brand products. Brand awareness and image were also influenced by POS materials, which were available at points of sale throughout the year.

A new spot made for Platinum paints, a sub-brand of Poli-Farbe, was broadcast both on TV and the Internet. Promotion of the Poli-Farbe portfolio products over the course of the year was performed in social media channels. Both Poli-Farbe Platinum and Poli-Farbe Cellkolor products were chosen by bloggers to introduce metamorphoses to their homes.

POS materials available at retail outlets were prepared for all key products comprising the Poli-Farbe offer for the new season.

The marketing activity of Śnieżka-Ukraine was limited due to the on-going warfare, and communication activities were performed primarily through its own communication channels, such as social media and websites.

3.4.3 Impact of operations on the environment and climate

As part of its activities for sustainable development, the Group analyses its impact on the environment, natural environment and climate on a day-to-day basis. We maintain the highest standards of care for the environment and the resources used at various levels - implemented technological solutions, offered products and built infrastructure.

The Group’s companies conduct production, storage and accompanying activities, taking care of environmental protection aspects. In their activities, they take into account continuous formal and legal supervision by implementing the obligations set out in environmental decisions, as well as by conducting technological supervision and controlling raw materials and finished products.

Data in PLN thousand

Activities related to environmental protection in the Group are carried out based on the applicable legal requirements and procedures. All processes related to the parent company's operations, such as purchasing, production, storage, and sales, are included in the procedures and the environmental analyses are performed on their basis. Environmental impact monitoring data is used for:

- assessment of the effects and tracking of progress in meeting environmental activity obligations,
- assessment of compliance with legal requirements;
- preventing the occurrence of potential failures,
- assessment of the efficiency of the environmental management system.

Priority activities of FFIL Śnieżka SA have been defined in *Śnieżka 2023 + Sustainable Development Strategy* and include the following:

- reduction the level of waste generation,
- sustainable water management,
- increasing energy efficiency,
- transformation towards green energy,
- measuring and reducing GHG emissions.

Owing to the records kept, it is possible to assess the environmental impact for specific aspects of the activity – both these defined as significant as well as other ones, for which the duty to monitor stems from legal and other requirements.

3.4.3.1 Key environmental and climate aspects

In 2022, following the stakeholder survey conducted by the Parent Company and based on benchmarking and own analyses, we updated the list of material topics, which was reflected in the presentation of data in the report for 2022. The following environmental and climate aspects have been classified as key:

- A. Waste management**
- B. Water**
- C. Electricity**
- D. Dust and VOC emissions**
- E. Carbon footprint**

Data in PLN thousand

The Group continuously monitors the impact of its activities on the environment. This consists in keeping records including information and data on the use of environmental resources. It includes utility consumption, pollutant emissions, waste generation and the amount of packaging introduced to the market, and from 2022 also the carbon footprint.

The Group does not have any plants located in protected areas or in areas valuable in terms of biodiversity and thus its plants and products do not contribute to hazards of the areas in question. The Group does not distribute or use in the production process any substances depleting the ozone layer.

A. Waste management

All waste generated by the companies comprising the Śnieżka Group is subject to strict sorting by its type and waste code – in accordance with the applicable requirements of the national law.

FFiL Śnieżka SA transfers all generated industrial waste to specialized entities dealing with their disposal, processing or recycling. The Company's strategy is to deliver waste directly to waste management plants, which allows to eliminate the possibility of uncontrolled and illegal emission to the environment. Moreover, 100% of the industrial waste generated by FFiL Śnieżka SA is recycled or reused in order to avoid landfilling, which reduces its impact on the environment. The only waste generated at FFiL Śnieżka which is disposed of in a landfill is mixed municipal waste, which cannot be recycled or reused. They account for 1% of the total waste generated by the Company.

Table 19. Method of managing waste generated in FFiL Śnieżka SA in 2022

Method applied	Hazardous waste [Mg]	Non-hazardous waste [Mg]	Total [Mg]
disposal	0	33.47	33.47
reuse	70.08	3,196.68	3,266.76
recycling	0.50	473.23	473.73

a. Production of hazardous waste

The production processes of finished products in the Group's plants do not directly generate hazardous waste. This waste is generated in indirect processes as a result of work accompanying production (e.g. cleaning of equipment, production line, technological apparatus, defective goods and products).

In 2022, FFiL Śnieżka SA recorded a slight increase in the generated hazardous waste compared to 2021. This was caused by an increase in the number of tanks subjected to hydrodynamic cleaning and disinfection in order to ensure the highest quality of products, as well as an increase in the frequency of these activities.

Data in PLN thousand

Figure 9. Amount of generated hazardous waste compared to the production volume at FFIL ŚNIEŻKA SA [Mg/Mg]

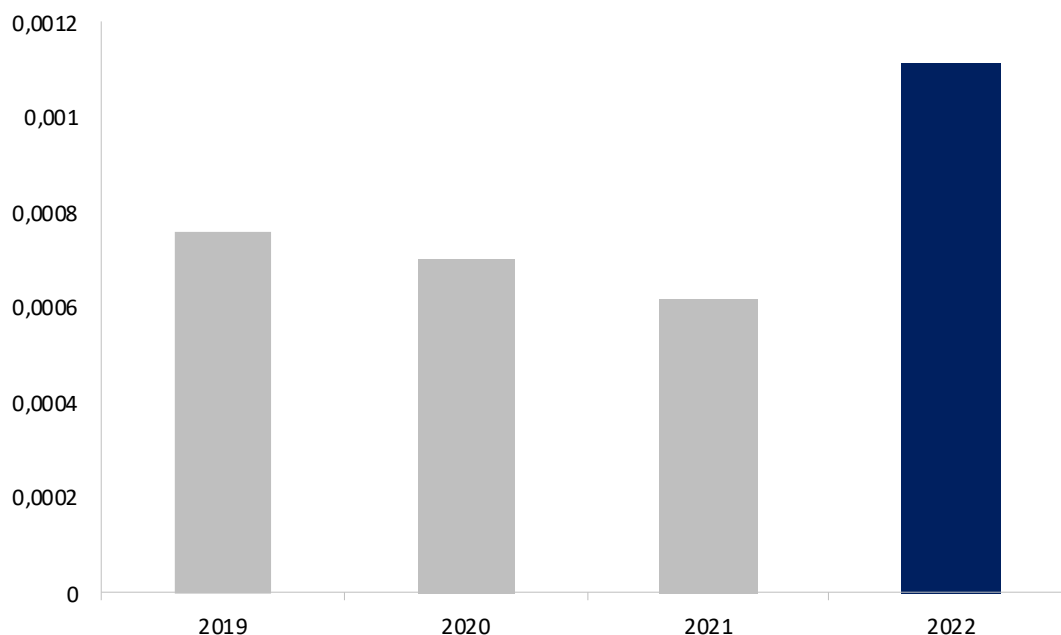
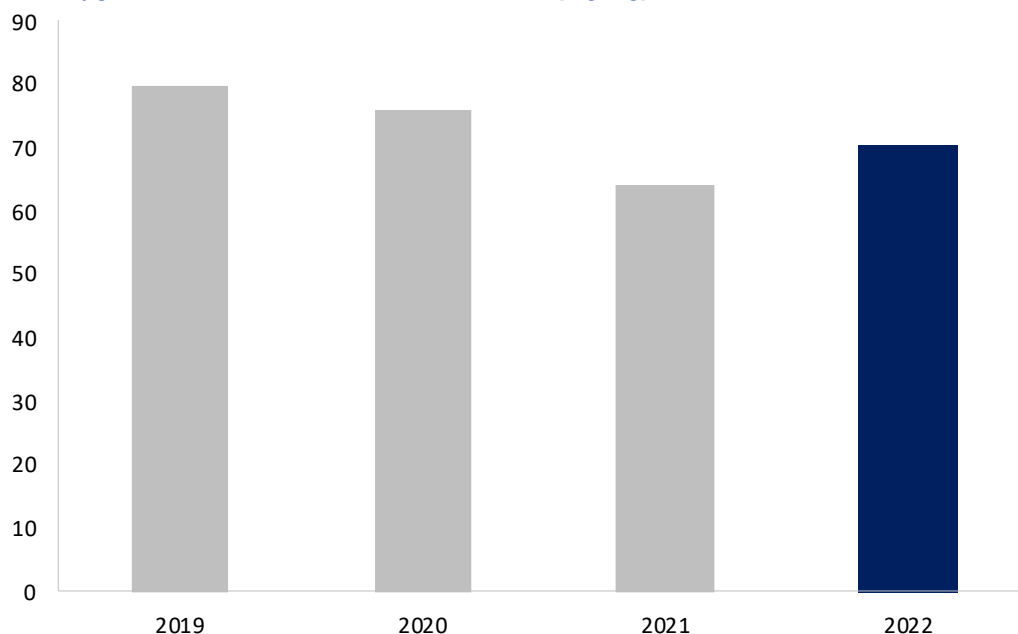


Figure 10. Amount of generated hazardous waste at FFIL ŚNIEŻKA SA [Mg/Mg]



In 2022, the Śnieżka Group recorded a decrease in the generated hazardous waste. The reduction in the amount of this waste came as the result of lower production volume in 2022, which is directly related to the minimization of the frequency of cleaning equipment and production lines in the Group companies (except for FFIL Śnieżka SA). The lower volume of hazardous waste also results from the reduction of the amount of defective and non-compliant goods and products.

Data in PLN thousand

Figure 11. Amount of generated hazardous waste compared to the production volume at the Śnieżka Group [Mg/Mg]

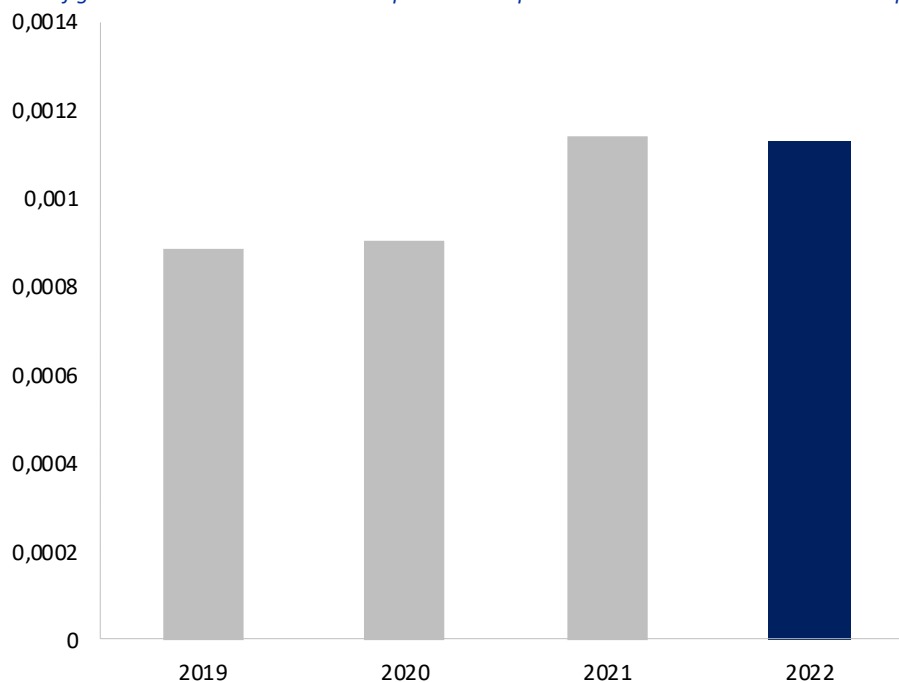
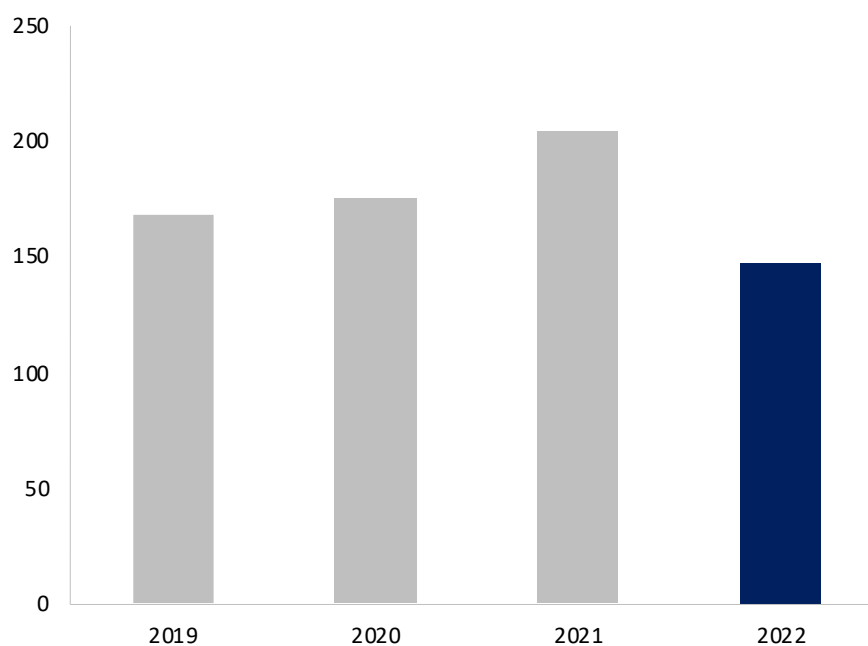


Figure 12. Amount of generated hazardous waste at the Śnieżka Group [Mg/Mg]



b. Production of non-hazardous waste

The amount of non-hazardous waste generated in individual Group branches depends on many factors. Based on the complete set of data, it was determined that the implementation of goals and

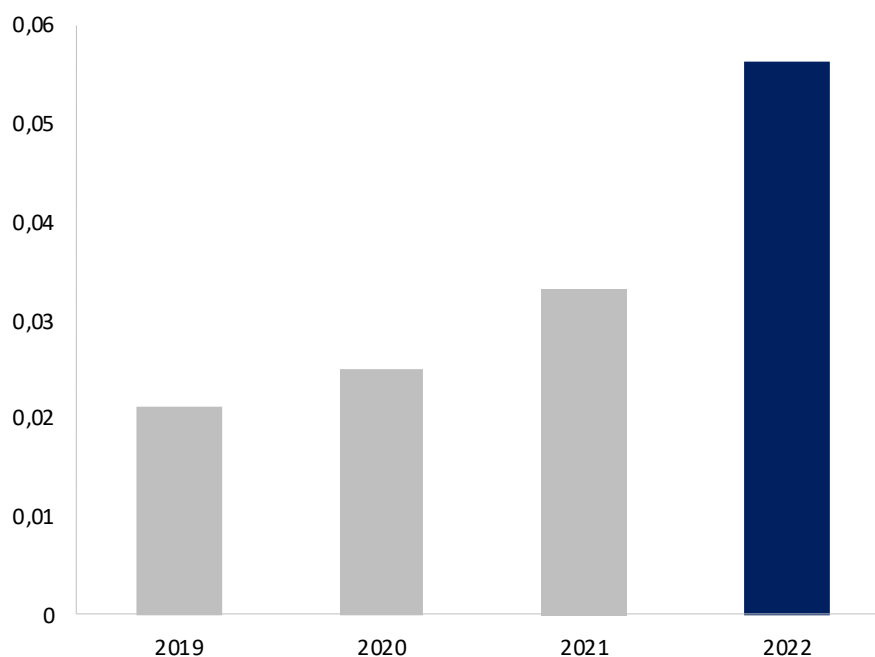
Data in PLN thousand

tasks aimed at caring for the natural environment had been achieved. Monitoring of the quantity and the method of management takes place on a continuous basis.

In 2022, an increase in the generation of non-hazardous waste was observed at FFIL Śnieżka SA compared to previous years. The increase in the amount of generated waste was caused by the higher frequency of cleaning tanks and technological lines in order to ensure the best quality of manufactured products. The increase in the amount of generated non-hazardous waste was also influenced by the commissioning of a new branch of the Company in 2022 - Śnieżka Group Logistics Centre located in Zawada.

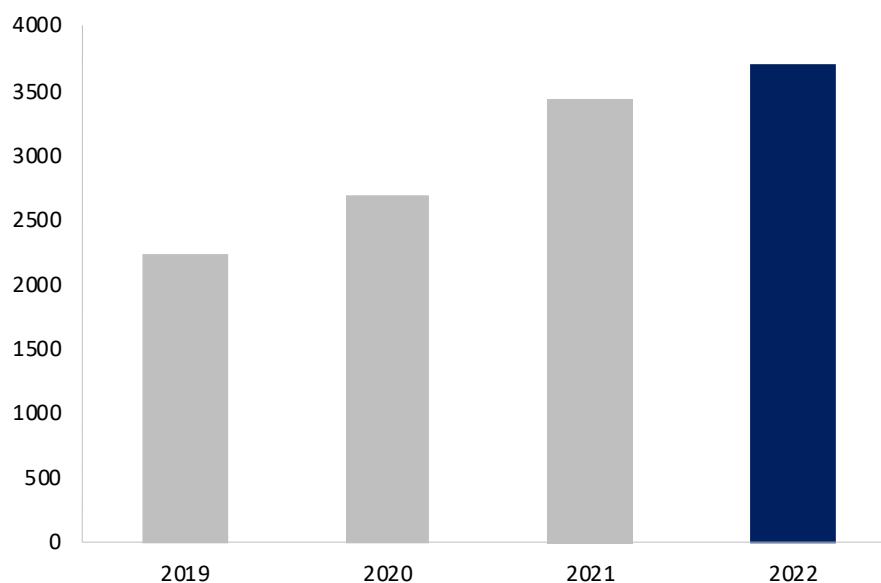
FFIL ŚNIEŻKA SA participates in developing and maintaining a system for the collection, transport, recovery and disposal of waste generated from packaging introduced onto the market. This process is carried out in accordance with legal requirements. The Company manages packaging in a rational way. The effectiveness of the implemented system is demonstrated by the generation of sorted waste. Waste sorting allows to reduce the negative impact on the natural environment and provides the Company with additional revenues from the sale of sorted waste.

Figure 13. Amount of generated non-hazardous waste compared to the production volume [Mg/Mg], FFIL ŚNIEŻKA SA



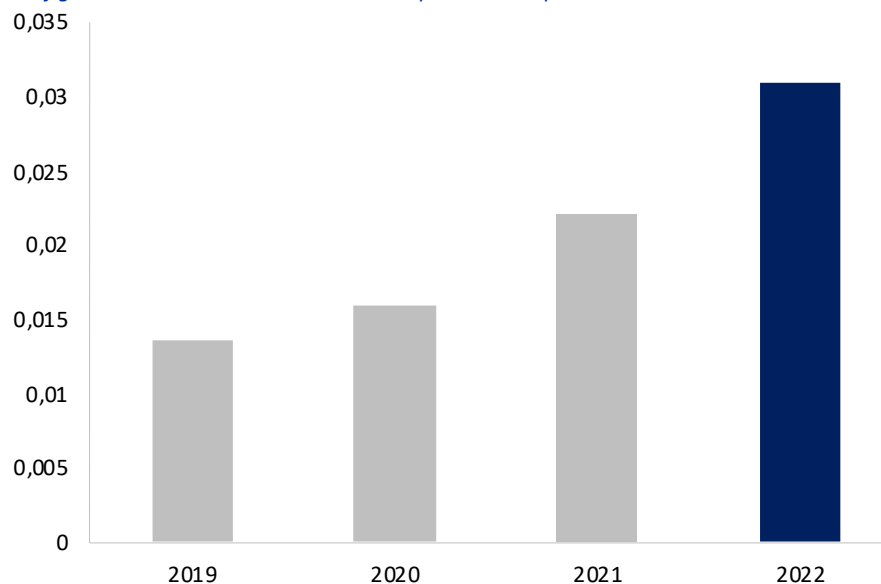
Data in PLN thousand

Figure 14. Amount of generated non-hazardous waste [Mg], FFIL ŚNIEŻKA SA



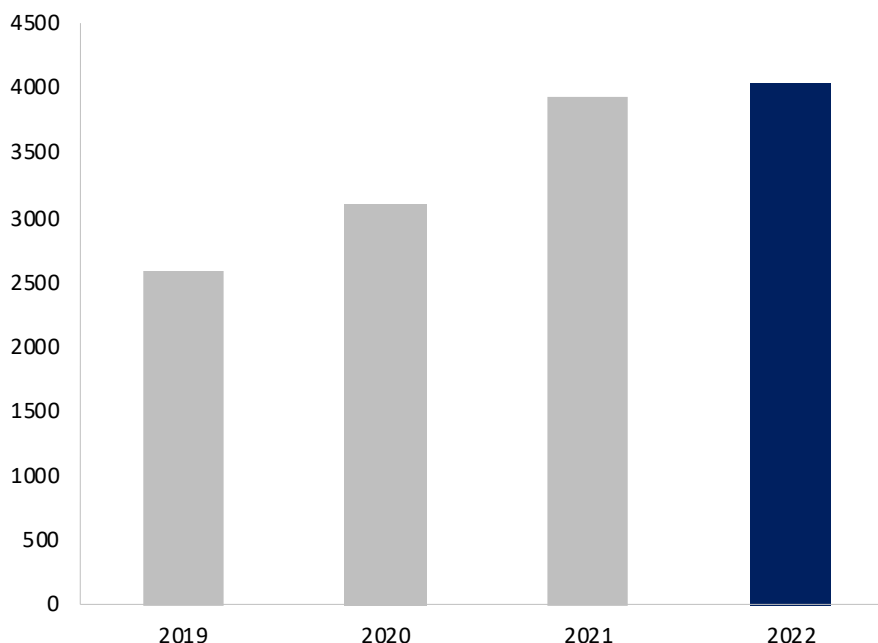
The Śnieżka Group conducts activities aimed at increasing the amount of raw material recovery by sorting waste and selecting materials according to the processing possibilities. An example of the effects of activities in this area is the acquisition of large amounts of recyclable packaging waste in the Company. Achieving such effects is feasible owing to the investments made in previous years in the scope of expanding raw materials storage facilities.

Figure 15. Amount of generated non-hazardous waste compared to the production volume at the Śnieżka Group [Mg/Mg]



Data in PLN thousand

Figure 16. Amount of generated non-hazardous waste at the Śnieżka Group [Mg]



B. Water

The production of paints involves the use of significant amounts of water, which is the main ingredient in most products. The Group's plants use water from the water supply network or from a well located in one of the Group's plants, which results from the location of individual branches and the possibility of connecting them to the water supply network. Water is used for both production and municipal purposes.

In production processes, water is used partly as a component of products, and partly for production-related processes, such as keeping storage tanks or production lines clean.

Contaminated water after production-related processes is treated as liquid industrial waste and transferred to specialized companies handling the disposal of such waste. The Hungarian company Poli-Farbe has a permit to run an industrial wastewater treatment plant with the use of infiltration drainages and constantly monitors the quality of groundwater around the drainage system by periodically testing these waters.

Municipal wastewater generated by the Śnieżka Group is transferred to wastewater treatment plants appropriate for the location of individual plants.

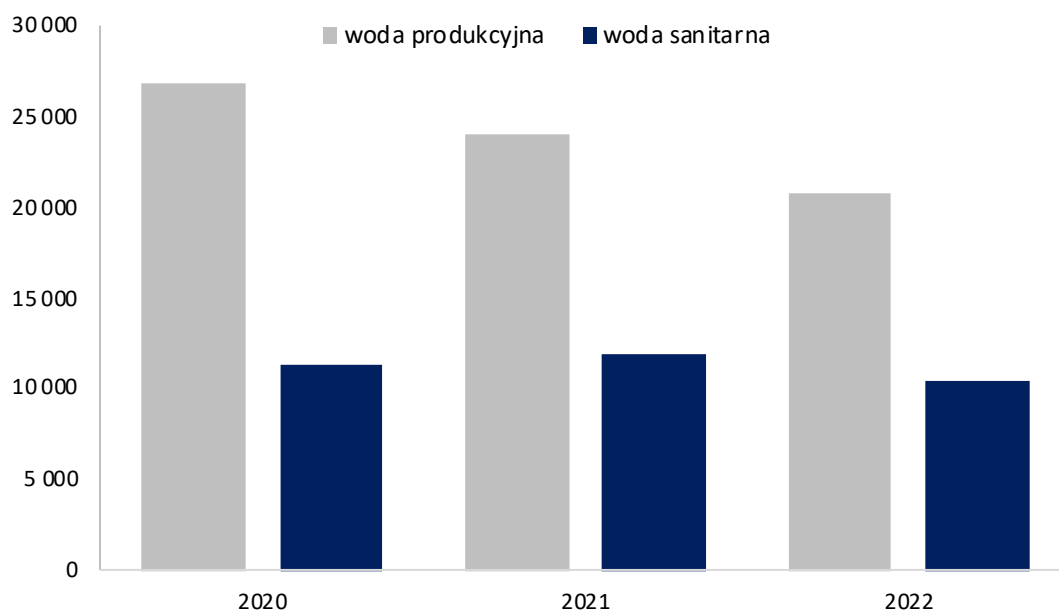
Data in PLN thousand

Figure 7. Water flow in Śnieżka Group plants



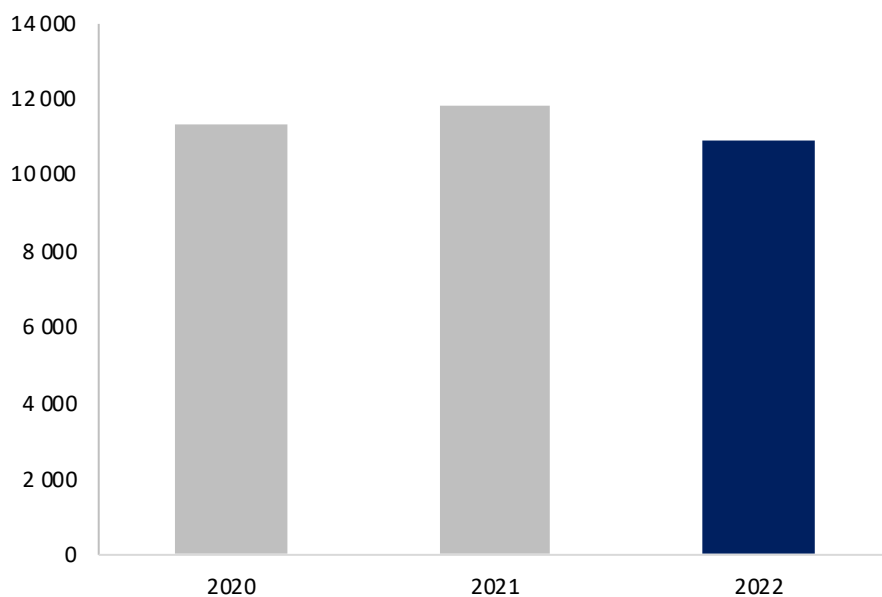
In 2022, FFil Śnieżka SA reduced water consumption for both production and sanitary purposes. The reduction in the consumption of water used for production purposes is partly due to a decrease in production volume compared to the previous year.

Figure 17. Water consumption between 2020-2022 at FFIL ŚNIEŻKA SA [m³]



Data in PLN thousand

Figure 18. Water consumption between 2020-2022 at FFIL ŚNIEŻKA SA [m³]



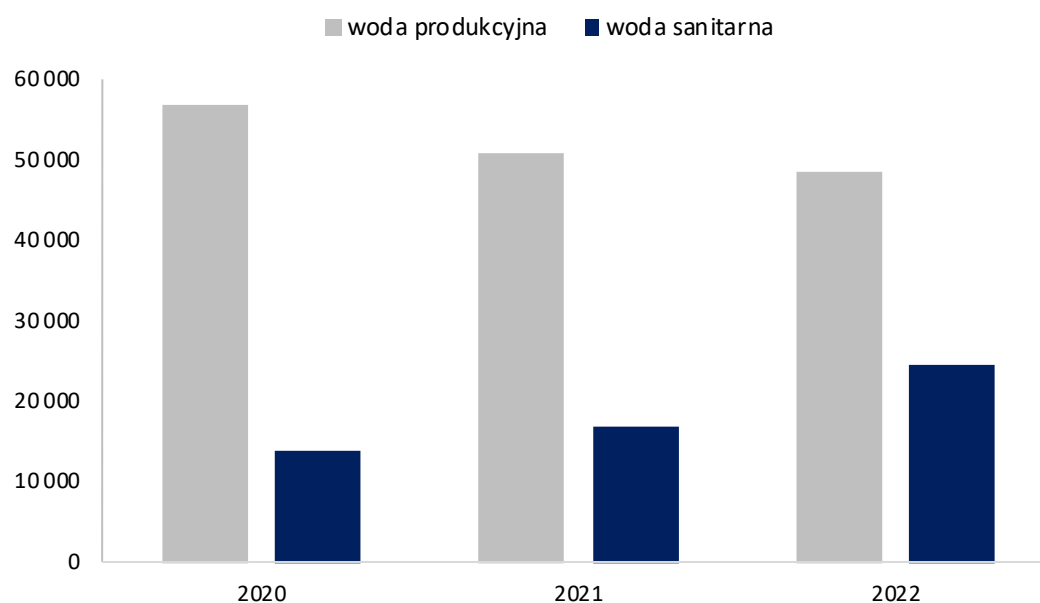
The Group monitors water consumption for both production and sanitary purposes. Water consumption for production purposes in the Śnieżka Group in 2022 was reduced. This results from the reduced production and a temporary suspension of production activities at Śnieżka-Ukraine.

A significant increase in the consumption of water for sanitary purposes and the amount of generated sewage is caused by four times higher consumption of this water in Śnieżka-Ukraine, which is indirectly related to the pending armed conflict in this country and the need to maintain the correct level of fire water. The other Group companies recorded inconsiderable decreases in the consumption of water for sanitary purposes and discharged sewage compared to previous years.

The Śnieżka Group – Management's report on the activities for 2022

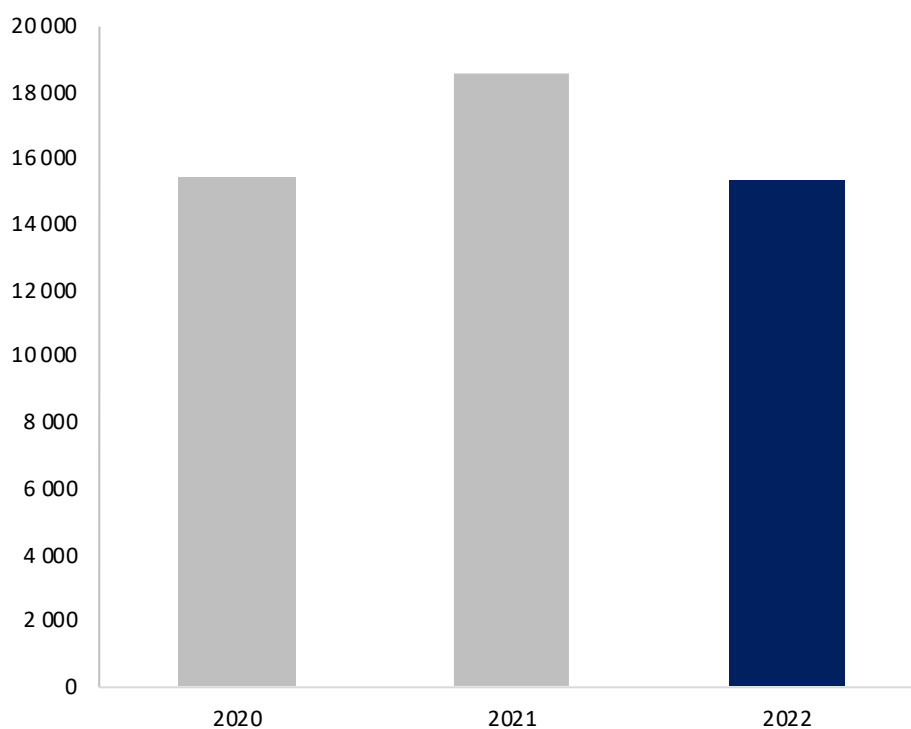
Data in PLN thousand

Figure 19. Water consumption between 2020-2022 at the Śnieżka Group [m³]



*water consumption for sanitary purposes in Śnieżka-Ukraine for 2020 was not included due to the inability to obtain data

Figure 20. Municipal wastewater generated between 2020-2022 at the Śnieżka Group [m³]



* municipal wastewater generated in Śnieżka-Ukraine in 2020 was not included due to the inability to obtain data

Data in PLN thousand

C. Electricity

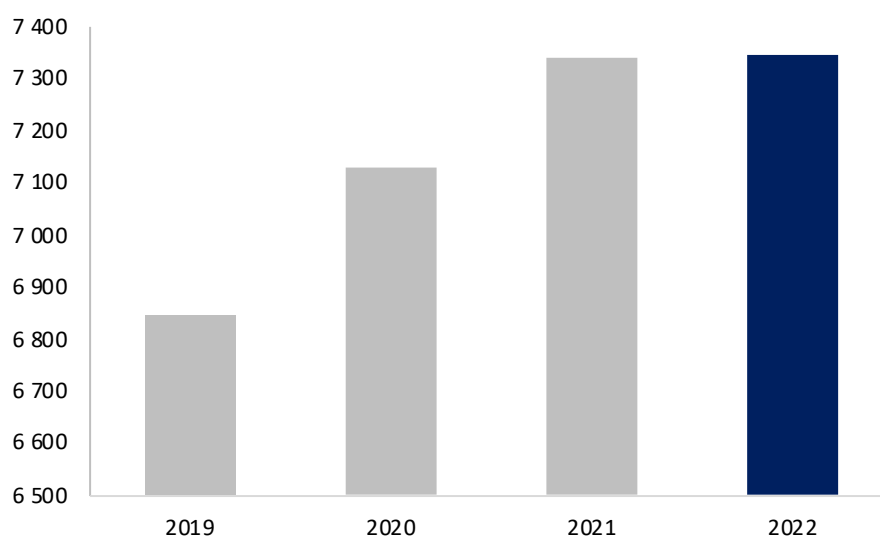
The use of energy is one of the significant elements affecting the natural environment through the emissions associated with it. The Śnieżka Group monitors the amount of energy used in its plants and determines its environmental impact by calculating emissions in the 2 scope of the carbon footprint of the Group (described in section 3.4.3.2 of the Report).

In 2022, FFIL Śnieżka SA observed only an insignificant increase in energy consumption compared to the previous year, despite the commissioning of a new location, i.e. the Śnieżka Group Logistic Centre in Zawada. A negligible increase in energy consumption with a rise in the number of locations was achieved by the reduction of energy consumption in other plants of the Company as a result of lower production than in the previous year.

All energy purchased by FFIL Śnieżka SA in 2022 came from renewable energy sources. The purchase of this type of energy is confirmed by the Guaranteed Sale of Energy Produced from Renewable Sources certificates.

Figure 21. Electricity consumption related to production between 2019-2022 at FFIL ŚNIEŻKA SA [MWh/kg]

Figure 22. Electricity consumption between 2019-2022 at FFIL ŚNIEŻKA SA [MWh/kg]



Energy consumption in the Śnieżka Group in 2022 decreased compared to 2021. This is partly due to reduced production in the Śnieżka Group's plants. The temporary shutdown of the plant in Yavoriv, caused by the outbreak of war in Ukraine, also had an impact on the reduction of energy consumption. Nevertheless, Śnieżka Group plants are constantly striving to optimize their processes in order to reduce energy consumption.

Data in PLN thousand

Figure 23. Electricity consumption between 2019-2022 at the Śnieżka Group [MWh]

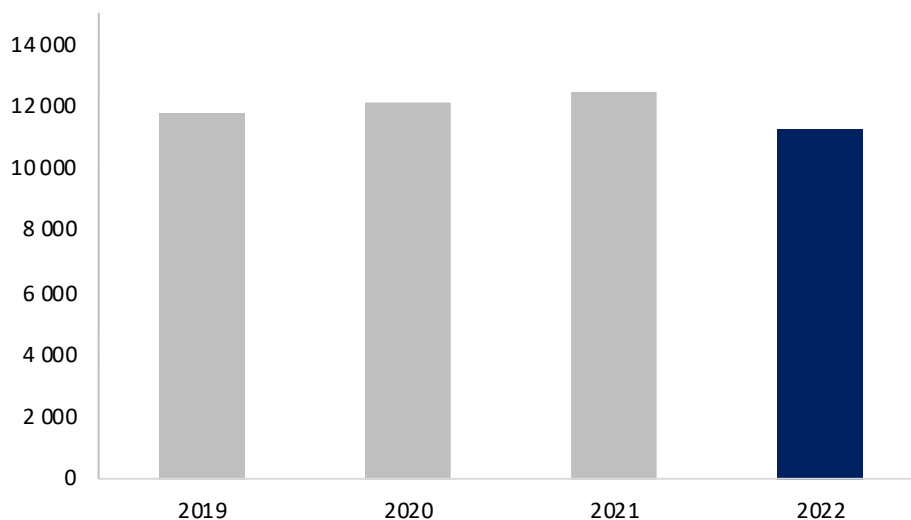
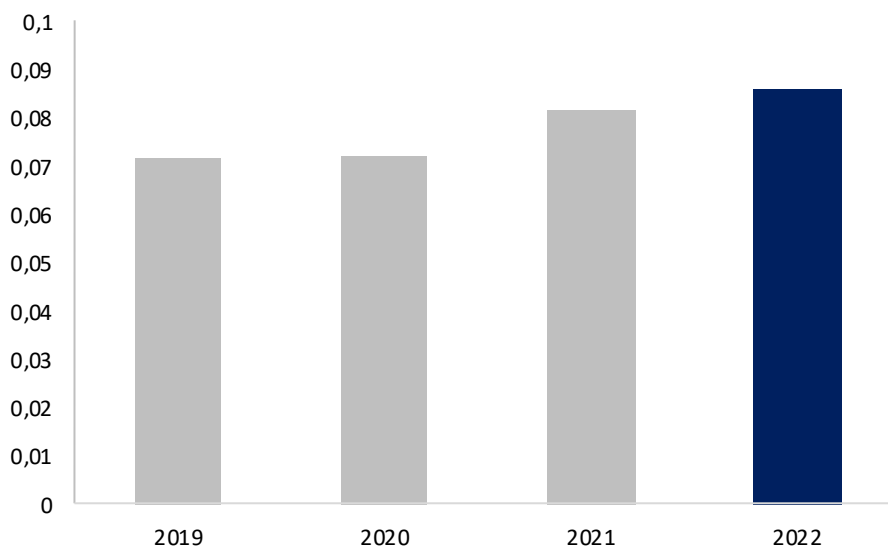


Figure 24. Electricity consumption related to production volume between 2019-2022 at the Śnieżka Group [MWh/kg]



Strategic objective:

Transformation towards green energy

Operational objective:

Erection of photovoltaic farms in 3 locations, covering approximately 30% of the annual demand for energy (Śnieżka SA and Śnieżka ToC).

D. Emissions of volatile organic compounds and dust

Data in PLN thousand

The emission of volatile substances (volatile organic compounds - VOC) into the air depends on the size and type of production. Therefore, the plants of FFIL Śnieżka SA recorded in 2022 a decrease in VOC emissions. Whereas, VOC emissions related to the volume of production slightly went up, which is conditioned by the type of production and, consequently, the demand for a specific group of products.

Figure 25. VOC and dust emissions into the air from technological and accompanying processes per production volume [Mg/Mg] – FFIL ŚNIEŻKA SA

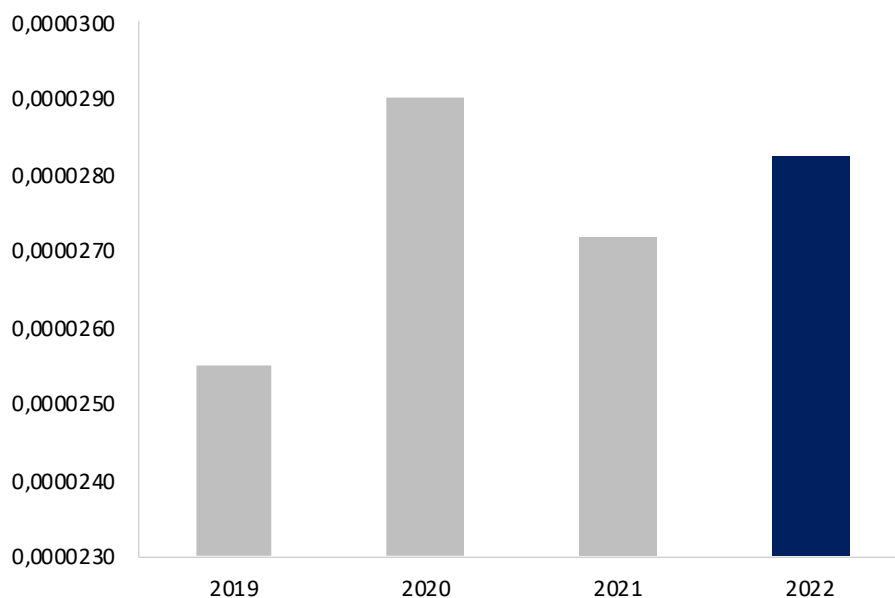
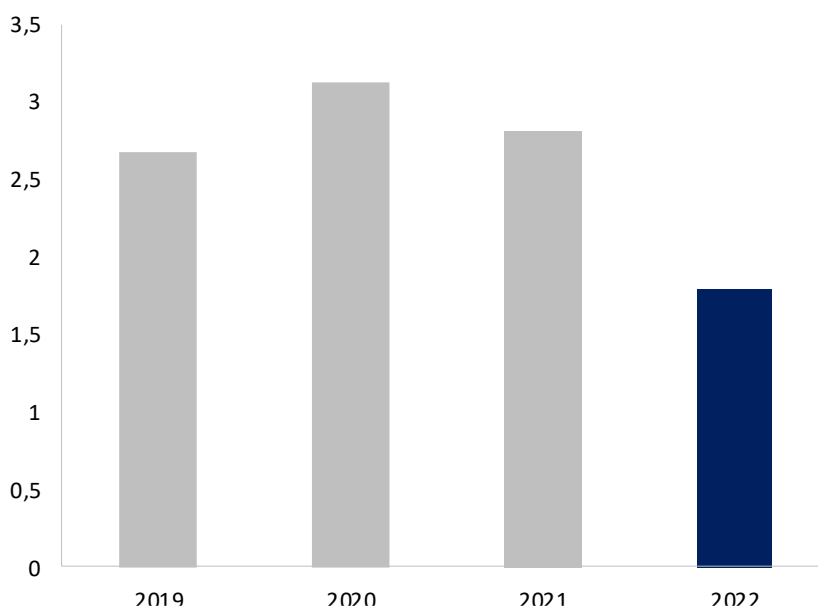


Figure 26. VOC and dust emissions into the air from technological and accompanying processes [Mg] – FFIL ŚNIEŻKA SA



The Śnieżka Group – Management's report on the activities for 2022

Data in PLN thousand

The volume of VOC emissions in 2022 in the Śnieżka Group fell compared to the previous year. This was conditioned by a decrease in production compared to 2021. While, the Group recorded a slight increase in VOC emissions in relation to the production volume in 2022, which was conditioned by the production characteristics.

Figure 27. VOC and dust emissions into the air from technological and accompanying processes per production volume [Mg/Mg] – the Śnieżka Group

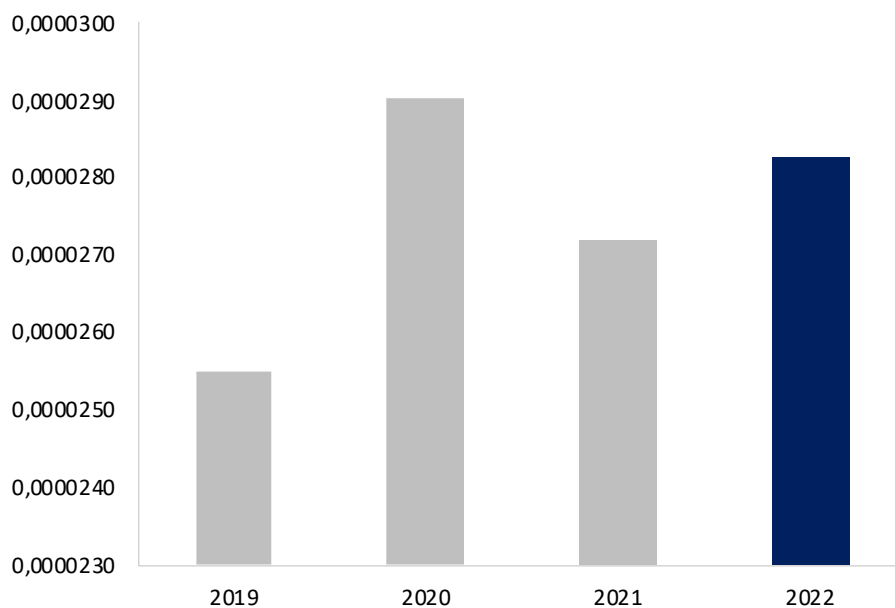
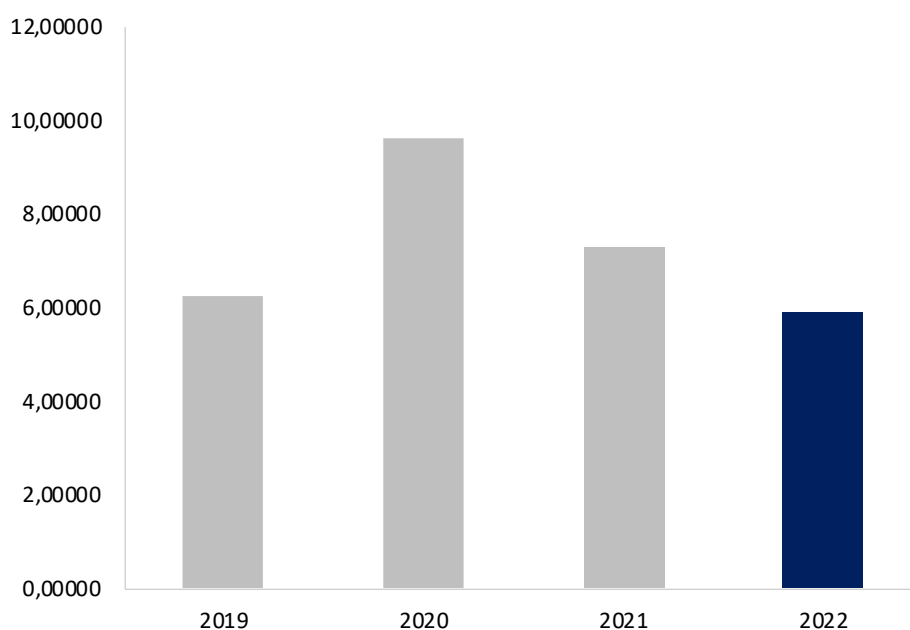


Figure 28. VOC and dust emissions into the air from technological and accompanying processes [Mg] – the Śnieżka Group



Data in PLN thousand

Data in PLN thousand

Environmental protection activities

FFiL Śnieżka SA operates in the area of environmental protection through educational campaigns aimed at increasing the staff's awareness of the use of the environment, existing environmental aspects, environmental policy, environmental threats and failures. Raising employee awareness allows you to counteract inappropriate economic habits and the environmental effects of waste and pollution, as well as reap the benefits of reducing their generation (e.g. increasing the prestige of the organization and generating a competitive advantage).

- “Don’t mix!” campaign.

In Q4 of 2022, FFiL Śnieżka SA introduced municipal waste sorting covering all branches. The “Don’t mix!” project introduced municipal waste sorting into 6 fractions, i.e. plastics and metals, PET bottles, paper, glass, biodegradable waste and mixed waste. As many as 7 newsletters were devoted to the principles of proper waste sorting. During the audits we educated and checked, i.a.: what is biodegradable waste, how to properly sort packaging, where to throw away the jar and where the cap, what to do with used batteries, etc. etc. A summary of the company's sorting policy is available in every kitchen. Additionally, we provided a dedicated e-mail address where inquiries could be sent by employees.

Great involvement of employees in the "Don't mix!" campaign allowed to reduce the amount of municipal waste sent to landfills by 59%.

- Quitting water in plastic bottles and the use of plastic cutlery

At the end of 2022, the plants of FFiL Śnieżka SA resigned from water in plastic bottles in favour of increasing the number of dispensers with filtered hot and cold water (including sparkling water), and employees were provided with steel drinking bottles. In turn, as part of the catering provided to the company's employees, the use of plastic cutlery was fully abandoned, while all employees were provided with sets of stainless steel cutlery. This action aims to reduce the amount of plastic waste.

The Company:

- conducts constant technological supervision over the properties of raw materials used in production and supervises the properties of the finished product in terms of meeting the requirements of the Ecolabel system.
- has a signed contract with a waste recovery organization that organizes training in schools and nurseries, and also prepares brochures - this allows the Company to participate in educational campaigns.
- conducts regular compliance assessments, employee exposure controls and environmental impact controls for each finished product in accordance with the requirements of REACH, which are recorded in the form of inspection report.

Data in PLN thousand

Monitoring of environmental issues carried out at FFIL Śnieżka SA, Śnieżka ToC, Poli-Farbe and Rafil allows for the definition and implementation of appropriate methods of conduct in the production processes of its plants.

3.4.3.2 Carbon footprint

The Śnieżka Group took steps to determine the impact of its organization on the natural environment. The measure of this impact is the calculation of the organization's carbon footprint. The calculations were made in accordance with the standards:

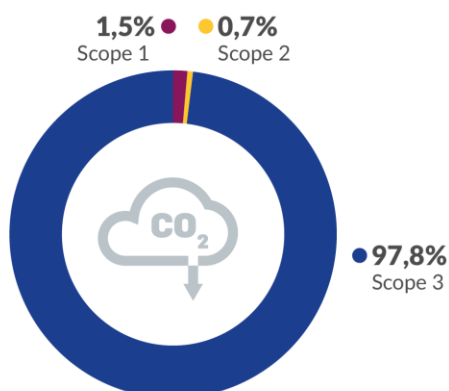
- The Greenhouse Gas Protocol "A Corporate Accounting and Reporting Standard Revised Edition",
- GHG Protocol "Scope 2 Guidance",
- Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

The year 2020 was adopted as the base year, i.e. the period for which the Śnieżka Group calculated the carbon footprint for the first time. The carbon footprint was calculated in all three ranges for 2020-2022.

Figure 29. Carbon footprint of the Śnieżka Group in 2022

Carbon footprint of the Śnieżka Group in 2022

calculated using the Market Based method



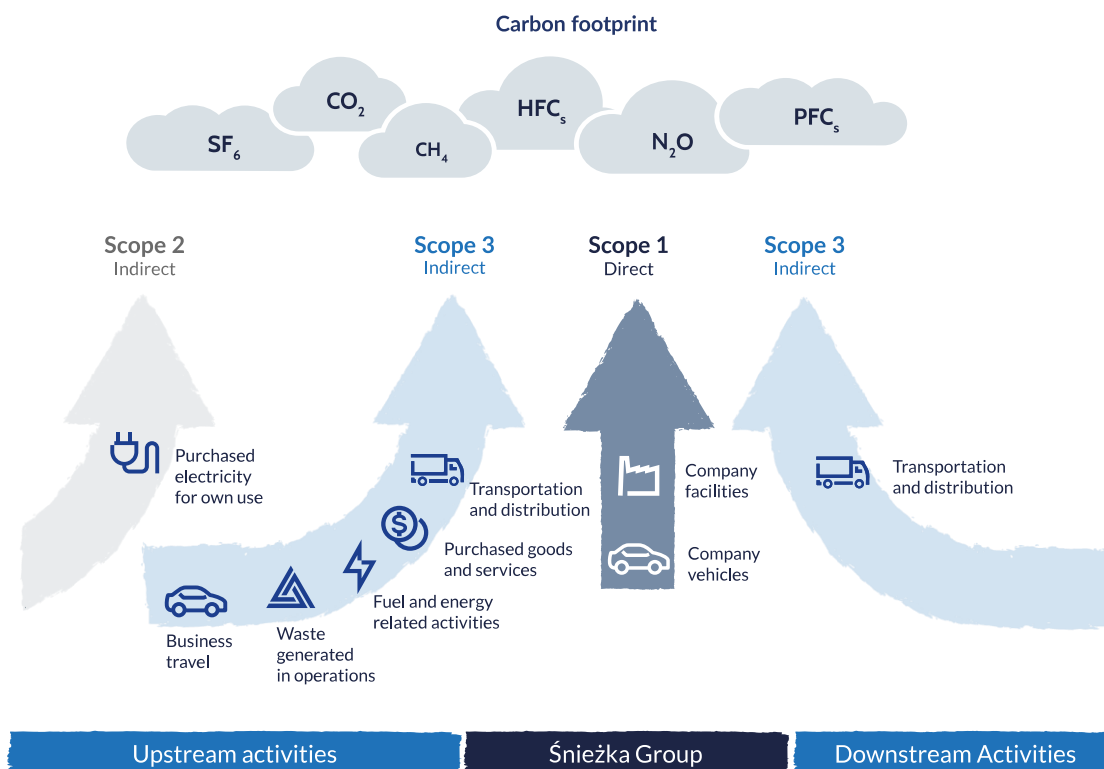
Carbon footprint scope 1 includes direct emissions, taking into account the combustion of fuels and the use of refrigerants and other gases.

Carbon footprint scope 2 includes indirect GHG emissions related to energy consumption.

Data in PLN thousand

Scope 3 emissions include raw material purchases, transportation and distribution, waste generation, business travel, and fuel-related emissions not covered by scopes 1 and 2.

Figure 8. Carbon footprint of the Śnieżka Group



FFiL Śnieżka SA recorded a decrease in the carbon footprint in the scope 1 compared to the base year 2020. In 2022, this decrease was -46% y/y. This is the result of reducing fuel consumption, including natural gas.

In 2022, FFiL Śnieżka SA used green energy in all its branches, which was 100% certified for the *Guaranteed Sale of Energy Produced in Renewable Sources*, which allowed it to achieve zero carbon footprint emissions in scope 2 using the Market Based method³¹. Whereas, in the calculations using the Location Based method, the carbon footprint in scope 2 in 2022 was lower compared to the base year, despite the commissioning of a new branch of the Company, i.e. the Śnieżka Group Logistics Centre. This decline is conditioned by lower energy consumption in all branches of the Company. This results from the reduced production at FFiL Śnieżka SA.

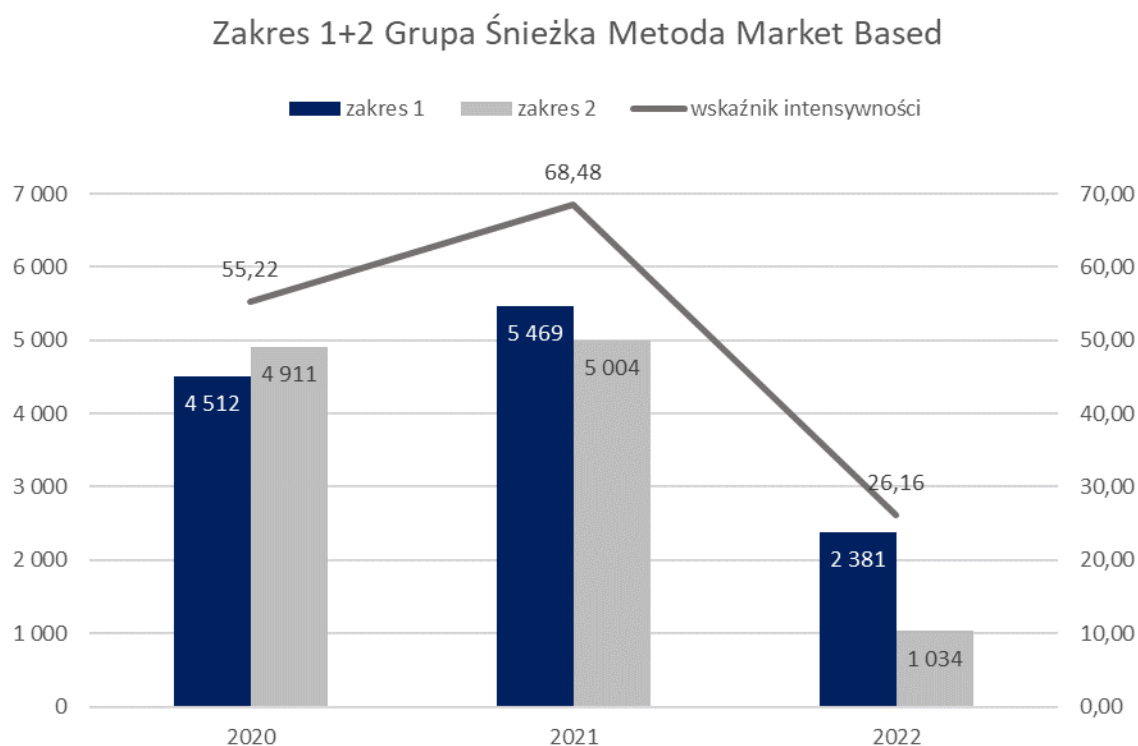
³¹ FFiL Śnieżka SA and the Śnieżka Group performed the calculations taking advantage of two methods: Location Based and Market Based. The first method takes into account the average national indicator of energy emissions in the calculations, while the Market Based method considers the indicator provided by the energy seller. In the further part of the report, the results of carbon footprint calculations in scope 2 for both calculation methods have been presented.

Data in PLN thousand

The scope of 1 carbon footprint in the entire Śnieżka Group also went down compared to the base year 2020 - in 2022 it went up by 47% y/y. All Śnieżka Group companies recorded a decline in GHG emissions in the scope of 1 in 2022. The reduction of emissions in scope 1 was mostly owing to the decreased fuel consumption, including natural gas (combustion of fuels is the source of over 90% of the Group's carbon footprint emissions in scope 1).

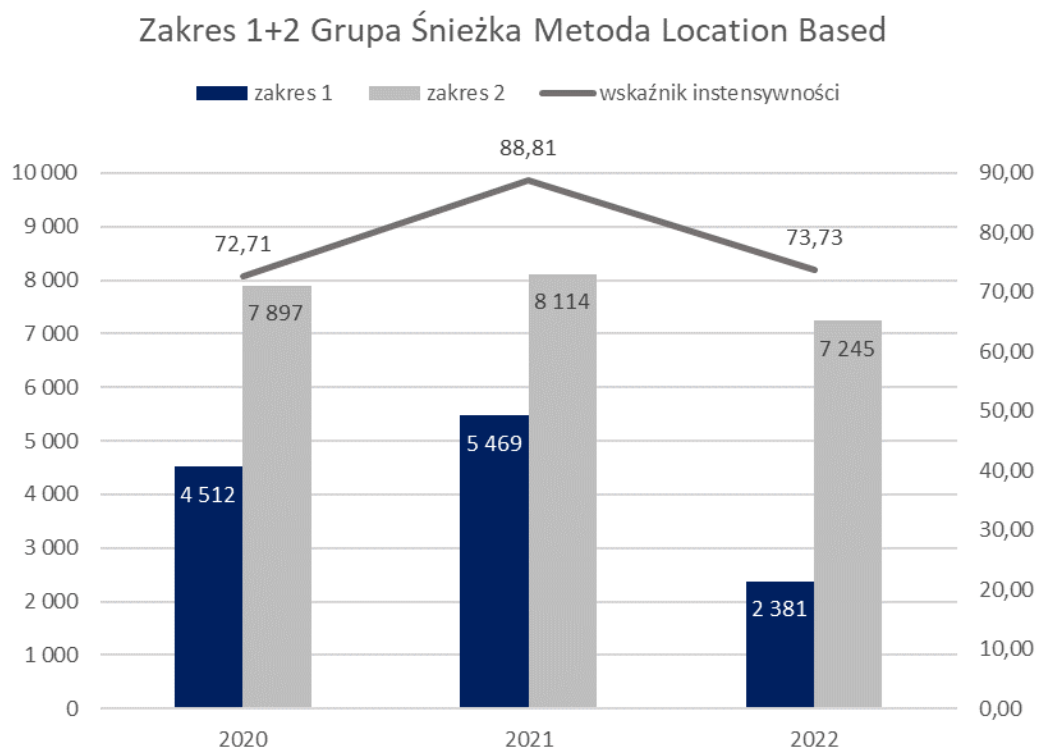
The scope of 2 carbon footprint of the Group in 2022 was 7245 t CO₂e using the Location Based method and 1034 t CO₂e using the Market Based method. The decrease in GHG emissions in scope 2 stems from the reduction of energy consumption in all Group companies. In turn, the difference in the results of calculations with the use of particular methods is caused by the fact that FFIL Śnieżka SA uses only energy from renewable energy sources.

Figure 30. Carbon footprint in scope 1 and 2 for the Śnieżka Group [t CO₂e] and intensity index [kg CO₂e/Mg] calculated using the Market Based method



Data in PLN thousand

Figure 31. Carbon footprint in scope 1 and 2 for the Śnieżka Group [t CO₂e] and intensity index [kg CO₂e/Mg] calculated using the Location Based method



Data in PLN thousand

Table 20. Carbon footprint of FFil Śnieżka SA for 2020, 2021 and 2022 [t CO₂e]

FFil Śnieżka SA's emissions for 2020, 2021 and 2022					
	2020 [t CO ₂ e]	2021 [t eCO ₂ e]	Change (y/y)	2022 [t eCO ₂ e]	Change (y/y)
Scope 1	1968	1816	-7.7%	973	-46.4%
Fuels	1 895	1 809	-4.5%	825	-54.4%
Refrigerants	73	7	-90.4%	148	+2014.3%
Technical gases	0	0	0.0	0	0.0
Scope 2					
Market Based energy	3 545	3 187	-10.1%	0	-100.0%
Location Based energy	4 648	4 199	-9.7%	4 357	+3.8%
Scope 3	140 356	126 671	-9.8%	99 850	-21.2%
Cat. 1. Purchased raw materials and services	134 530	125 201	-6.9%	99 347	-20.7%
Cat. 3. Energy and fuel related emissions not covered by scope 1 and 2	1 400	1 230	-12.2%	222	-82.0%
Cat. 4. Upstream - transport and distribution	3 658	130	-96.5%	170	+30.8%
Cat. 5. Waste generated as a result of activities	93	105	+12.9%	94	-10.5%
Cat. 6. Business trips	7	3	-57.2%	15	+500.0%
Cat. 9. Downstream - transport and distribution	668	2	-99.7%	2	0.0
Total carbon footprint*	145 869	131 674	-9.7%	100 823	-23.4%

* includes scope 2 calculated using the Market Based method

The total carbon footprint of FFil Śnieżka SA in 2022 amounted to 100,823 t CO₂e (including scope 2 calculated using the Market Based method), which denotes a decline in the carbon footprint compared to the base year by approximately 30%.

The reduction of GHG emissions by the Company occurred in all three scopes of the carbon footprint, i.e. it covered both indirect and direct emissions. The reduction of the total carbon footprint was caused by lower volume of fuels used in the Company, a decrease in the amount of purchased raw materials and the purchase of energy exclusively from renewable energy sources.

The Śnieżka Group – Management's report on the activities for 2022

Data in PLN thousand

Table 21. Śnieżka Group's carbon footprint [t eCO₂]

Śnieżka Group's emissions in 2020, 2021 and 2022					
	2020 [t CO ₂ e]	2021 [t CO ₂ e]	Change (y/y)	2022 [t CO ₂ e]	Change (y/y)
Scope 1	4 512	5 469	+21.2%	2 381	-56.5%
Fuels	4 172	5 195	+24.5%	2 233	-57.0%
Refrigerants	340	274	-19.4%	148	-46.0%
Technical gases	0	0	0	0	0
Scope 2					
Market Based energy	4 911	5 004	+1.9%	1 034	-79.4%
Location Based energy	7 897	8 114	+2.7%	7245	-10.7%
Scope 3	199 108	189 386	-4.9%	153 208	-19.1%
Cat. 1. Purchased raw materials and services	188 129	179 013	-4.9%	141 156	-21.1%
Cat. 3. Energy and fuel related emissions not covered by scope 1 and 2	2 411	2 662	+10.4%	975	-63.4%
Cat. 4. Upstream - transport and distribution	7 066	6 177	-12.6%	9 558	+54.7%
Cat. 5. Waste generated as a result of activities	355	414	+16.6%	296	-28.5%
Cat. 6. Business trips	11	8	-27.3%	56	+700%
Cat. 9. Downstream - transport and distribution	1 136	1 112	-2.1%	1 167	+4.9%
Total carbon footprint*	208 531	199 859	-4.1%	156 623	-21.6%

* includes scope 2 calculated using the Market Based method

The Śnieżka Group's carbon footprint in 2022 amounted to 156,623 t CO₂e (including scope 2 calculated using the Market Based method). Compared to 2021, emissions decreased by 21.6%, and compared to the base year 2020 – by 24.9%. The Group has a steady decline in its carbon footprint in both direct and indirect emissions.

Indirect emissions included in scope 3 of the carbon footprint in 2022 accounted for 97.8% of total Group's carbon footprint. They amounted to 153,208 t CO₂e in 2022.

The Śnieżka Group undertakes measures consisting in a detailed analysis of its carbon footprint, aimed at introducing solutions to reduce it in the future.

3.4.3.3 Other environmental data

The Śnieżka Group holds the environmental decisions required by law. The Group companies fulfil their reporting obligations and pay fees for the use of the natural environment - in accordance with the regulations in force in the countries where they are located. The costs of paying environmental fees can be divided into two groups:

Data in PLN thousand

- costs of direct use of the environment

These include fees for the emission of compounds into the air as a result of the production of paint and varnish products, gas combustion in boilers, fuel combustion in internal combustion engines, drainage of rainwater from the plant and adjacent car parks.

- costs of indirect use of the environment

They include a fee for the implementation of the recovery and recycling obligation related to the introduction of packaging with products onto the domestic market, including a fee for organizing a system for collecting packaging for hazardous substances and an educational campaign, as well as a fee for waste disposal and neutralization.

In 2022, Śnieżka Group companies were not fined and did not fail with compliance regarding the environmental protection. In the reporting period, the Group did not suffer, either, any sanctions, financial or non-financial, for breaching environmental protection laws or regulations.

In the reporting period, the activities of the Group companies in relation to the environment were not the subject of any complaints regarding the negative impact on natural resources.

II pillar PEOPLE

Priority areas	Example of strategic objectives	Example of operational objectives
Employee involvement and development – <i>We focus on employee involvement and development in a safe, diverse and inclusive work environment.</i>	Staff development	Year-on-year increase in the average number of training hours per employee
Health and safety at work – <i>We build a culture of safety.</i>	Building a safety culture and minimizing risks to employees	Safety Management System in place minimizing the risk of accidents
Social involvement – <i>We implement social projects based on our competences and we are involved in the development of local communities.</i>	Implementation of social projects based on Śnieżka Group's competences and brands Support for the local community at the place of conducting business activities	Preparation of assumptions for the new edition of the "Koloratorium" project (5th jubilee edition). At least 1% of the gross profit is the budget for social activities (2-year cycle).

Data in PLN thousand

3.4.4 Staff involvement and development

3.4.4.1 Employee issues

The human resource management model in the Śnieżka Group is based primarily on the value of an individual employee and a cooperating team, effectively implementing the adopted business strategy of the company. The directions of operation and standards in the area of human resource management in all the Group companies are set out in the HR Policy of Śnieżka Group.

At the level of FFIL Śnieżka SA and Śnieżka ToC - it assumed the follow-up of the previously adopted personnel strategy based on four pillars:

- Śnieżka as an attractive employer,
- Śnieżka as a learning organization,
- Śnieżka as a company with a high commitment,
- Śnieżka as an organizationally effective enterprise.

Digital transformation of the HR area

After launching the SAP HCM system in the area of HR, payroll and working time modules in October 2021, 2022 was a time for users of this software to improve their knowledge of the program and its functionalities. Changes made in the processes running within the company had an impact on the development and adaptation of the introduced IT solutions. It was necessary to adapt them to the volatile requirements of both users and legal solutions.

Remuneration and incentive systems

In 2022, the review of incentive systems in the Group companies was continued. This was related to the in-progress work on updating and refreshing the applicable regulations regarding the organization of work and remuneration systems at Śnieżka SA and Śnieżka ToC. These regulations are firmly embedded in the applicable law and in the processes carried out by the companies.

One of the pillars of the remuneration system in the Parent Company has for years been job evaluation performed by the appointed Evaluation Committee. The meetings held periodically by this body allow for a quick response to the changing structure of the organization and updates of the scope of responsibility and job grade levels.

On this basis, an objectively justified scale and salary chart were created. In 2022, in accordance with the *Personnel Policy* and the Group's assumptions concerning maintaining the competitiveness of salaries corresponding to the market, a pay rise was implemented for the positions indicated in the analysis based on the market benchmark.

Data in PLN thousand

The Group's objective is also to maintain the comparability of salaries of women and men taken on in similar positions. This objective is monitored gradually, starting with Śnieżka SA and Śnieżka ToC. In 2022, the adjusted gap in both of these companies was below 5%. This indicator stands for the difference between the average remuneration of men and women, expressed as a percentage of the average remuneration of men by employment category.

Employer Branding activities

In 2022, Employer Branding activities were continued in the Group - both inside and outside the organization. Employees of three key companies regularly received newsletters, and important topics, such as the implementation of the updated Book of Organizational Values, were underpinned by internal campaigns. In company social media, we conducted open and authentic communication regarding important events for the Group and interesting facts on the company's operations. We shared information about the Group and individual companies, thus building a community interested in our organization.

3.4.4.2 Indicators associated with employment

Employment in 2022 was significantly affected by the macroeconomic situation and the remodelling of the organizational structure at Śnieżka SA and Śnieżka ToC. The approach to the definition of managerial positions was also subject to change.

On December 31, 2022, the Śnieżka Group employed 1,150 staff - 211 less than a year ago (-15.5%). FFIL ŚNIEŻKA SA, i.e. the parent company, employed 606 staff - 78 less than the year before. (-11.4% y/y). The employment decline was influenced by the social and economic crisis that was spreading in 2022, as well as changes in the organization of work in companies.

In 2022, the Śnieżka Group hired on average 1,224 full-time equivalent employees, which is approx. 10.8% less than the year before, i.e. 1,372 staff.

Data in PLN thousand

Figure 32. The Śnieżka Group's employees by gender

The Śnieżka Group's employees by gender



Most of the employees of the Śnieżka Group were men. At the end of 2022, 778 men were taken on, which accounted for 67.7% (a decrease by 1.4% y/y) of the total number of employees. Such employment structure results, inter alia, from the production nature of the Group's operations, which results in a high percentage of line positions in relation to the total number of positions. The share of men in relation to women employed in the Group has remained at a similar level for several years.

Table 22. Total number of FFIL ŚNIEŻKA SA and the Śnieżka SA's employees broken down by gender (includ. the Management Board)

	31.12.2022		31.12.2021	
	Women	Men	Women	Men
FFIL ŚNIEŻKA SA	165	441	170	514
The Śnieżka Group broken down by gender	372	778	421	940
Total The Śnieżka Group	1 150		1 361	

The majority of the Group's employees held employment contracts for an indefinite period - 93.0% as at 31 December 2022. Employees with employment contracts for a definite period (6,7%) were mainly employed in companies with production facilities. Approx. 0.3% of all contracts were concluded for a trial period.

Data in PLN thousand

Figure 33. The Śnieżka Group’s employees by employment contract

The Śnieżka Group’s employees by employment contract

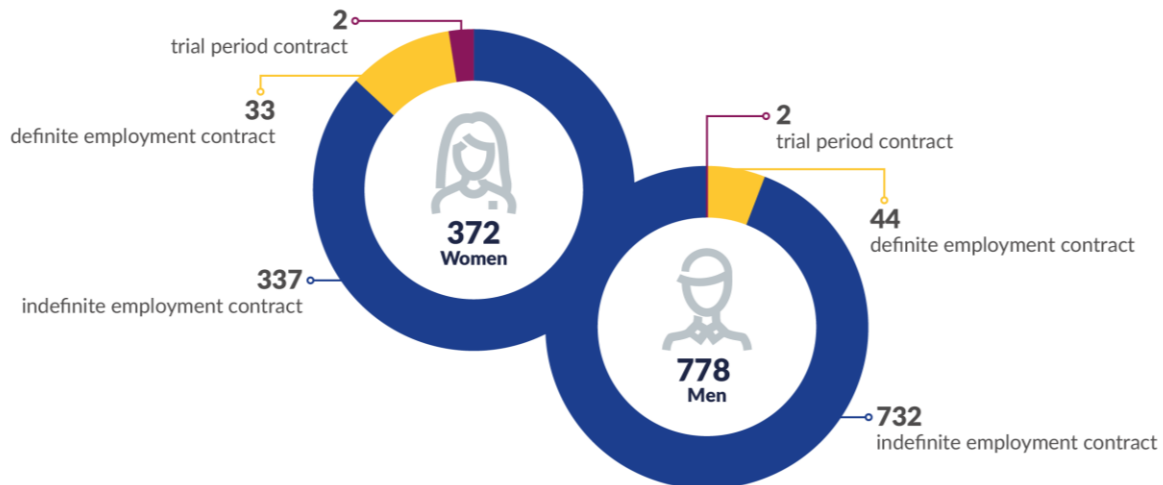


Table 23. The FFIL ŚNIEŻKA SA and Śnieżka Group’s employees broken down by employment contract type

FFIL ŚNIEŻKA SA	31.12.2022		31.12.2021	
	Women	Men	Women	Men
indefinite employment contract	144	415	146	454
definite employment contract	21	24	19	47
trial period contract	0	2	5	13
Total broken down by gender	165	441	170	514
Total	606		684	

The Śnieżka Group	31.12.2022		31.12.2021	
	Women	Men	Women	Men
indefinite employment contract	337	732	366	842
definite employment contract	33	44	44	78
trial period contract	2	2	11	20
The Śnieżka Group broken down by gender	372	778	421	940
The total of Śnieżka Group	1 150		1 361	

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Data in PLN thousand

Managers who do not manage teams of employees (the so-called "area managers") were excluded from the group of managers. According to the adopted definition, managerial positions include only persons managing teams of employees. This change is visible in the structure of employees in relation to the previous year.

At the end of 2022 the managerial positions were held by 205 staff (-37 y/y), which accounted for 17.8% of all employed within the Group (no change y/y). The number of women managers was 68, which denotes a decrease of 16 compared to the end of 2021.

Table 24. The FFIL ŚNIEŻKA SA and Śnieżka Group's employees broken down by positions (as at 31.12.2022)

position/gender	Śnieżka		The Śnieżka Group	
	F	M	F	M
managerial	22	57	68	137
other	143	384	304	641
Total	165	441	372	778
broken down by gender				
Total	606		1 150	

The dominating part of the Group's employees (64.1%) was aged 30-50. The share of women employed in the Group as well as men under 30 was 11.1%, and over 50 years of age - 24.8%.

Data in PLN thousand

Figure 34. The Śnieżka Group’s employees by age

Pracownicy Grupy Kapitałowej Śnieżka według wieku

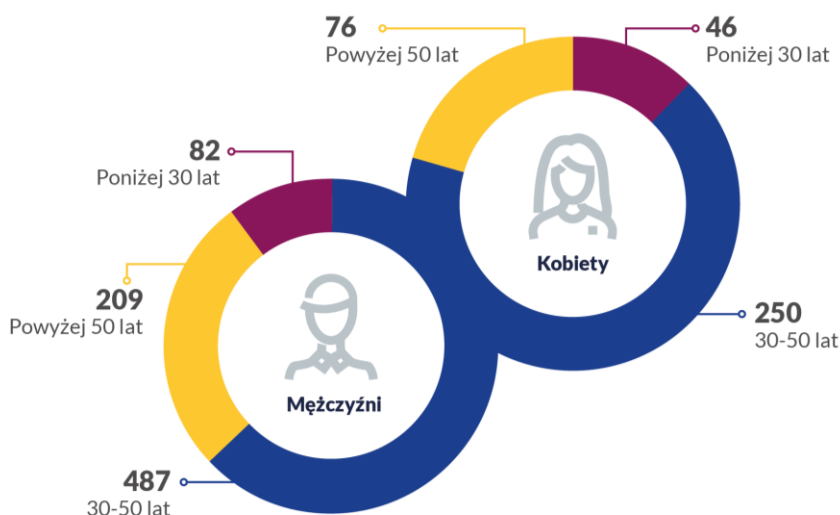


Table 25. Composition of management bodies and human resources of FFIL ŚNIEŻKA SA and the Śnieżka Group by age

	aged below 30	aged 30-50	aged above 50	Total
FFIL ŚNIEŻKA SA	71	395	140	606
Managerial positions	1	62	16	79
of which women	1	17	4	22
Other	70	333	124	527
of which women	13	107	23	143
The Śnieżka Group	128	737	285	1 150
Managerial positions	5	150	50	205
of which women	4	50	14	68
Other	123	587	235	945
of which women	42	200	62	304

Data in PLN thousand

3.4.4.3 Indicators associated with employees' development and assessment

Training

In the reporting period, 464 staff (40.35% of the total employees) participated in the training in the Śnieżka Group. There were 173 women and 291 men.

The number of training hours completed at the Group in 2022 was 11,795. The training was organized both online and in the form of regular classes.

As every year, we organized mandatory training, required by law and necessary to perform work on the position. We also conducted English classes - both in the form of regular classes (group) and online (individual classes). The classes are held based on the *Regulations of the English language course co-financing and organization program*, which define the requirements for the organization and ensuring the proper form and effectiveness of the English language course and specify the rules for co-financing the course by the employer.

Due to the fact that the Group consistently focuses on the development of knowledge and competences of its employees, we initiated the Śnieżka Academy internal trainer program, which is a response to our company's needs in the area of training. Its main objective is to internally support the development of employees by taking advantage of the competency potential of Śnieżka's team. In the first edition, we selected 8 trainers, training in thematic areas important from the company's perspective and developing from the employees' point of view.

Table 26. Number of training hours and trained employees of FFIL ŚNIEŻKA SA and the Śnieżka Group in 2022

	Number of training hours completed	Number of training participants	Number of training hours per employee	(broken down by gender)	
				Women	Men
FFIL ŚNIEŻKA SA	5 818	222	9.60	77	145
Total The Śnieżka Group	11 795	464	10.26	173	291

Employee appraisals and development interviews

One of the conclusions after several years of the Development Talks was the need for internal work on updating the description of behaviours underpinning organizational values and unifying their comprehension. Work on these aspects lasted throughout 2022 and ended with the implementation of the new Book of Organizational Values at FFIL Śnieżka SA, Śnieżka ToC, Poli-Farbe and Śnieżka-Ukraine (the process is described in section 3.1.9 "Organizational values" of the Report).

Development Talks based on updated organizational values at FFIL Śnieżka SA and Śnieżka ToC as at the date of publication of the report are in progress. The implementation of the Development Talks process at Śnieżka-Ukraine and Poli-Farbe is scheduled for 2024.

Data in PLN thousand

3.4.4.4 Other employee indicators

The Śnieżka Group applies: an individual approach to each case of termination of an employment contract, careful consideration of each case and proposed actions taking into account the employee's interest.

Table 27. Share of terminations at the employer’s initiative in the total number of terminations at FFIL ŚNIEŻKA SA and the Śnieżka Group in 2022

	Number of people dismissed in 2022	(including those dismissed at the employer’s initiative)	% of staff dismissed at the employer’s initiative total number of dismissed
FFIL ŚNIEŻKA SA	100	42	42.00%
The total of Śnieżka Group	275	111	40.36%

In the Group, no additional pension plan for employees has been established. In the competence centres of FFIL Śnieżka SA and Śnieżka ToC, the ECP (PPK) program operates in accordance with the provisions of the Act on Employee Capital Plans. It is attended by all employees who decided to apply for it and did not submit a declaration of withdrawal, and those who - being aged 55+ - voluntarily decided to join the program.

The competence centres pay pension contributions to ZUS on all employees' income. In 2022, the amount of the payer’s contributions was PLN 9,183,5 thousand. In foreign Companies, belonging to the Group, contributions were paid as required by the local law.

Employee benefits

At FFIL Śnieżka SA and Śnieżka ToC , rules of equal treatment of employees are in force with regard to the access to any benefits, including non-salary benefits. All the employees have the opportunity to take advantage of additional benefits for which the employer participates in the costs. These benefits are granted regardless of the contract type or working time.

Non-salary benefits:

- benefits in the form of points to be used in the online cafeteria,
- co-financing for group life insurance,
- co-financing for employee meals,
- additional 2 days of leave per year,
- co-financing for learning English,
- extended scope of research in the field of occupational medicine,

Data in PLN thousand

- co-financing for the replacement of glasses,
- private medical care,
- discounts on company products in the Company Store,
- access to the company's auction portal with the possibility of participating in auctions and bidding of the products offered,
- participation in occasional company events addressed to employees' children, financed from the Company Social Benefits Fund (ZFŚS) of both companies in accordance with the Regulations of the Social Fund,
- occasional gifts for employees' children financed from the Company Social Benefits Fund of both companies in accordance with the Regulations of the Social Fund,
- co-financing for participation in a summer camp for employees' children organized by the Social Committee of both companies in accordance with the Regulations of the Company Social Benefits Fund.

Support for young parents

Employees of the Śnieżka Group are free to take advantage of the parental rights they are entitled to concerning, among others, maternity, parental and paternity leaves.

In 2022, 43 female employees at the Group companies took advantage of maternity and parental leaves after a childbirth, while 27 employees (fathers) used paternity leaves they were entitled to.

For all women returning to work after maternity leave, we organize on-boarding presentation meetings so that they can supplement their knowledge about what has changed in the Company during their absence. Additionally, all mothers who decide to return to work no later than 6 months after the birth of a child/children are offered a financial allowance to cover the costs of childcare. We also co-finance the cost of the stay of our employees' children in a local nursery.

Table 28. Use of maternity/parental/paternity leaves at FFIL Śnieżka SA and the Śnieżka Group

	The number of employees who took advantage of leaves at childbirth	of which women
FFIL ŚNIEŻKA SA	38	16
The total of Śnieżka Group	70	43

3.4.4.5 Human and other rights

The Śnieżka Group places a strong emphasis on respecting human rights in the employer-employee, employee-employee, employee-employer relations, including suppliers. The basis on which we rely

Data in PLN thousand

is the *Code of Ethics* introduced in 2022 (described in section 3.3.1 of the Report), which is based on the Book of Organizational Values of FFIL Śnieżka SA and refers to policies and other documents defining areas related to with widely understood ethics.

The Book of Organizational Values defines the principles, behaviours and attitudes that the organization expects from its employees also in the context of ethics, respect for human dignity, standards of social coexistence and mutual respect.

The principles listed in the *Code of Ethics* in the area of relations with employees also apply to human rights. They focus on the following issues, detailed in the relevant documents:

- **Employee health and safety**

Detailed guidelines are set out in the *HR Policy* and the *Quality, Environment and Health and Safety Policy of the Śnieżka Group*.

- **A friendly workplace**

Detailed guidelines are set out in the *HR Policy of the Śnieżka Group*.

- **Equal opportunities for employment, remuneration, promotion, development and professional development**

Detailed guidelines are set out in the *HR Policy of the Śnieżka Group*.

- **Counteracting discrimination and mobbing**

Detailed guidelines are set out in the *Diversity Policy of the Śnieżka Group* and the *Regulations for Counteracting Mobbing, Discrimination and Harassment*.

- **Forced labour, child labour and freedom of assembly**

Detailed guidelines are set out in the *Respect for Human Rights Policy of the Śnieżka Group*.

Counteracting discrimination and mobbing

With regard to counteracting discrimination and mobbing, we believe that by fostering the diversity of employees, we build a work environment that affects the creativity, effectiveness and loyalty of employees and we increase the chances of attracting new talents and stimulating the team's innovation, which in turn translates into the business effectiveness of the Śnieżka Group.

We undertake to implement the principles of diversity management, including the principles of equal treatment and counteracting all forms of discrimination, both among our employees and associates throughout the value chain.

Data in PLN thousand

The Śnieżka Group counteracts any behaviour that may be discriminatory, mobbing, insulting, harassing or disrespecting other human beings. We do not accept any discriminating behaviour against persons who report issued related to the application of the *Code of Ethics*.

So as to strengthen and, at the same time, emphasize the importance of human rights protection, the Group's companies have introduced *Regulations for Counteracting Mobbing, Discrimination and Harassment*. The document contains information on the identification of unacceptable phenomena such as mobbing, harassment or discrimination, as well as mechanisms to be used in cases of identified irregularities.

There is an Anti-mobbing Committee in the Company, to which, in accordance with the rules contained in the Regulations, any irregularities should be reported, choosing one of the available communication channels. The role of the Anti-Mobbing Committee is to initiate and conduct explanatory proceedings, and in the event of confirmation of a situation that resulted in a violation of human rights, to take measures to prevent similar situations in the future.

In 2022, the Commission did not receive any notification related to human rights violations.

In accordance with the rules of the Regulations, the organization is also obliged to conduct educational and communication campaigns related to the protection of human rights. Consequently, in the Parent Company and in Śnieżka ToC, we launched e-learning training in the area of counteracting mobbing and discrimination in the workplace for the managerial personnel. The training is available to all employees.

Human Rights in the Supplier Code

Respect for human and employee rights is one of the areas identified in the Supplier Code of the Śnieżka Group (described in section 3.3.7 herein). Confirmation of knowledge and readiness to comply with the principles of the Supplier Code is a condition for cooperation with the Group companies.

The Code specifies that in this area the Group expects suppliers to:

- comply with international standards for the protection of human and employee rights, in particular the prohibition of forced labour, slavery, child labour under the age of 15 and the provision of special care to employees under the age of 18;
- counteract discrimination based on sex, race and ethnicity, age, religion, psychosexual orientation, worldview, disability and type of employment;
- counteract mobbing and harassment;
- respect the right of employees to associate and conduct collective bargaining, if permitted by local law;
- transparency of personnel activities;

Data in PLN thousand

-
- ensure friendly and decent employment conditions, i.e. compliance of working conditions, working hours and salaries and allowances with local regulations.

In addition, the expectations towards suppliers include issues in the field of health and safety, also indicated in the Respect for human and employee rights area.

Data in PLN thousand

3.4.5 Health and Safety at Work

HSW issues in the Śnieżka Group are regulated in the *Quality, Environment and Health and Safety Policy*, and the implementation activities in the area of HSW include, i.a.:

- conducting activities in line with applicable legal regulations, including the environmental protection and health and safety at work,
- continuous improvement of the effectiveness of control systems,
- striving to constantly improve the state of health and safety at work,
- implementation of activities in the area of continuous improvement of health and safety at work,
- stimulating employees in the processes of providing safe and hygienic working conditions,
- raising qualifications through thematic or general training,
- ensuring adequate resources and financial means to implement the set goals,
- active participation of all Company's employees in the organization of work and improving the level of occupational safety and fire safety.

Each employee of the Śnieżka Group, through assigned duties and implemented actions, is obliged to participate in creating safe working conditions.

Implemented solutions, i.e. Management systems: Safety and Fire Protection (including developed instructions and procedures guaranteeing the protection of people, property and the environment) are aimed at reducing the risk of any losses to a safe level or at least to the lowest possible acceptable level.

An occupational risk assessment was carried out for all work positions in the Company, and the adopted methods of limiting and reducing the level of risk shape the safety and hygiene of employees.

HSW committees and employee representatives

All the employees of FFIL ŚNIEŻKA SA are represented by elected Employee Representatives. It is a team of people appointed for a 4-year term of office. The scope of the team's activities includes representing the interests of employees and presenting employee opinions to the Management Board of the Company in all aspects of employment, including related to health and safety at work. In the reporting period, at the Company, no trade unions operated.

Employees (including partly Employee Representatives) participate in the work of the following Committees:

Data in PLN thousand

- **Occupational Health and Safety Committee** – its aim is to perform inspections of working conditions, periodical assessments of the condition of occupational safety and health, to present opinions on measures introduced by the employer to prevent accidents at work and occupational diseases, to submit requests to improve working conditions and to cooperate with the employer on carrying out its duties in the field of occupational safety and health.
- **Company Examination Commission** – conducts examinations for 100% of employees on non-managerial positions.
- **Fire and Technical Commission** – it consists of the Parent Company's engineering and technical services, which, as part of inspection activities, review the area, facilities and installations used by the Company and establish protective and preventive measures necessary to remove existing threats to health and life and in the field of fire protection and evacuation of employees.
- **Company Anti-Harassment Committee**– the scope of its tasks has been discussed in the chapter on human rights (section 3.4.4.5 of the Report).
- **Social Committee** – it manages every year the cash from the Company Social Benefit Fund and determines the rules for spending it to adjust it to the employees' needs; the committee is authorized to issue opinions and advice about assessment of personal and financial situation of persons having the right to receive the benefits from the Fund and applies for granting these benefits.

Accidents at work

High standards of work safety are reflected by a low number of accidents.

In 2022, only three such events occurred at FFIL Śnieżka SA. All of them were recognized to be individual and light accidents. They resulted in a total of 193 days of incapacity for work, and the documentation concerning these accidents was not submitted to ZUS in order to establish permanent or long-term health impairment.

Comparing year to year (2022 to 2021) the accident frequency ratios "Ww"³² and the accident severity ratios "Wc"³³ for FFIL Śnieżka SA, we note an increase in both indicators. The accident frequency ratio Ww = 1.45 in 2021 increased to Ww = 4.93 in 2022, and the accident severity rate Wc = 23.00 in 2021 increased to Wc = 64.33 in 2022 .

³² The "Ww" ratio is calculated according to the formula: number of accidents recorded in a given period of time / number of employees (average employment).

³³ The "Wc" ratio is calculated according to the formula: number of days of incapacity to work in accidents at work / number of accidents at work (injured persons).

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Data in PLN thousand

In 2022, no serious or fatal accidents occurred in the Śnieżka Group. No occupational diseases were recorded.

For each accident, the Company conducts painstaking post-accident investigations and draws up appropriate documentation, which establishes the circumstances and causes of these events. With regard to each accident, the President of the Management Board of FFIL Śnieżka SA issues recommendations for implementation in order to permanently remove the causes of the accident and prevent similar situations in the future.

In 2022, FFIL Śnieżka SA carried out three post-accident analyses of occupational risk assessment documentation, strictly referring to the causes of the accidents identified during the post-accident investigation. Records of corrective and preventive actions were included in the current occupational risk assessment documentation of the relevant organizational unit.

In 2022, no accidents at work were recorded at the following companies: Śnieżka ToC, Rafil, Śnieżka-Ukraine and Śnieżka-BelPol. In the reporting year, Poli-Farbe recorded 7 accidents at work. At Poli-Farbe, the number of days of incapacity for work due to accidents in 2022 amounted to 430 days.

Table 29. Accident ratios at FFIL Śnieżka SA and the Śnieżka Group

Accident ratios	FFIL ŚNIEŻKA SA		The total of Śnieżka Group
	2021	2022	2022
Number of light accidents	1	3	10
Number of serious accidents	-	-	-
Number of fatal accidents	-	-	-
Number sick leave days	23	193	623
Accident frequency ratios „Ww”	1.45	4.93	6.60
Accident severity ratios “Wc”	23.0	64.33	20.96
Lost Time Incident Ratio (LTI) ³⁴	of this year	2.83	3.87
Lost Time Severity Incident Ratio (LTI) ³⁵	of this year	0.18	0.24
Number of occupational diseases recorded	-	-	-

³⁴ The Lost Time Incident Ratio is calculated according to the formula: number of events causing incapacity for work × 1,000,000/total number of hours worked in the entire company. The ratio has been calculated since 2022.

³⁵ The Lost Time Severity Incident Ratio is calculated as: days lost due to injury × 1,000/total number of hours worked in the entire company. The ratio has been calculated since 2022.

Data in PLN thousand

Health care

In the Śnieżka Group, as part of preventive health care, all workplaces where employees come into contact with factors harmful to health are subject to periodic specialist tests or measurements in order to determine the degree of impact of these factors. These tests are carried out by the Occupational Hygiene Department of the Provincial Sanitary and Epidemiological Station in Rzeszów. In 2022, such tests were carried out at eight workplaces.

As part of the health care of employees, the Polish companies of the Group carry out systematic supervision of employees' health by means of initial, periodic and control preventive medical check-ups. These examinations are carried out during working hours at the expense of the employer, i.e. at the same time the employee retains the right to remuneration.

Also the Group's foreign companies conduct periodic medical examinations based on local national law. Having valid medical examinations is necessary for an employee to be allowed to perform tasks on the assigned position.

All employees of the Group have access to appropriate and safe equipment and machinery. Appropriate collective protective measures are installed at the workplaces, and employees are provided with personal protective equipment on the basis of individual equipment or permanent availability of these means.

Śnieżka also co-finances the purchase of corrective glasses for the staff working in front of screen monitors, and for those for whom vision correction due to the nature or type of work is recommended by a doctor, the Company independently purchases appropriate corrective glasses.

In 2022, the OHS team of FFIL Śnieżka SA carried out a number of inspections in the Company's departments and units and drew conclusions regarding the necessary improvement of observed irregularities. Thematic inspections were also carried out and the required opinions were drawn up in this respect. In 2022, the OHS team performed an occupational risk assessment and prepared 16 analyses devoted to this topic, also reviewed and issued opinions on 6 Occupational Health and Safety Instructions for the operation of technical devices and 28 Technology Instructions for the safety of manufacturing processes of manufactured products.

The aim of these activities was to define general safety requirements and fire safety requirements in the Company and to increase work safety at production posts.

OHS training

Training is an essential element of health and safety at work activities. In 2022, induction training in the field of occupational health and safety was conducted periodically for newly hired employees in all Group companies.

At the same time, throughout the year, training was organized and conducted in the field of occupational health and safety and fire issues (in the field of job instructions appropriate for individual employee groups).

Data in PLN thousand

In 2022, OHS training was also conducted for subcontractors, with 100% of employees of subcontractors providing services on the premises of our plants (143 people).

The training was conducted on the basis of periodic training programs developed at the Company and covered the following issues:

- legal regulations concerning occupational health and safety, including provisions related to the work performed;
- threat factors occurring in the work processes as well as principles and methods of elimination or limiting the impact of these factors on employees, taking into account changes in technology, work organization and work positions, application of collective and individual protection measures, introduction of new equipment, machinery and tools;
- progress related to risk assessment factors occurring in the work processes and to the scope of protection methods preventing threats to health and life of employees;
- issues related to the arrangement of office workstations, taking into account the principles of ergonomics, including those equipped with screen monitors and other office equipment;
- circumstances and causes of accidents at specific work places and their prevention;
- rules of conduct in the event of an accident at work, fire, explosion or release of a chemical agent into the natural environment. Rules for conduct in emergency situations such as fire, explosion or serious industrial accident.

In Poli-Farbe, Śnieżka-Ukraina, Śnieżka-BelPol and Rafil - OHS training was conducted in accordance with the current needs and covered the thematic scope appropriate for a given company.

Strategic objective:

Building a safety culture and minimizing risks to employees.

Operational objectives:

- **Safety Management System** in place minimizing the risk of accidents
- Providing training for employees and other people working on the company's premises, including subcontractors
 - 100% of employees undergo general and on-the-job initial training
 - 90% of the managerial staff covered by first aid and AED training
 - 100% of subcontractors' employees in the factory undergo OHS training

Data in PLN thousand

- Elimination of potential hazards through **occupational safety and fire safety inspections** carried out in accordance with the list
 - 100% of post-inspection conclusions implemented

3.4.6 Social issues

In the social activities of the Śnieżka Group, residents of local communities, where the Group companies are located, play an important role. By caring for the quality of production processes as well as the environment and secure jobs, they actively support their surroundings.

In the reporting period, the Group companies were not engaged in any activities that could have a negative impact on local communities.

The involvement of the Group's key companies in the social area is governed primarily by the *Social Involvement Policy of the Śnieżka Group*.

For many years, the Group has been actively creating proprietary social initiatives, creating programs and projects - both local and national. The directions of actions defined in the social responsibility policy set the framework for the design and implementation of those activities.

We define the main pillars of the Śnieżka Group social commitment as follows:

- **Colour** - the Group's social projects and other forms of engagement are centered around its vision. In relation to activities in favour of society, the message "Colours matter" means "change for the better", "inspiration" and "joy", present in the lives of the beneficiaries thanks to the projects implemented by the Group companies and its brands.
- **Local community** - the Group companies are engaged in crucial activities from the perspective of the inhabitants of their local communities. Also, the Group carries out activities throughout the country, addressed to public entities located in small towns or in areas where social exclusion is high.
- **Children and youth** – they are the primary beneficiaries of our social actions, including their families and immediate milieu. Their support is rendered predominantly in cooperation with, or intermediated by, public bodies.

Key social activities performed by the Śnieżka Group companies in the reported period are presented below:

Social activities in Poland regarding the war in Ukraine

Since the outbreak of the war in Ukraine, the Parent Company has been engaged in helping the local population. The priority was to ensure the safety of Śnieżka-Ukraina employees. Then, transports with food, medicines, protective clothing and footwear were organized. On the Ukrainian side, the employees of the local company handled the distribution of gifts. In Poland, temporary shelter was also provided to several families of Śnieżka-Ukraina employees and associates who were forced to

Data in PLN thousand

leave their living quarters. The total support allocated by Śnieżka to help the Ukrainian population amounted to PLN 352.4 thousand.

3.4.6.1 Original programs of FFIL ŚNIEŻKA SA

„Koloratorium”

It is a social project, addressed to educational institutions from all over Poland, from towns up to 20,000. inhabitants. Within the scope of it, schools have a chance to win colourful mini-biological and chemical laboratories. The value of the equipment funded by Śnieżka depends on the place on the podium: the company rewards 10 schools with workshops worth between PLN 10,000 and PLN 30,000.

158 primary schools across Poland took part in the 4th edition of the program held in 2022. At the same time, students of institutions participating in the project had a chance to win individual prizes. In this very competition, 50 winners were selected, who won, inter alia, electric scooters and gadget sets.

Data in PLN thousand

Figure 9. Our social initiatives in Poland

Nasze inicjatywy społeczne w Polsce



3.4.6.2 Initiatives co-organized and supported by FFIL ŚNIEŻKA SA

Support for the Prof. Religa Cardiac Surgery Foundation

As part of social activities, two companies of the Group - FFIL Śnieżka SA and Śnieżka Trade of Colours engaged in cooperation with Prof. Zbigniew Religa Cardiac Surgery Foundation, donating in 2022 a total of PLN 240,000 for its statutory activities. For this activity, Śnieżka was honoured with the "Crystal Heart" award granted on the occasion of the foundation's 30th anniversary. The Company was among the 21 winners of the award granted in 2022 to companies and institutions supporting the said organization.

Data in PLN thousand

The Great Orchestra of Christmas Charity (WOŚP)

Śnieżka SA has been supporting the Great Orchestra of Christmas Charity every year for 20 years. In 2022, during the 30th Finale, the company donated PLN 60,000 for this purpose, thus supporting the activities of two local charity staffs. The funds collected by the Great Orchestra of Christmas Charity in 2022 supported children's ophthalmology departments.

Summer Cinema

The parent company once again financially and organisationally supported the Municipal Cultural Centre in Dębica in organizing summer open-air screenings providing films free of charge for the inhabitants of the region and organizing a competition with prizes.

Expenditure incurred to support initiatives going beyond its core business profile

In accordance with rule 1.5 of the *Code of Best Practice for WSE Listed Companies 2021* (DPSN 2021), the expenditure of FFil Śnieżka SA incurred to support initiatives not related to the profile of its core business have been presented below. The expenditure presented in the table are donations.

Table 30. Expenditure of FFil Śnieżka SA to support initiatives beyond its core business profile in 2022

Expenditure of FFil Śnieżka SA to support initiatives beyond its core business profile	Year 2022
Donations in favour of Śnieżka Foundation	134.0
Local initiatives and health protection	258.9
Support for Ukraine	352.4
Total	745.3

3.4.6.3 Programs and initiatives implemented by subsidiaries

Social activities in Hungary

- **Social project for hospitals "Support with colours and soul"**

Poli-Farbe has been helping Hungarian hospitals and medical facilities for years by donating paints and cash. So far, the support has been provided to a total of 11 wards in 9 hospitals. In 2022, Poli-Farbe supported the Department of Child Psychiatry of the Teaching Hospital of the Bács-Kiskun District (Kecskemét Hospital). The renovation works are scheduled to be completed in Q1 of 2023, with a budget of HUF 5 million.

- **In-kind support**

Data in PLN thousand

In 2022, Poli-Farbe continued to support schools, nurseries, foundations and associations, donating paint and other decorative products. In 2022 the company donated products worth HUF 3.5 million. They went to kindergartens, primary schools and associations operating in the vicinity of the factory in Bócsa.

Social activities in Ukraine

- **“The colourful world of childhood”**

Owing to the program, 13 wards in Ukrainian medical facilities for children have been renovated and decorated with fairy-tale motifs so far. As a result of the on-going armed conflict in Ukraine, the follow-up of the program in 2022 was unfeasible.

- **“Śnieżka” Practical and Educational Centre**

Training and Practical Centres is a social and partnership program aimed at supporting vocational education in Ukraine. As yet, 14 Training and Practical Centres at vocational schools have been established within its framework.

In 2022, a textbook "Painting and finishing works" was created as part of the program. The publication, released in PDF, has been officially included in the Ukrainian curriculum and can be downloaded free of charge from the websites of the Ministry of Education and Science of Ukraine and the Śnieżka-Ukraina website. The book discusses painting and finishing techniques in a practical way and presents various issues developing the knowledge of construction school students.

- **Śnieżka-Ukraine's support for the "We save lives" initiative**

In 2022, Śnieżka-Ukraina joined the "We save lives" charity initiative, which was implemented by the chain of construction hypermarkets "Epicentr" with the support of the Ministry of Health of Ukraine. The aim of the project was to purchase special medical vehicles - armoured and resuscitation ambulances necessary to save human lives in war conditions. Between November 18 and the end of December 2022, 5% of the value of each ACRYL-PUTZ® product sold in the "Epicentr" and "Nowa Line" shopping centres was dedicated for this purpose.

3.4.6.4 Śnieżka Foundation

The objectives in the area of social involvement are also performed by the Śnieżka Foundation, which is a public benefit organization. The Foundation supports the implementation of the goals of the Company's social involvement, acting on the basis of its own charter.

In 2022, the Śnieżka Foundation, as a public benefit organization collecting 1% tax, raised a record amount of PLN 266,8 thousand in its history.

In the reporting period, the Foundation actively pursued its goals in the areas of:

Data in PLN thousand

EDUCATION

The Foundation supports the comprehensive development of children and adolescents mainly through the implementation of their own educational initiatives and through support - mainly in kind - for undertakings of educational, cultural, educational and sports institutions.

▪ **„Przeogarniacze. Przedsiębiorczość inaczej” project**

„Prze-Ogarniacze” is a new edition of the "Small World of Big Money" program run by the Foundation between 2016 and 2019, which included classes on similar topics. The year 2022 was devoted to develop a new concept for a project addressed to fourth grade students, thanks to which, during five 90-minute workshops, students will learn about issues in the field of economics, entrepreneurship and pro-social activities.

The children are to participate in inspiring lessons, the scenarios of which are based active forms of teaching, i.e. based on learning through cooperation and play. The topics of the meetings are selected in such a manner so as to broaden horizons and demonstrate the application of the discussed issues in everyday life, and the final of the meetings is a trip funded by the Foundation. The pilot implementation of the new version of the program is scheduled for the second semester of the 2022/2023 school year.

As yet, over 1,400 students from 77 classes of schools in the Dębica district have participated in the Foundation's project.

▪ **Help for Ukrainian students in the community centre in Dębica**

With the beginning of the war, many mothers with nursery and school children found shelter in Dębica. The Foundation supported the community centres in Dębica operating at the Municipal Social Welfare Centre, which prepared a care and educational offer for Ukrainian children. The Foundation earmarked funds for this purpose in the amount of PLN 10,000, which were allocated to purchase educational materials for the children in three currently operating centres.

HEALTH CARE

In 2021, as part of the new operating strategy, the foundation completed its activities for individual beneficiaries who received substantive support in transferring to the care of other foundations. In 2022, the foundation allocated PLN 892.4 thousand for the sick and disabled. These funds, collected by the beneficiaries as part of the 1% tax, were transferred to their accounts in new foundations.

As part of the new strategy in the field of health care, the Foundation focused its activities on improving the conditions for treating patients by renovating hospital wards as part of the "Children's world in colours" project, the implementation of which the Foundation took over from the founder, i.e. FFIL Śnieżka SA.

▪ **Department of Internal Diseases and Cardiology at the Healthcare Facility in Dębica**

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Data in PLN thousand

In 2022, another section of the hospital in Dębica was renovated - the Department of Internal Diseases and Cardiology. A total of 2,500 kg of putty 150 litres of primer and 800 litres of paint were used to carry out a comprehensive and professional renovation of the ward in question. The activities also included the purchase and installation of new wall bumper guards, and the Foundation also financed all the costs of renovation works. The Śnieżka Foundation allocated a total of over PLN 135,000 for the renovation of the Department of Internal Diseases and Cardiology in Dębica.

Table 31. Cash acquired by the Śnieżka Foundation in 2022

Cash acquired by the Śnieżka Foundation	Year 2022
Donations from the Founder of FFIL Śnieżka SA and the Group companies	150.6
Donations from other legal entities	-
Donations from natural persons	4.4
1% of tax	266.8
Total	421.8

Table 32. Cash earmarked by the Śnieżka Foundation to achieve major statutory objectives in 2022

Cash earmarked by the Śnieżka Foundation to achieve major statutory objectives	Year 2022
Aid to schools, nurseries, educational and cultural institutions	11.0
Assistance in physical education, including aid to sports clubs	1.7
Aid to the sick and the disabled	892.4
Activities in favour of hospitals	135.1
Charitable activity, including aid to charities	14.6
Total	1 054.8

Data based on the financial statements of the Śnieżka Foundation.

Data in PLN thousand

III pillar BUSINESS

Priority areas	Example of strategic objectives	Example of operational objectives
Compliance - <i>We ensure compliance of our activities with laws, regulations and standards.</i>	Active implementation of the compliance function	Monitoring and ensuring compliance with existing laws, internal regulations and voluntarily adopted standards. Implementation of mechanisms to mitigate the risk of non-compliance.
Cybersecurity – <i>We focus on cybersecurity.</i>	Comprehensive cybercrime protection and data security management	Education in the field of cyber security, including data protection: 100% of trained administrative employees. Adoption of the Policy on cybersecurity and personal data security of the Capital Group.
Risk management - <i>We formalize a comprehensive approach to risk management, including climate risk.</i>	Formalization of a comprehensive risk management system	Development of a new risk matrix (taking into account risks in the ESG areas), responsibility, procedures and supervision methods

3.4.7 Compliance

FFiL Śnieżka SA separates in its structure a unit responsible for the implementation of tasks in the area of compliance with the law. In addition, the Company focuses on introducing activities in line with the adopted ethical and social standards, including in the field of counteracting corruption and abuse. The company constantly strives to ensure the effectiveness, consistency and transparency of documentation. The compliance system in the Company consists of comprehensive policies, procedures and other internal regulations.

Counteracting corruption, conflicts of interest and financial fraud

The company has implemented *the Anti-Corruption Policy*, also adopted in the companies of the Śnieżka Group: Śnieżka Trade of Colours, Poli-Farbe, Śnieżka-Ukraina and Radomska Fabryka Farb i Lakierów SA.

In addition, FFiL Śnieżka SA and other Group companies introduced the Śnieżka Group's Code of Ethics, which includes, i.a.: regulations on counteracting corruption and conflicts of interest. With regard to these issues, the following have also been implemented in the companies: *The Procurement Policy of the Śnieżka Group*, and *Guidelines on the selection of a supplier for investment orders, orders resulting from the implementation of renovation works and inspections as well as orders resulting from the removal of the effects of a failure at FFiL Śnieżka SA*. Employees of the departments responsible for procurement and selection of suppliers were trained and made appropriate statements, e.g. regarding no conflict of interest.

Data in PLN thousand

In order to counteract fraud and financial abuse, the Company has adopted an *Internal Procedure for Counteracting Money Laundering and Terrorist Financing*.

Counteracting unfair market practices and unfair competition

FFiL Śnieżka SA and Śnieżka Group companies comply with the principles of counteracting unfair market practices and unfair competition. While conducting or intending to conduct market or marketing activities, the Company and the Group companies take advantage of the professional advice of reputable law firms specializing in the above-mentioned areas. Moreover, Śnieżka ToC's employees (as a competence centre in commercial areas) are provided with cyclical competition law training run by specialized partners.

In 2022, the Company did not record any cases of violations in the indicated areas.

Personal data protection

FFiL Śnieżka SA has a *Digital Security Policy* in place, the purpose of which is to protect the Company's information and data. Additional policies, procedures and regulations regarding the protection of personal data have also been adopted.

Reporting violations

Since 2020, the Company has had the *Procedure for anonymous reporting of violations of the law, procedures and ethical standards of FFiL Śnieżka SA* in place, which enables employees to report (whistleblowing) observed or experienced non-compliance with the law or principles written in the codes, policies, procedures and other internal regulations adopted within the Company. Each employee has the option of submitting a report anonymously, and the Company provides protection for whistleblowers acting in good faith. The Company has taken steps to adapt the procedure to the draft *Act on the protection of persons reporting violations of the law*. The Company has also established cooperation with an external advisor, the purpose of which is to implement in the Company and in the Group companies a special IT tool for submitting notifications, conducting internal investigations and managing notifications.

In 2022, the Company did not receive any notification regarding violations of law, procedures or ethical standards.

3.4.8 Cybersecurity

A comprehensive approach to digital security management stems from the growing digitization in terms of working methods, tools and IT systems of the Śnieżka Group. The systems that require the collection of personal data of employees, customers or business partners are particularly essential to us.

Activities in this area also focus on building a culture of digital security. This applies primarily to shaping the right habits among employees through raising awareness, cyclical training and other educational activities in this field. Security management maturity reviews within the Śnieżka Group are equally

Data in PLN thousand

important, which include analysis, monitoring and development of policies, procedures and other documents regulating the area of cybersecurity.

In 2022, the *Śnieżka Group digital security policy* was implemented (described in section 3.3.10 of the Report), which aims to ensure the security of processed data and ensure continuity of services rendered.

As part of the collaboration with the provider of Security Operation Centre services, in 2022 the SIEM system monitored the Śnieżka Group's IT systems. 75 security incidents and 257 vulnerabilities (weak points of a given system) were reported and resolved. Additionally, 1,754 suspicious IP addresses were identified and blocked.

In 2022, as part of the cyclical verification of the security level of the IT solutions applied, a number of tests were performed again to identify gaps in IT systems resulting from the emergence of new vulnerabilities. Other Śnieżka Group's portals available directly from the Internet were subjected to test attacks from the outside, and employees were again subjected to test simulated phishing attacks in order to increase the organization's resistance to potential cybercrime threats. The identified vulnerabilities have been fixed.

"Roadmap" for the development of maturity of IT security systems

The Śnieżka Group approved a roadmap for the development of maturity of IT security systems. In 2022, as part of the implementation of activities in line with the above-mentioned map the following was developed:

- procedures for automated handling of security incidents;
- ransomware response procedures;
- security tests of 12 other IT systems of FFil Śnieżka SA and Śnieżka ToC exposed to the Internet - after the tests, key identified vulnerabilities were removed;
- plan of further optimization activities in Competence Centres and other Group companies;
- security audit of Group companies;
- tests of simulated phishing attacks on employees with supplementary training in order to increase the organization's resistance to this type of attacks;
- a sub-project was launched to develop detailed rules for the Group's cooperation with suppliers in the field of IT security, in particular taking into account cooperation priorities, the degree of risk and the size of suppliers.

Based on the security audit, a report is being prepared on the maturity of IT security solutions in foreign companies in comparison with the level of maturity in Polish Group companies.

Building cybersecurity awareness

Data in PLN thousand

As part of the cybersecurity awareness building program, we have introduced and continue a series of training courses in this regard. We train our employees and check their knowledge, e.g. on access to data and their processing, maintaining security in the Internet network, appropriate response in cases of incident detection. Training was also conducted in 2022.

We have also started sending "Cybersecurity News", i.e. cyclical newsletters presenting the latest information and interesting examples in the field of cybersecurity.

Digital security is one of the priority areas of the Śnieżka Sustainable Development Strategy, in which the following objectives have been defined.

Strategic objective:

- Comprehensive cybercrime protection and data security management

Operational objectives:

- Education in the field of cyber security, including data protection
- Review of the Śnieżka Group's security management maturity

3.5 Managing risks affecting non-financial issues

This chapter presents significant risk factors and threats to the operations of the Śnieżka Group.

Due to the war taking place in Ukraine, as well as the lack of available reliable and complete information and data on its long-term global effects and on the markets of the Group's operations (including in the area of possible permanent changes in consumer behaviour and the financial situation of the Group's co-operators - suppliers and recipients), as at the date of preparation of the Group's report for 2022 - as in the case of all entities operating in Poland and worldwide - in the opinion of the Management Board of the Company, it is not possible to present all possible significant risk factors and threats to the Group's operations caused by them.

The Company's Management Board monitors the potential impact of the armed conflict in Ukraine on the Group's operations and takes actions to mitigate any negative effects for the Group. However, due to the inability to obtain reliable assumptions, currently all forecasts regarding the future - and in particular descriptions of risks related to the Group's operations - must, according to the Management Board, be analysed taking into account the abovementioned information.

Risk management is one of the nine priority areas of Śnieżka 2023 Sustainable Development Strategy.

- 3.5.1 A description of significant risks affecting non-financial issues and methods of managing these risks

Risk associated with product defects

Data in PLN thousand

Claims related to product liability may have a negative impact on the business and operating results of the Śnieżka Group. In order to counteract product risks, the Śnieżka Group strives to continuously improve the quality of programs applicable in various areas of the Group and focuses on the effective implementation of research, development, innovation and sustainable development programs. An additional tool protecting against the effects of unwanted events is insurance coverage in the area of product liability.

Due to the complex technological process of the production of paints and varnishes, there is a risk that the final product will suffer from defects. The Śnieżka Group strives to eliminate any product defects at every stage of its development - from technological processes through the purchase of the top quality raw materials, meeting the most stringent standards, through the production process performed at the highest level, accompanied by quality control at every production stage. Also the stages of storage and distribution are subject to very strict internal standards, and are controlled on an on-going basis.

The Company has a procedure for dealing with non-compliant products, which defines the principles for dealing with products that do not comply with the required technical parameters. The current quality control activities allow to ensure specific parameters of raw materials and products as well as allow to take immediate action in the case of non-compliance.

Risks associated with development of a new product

The risk related to production processes may negatively affect the bottomline of the Śnieżka Group. It results from such areas as process quality and product quality, health and safety at work, process safety and product safety. The unlikely scenarios may result in serious incidents significantly affecting the Śnieżka Group, entailing the business continuity and reputation risks. The Śnieżka Group carries out regular and detailed safety audits in these areas, and has in place an appropriate, multi-stage and iterative system of new product development management system.

Risk associated with marketing communication

The marketing communication of the Śnieżka Group is very intense, which may lead to a risk connected with the drafting and publication of messages (advertisements, etc.) which may in numerous ways breach the highest standards of marketing communication and contribute to damage to the company's image. The Śnieżka Group has been taking efforts to prevent potential breaches of the highest standards of its marketing communication consisting among others in a thorough internal review of the planned advertising campaigns and checking compliance of the planned campaigns with the guidelines based on the Advertising Ethical Code. In order to prevent such breaches, the Company has formulated the principles of approval of marketing communications as well as a manual of conduct in the case of potential breaches.

Risks associated with the increasing customer requirements

The customer expectations with regard to parameters of the products offered have been growing rapidly. This trend can be observed in many industries as it is connected with higher levels of consumer awareness and wealth. It is quite a challenge as in some cases these expectations grow faster than they might be taken into consideration in the technological process. Therefore, the Śnieżka Group

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has been taking a range of actions to be able to meet the customer expectations in terms of the product quality and properties as well as their impact on the environment. These actions include, among others, monitoring the customer expectations, internal knowledge sharing system for the persons responsible for production technology, dialog with suppliers regarding potential solutions and innovation they offer, as well as implementation of innovative technical solutions at the stage of new product development and testing.

Risk associated with the EU regulations concerning inter alia paint formulas

The EU legal regulations which in any way affect the paints and varnishes industry are constantly becoming more severe and complex. This is of particular importance in the case of products holding certificates of ecological products - for example, to make sure that an eco-friendly paint remains fit for use for a long time it is necessary to use biocides since the use of natural components would result in the paint losing its properties due to natural decomposition. At the same time, the legal regulations on biocide parameters are becoming more rigorous. The Group monitors the legal developments that might affect the production on an on-going basis and takes actions aimed at a rapid adjustment of its technology process with a view to mitigating this risk.

Risk associated with potential breaches of ethics in the supply chain

Any ethical violations in the supply chain may have - through image links - an impact on the Group’s image. The Śnieżka Group intends to implement measures to improve the review of the suppliers’ ethical standards so as to mitigate this risk.

In order to reduce this risk, the Company implemented in 2022 the *Supplier Code* and a supplier self-assessment questionnaire.

Further information regarding this subject is presented in section 3.3.7 herein.

3.5.2 Risks associated with the areas covered by the Policies

AREA: EMPLOYEE ISSUES

Risk related to a decrease in employee motivation and involvement

The Group implements a business strategy, which translates into the need to unify and standardize many business processes in subsidiaries, and thus introduce changes in the current methods of their operation. Therefore, we make every effort to ensure that the activities carried out are well comprehended and positively perceived by employees who are the key stakeholders of the Śnieżka Group. There is a risk, however, that in the event of insufficient and thus ineffective communication regarding the changes, motivation and commitment (and as a result - efficiency) of employees will decline, which may lead to a decision to resign from work. Consequently, it is necessary to ensure an appropriate level of communication and information cascade throughout the Group and to strengthen the role of superiors who will be able to explain and justify the necessity of the introduced changes.

Many other, individually valued elements and situations related to work can also contribute to a decrease in employee motivation and commitment, e.g. loss of sense of work, weakening of social ties

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(work in dispersed teams), unclear division of duties, decreased sense of belonging to a team and the Company, increasing need for reward and appreciation. That is why the Group strives to pursue a personnel policy that will live up to the employees' expectations both in terms of finance and individual development, as well as those corresponding to the sense of security and recognition, the quality of leadership of the superiors or job satisfaction. Building high commitment is one of the key elements of the current human resource management strategy.

Risk connected with limited availability of highly-qualified staff and talent attraction and retention

The number and duration of the recruitment processes conducted in 2022 in all key companies of the Śnieżka Group confirmed the scarcity of the competencies sought by it on the labour market and the challenges related to the acquisition of specific employee qualifications necessary to achieve the assumed business goals. Not only are the problems with the availability of competent staff noticeable in specialist positions requiring specific knowledge, but also on line positions where specific technical skills are required. The growing competitiveness on the market is influenced by the increased role of remote work and employment flexibility, enabling potential employees to take up work anywhere in the world, which is also important in the context of maintaining qualified staff within the organization.

Activities in the field of building a coherent, positive, and, above all, true image of the employer are of great importance when selecting a new employer. Activities aimed at retaining key people in the organization include, i.a.: shaping the culture of appreciation and feedback, the opportunity to learn and develop through participation in both internal and international projects, the process of development talks at all levels of the organization (carried out in Śnieżka SA and Śnieżka ToC, implemented in key foreign companies of the Group), or planning individual employee development.

Each stage of the employee's life cycle in the organization (including: the recruitment process, development offer, IT solutions supporting daily work, the process of development talks) reflects the organizational culture and affects the overall employee experience. The Śnieżka Group strives to create a working environment in which employees, regardless of differences between them, have the opportunity to fully make use of their potential. This is a deliberate action of the company to use a variety of experiences and points of view. One of the key areas of the adopted staff strategy is the identification of appropriate qualifications and care for the employees who have them.

Risk associated with demographic changes

The changes such as decline in the working-age population or the aging of the population are occurring in many European countries, including Poland, Hungary and Ukraine. The demographic changes taking place in societies will constitute a major challenge for the countries' economy and employers in the near future. The aging population, as a result of an increase in life expectancy and a decrease in the number of births, will be associated with a successive decline in the number of professionally active people and with an increase in expenditure from the state budget for the system of old-age and disability pensions and other forms of support and care for the elderly offered in the field of social policy.

Observing the changes taking place in society and trying to predict their potential impact on its operations, the Śnieżka Group conducts long-term employment analysis processes and estimates the possibilities of managing the available workforce. The increase in the number of mature employees

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also necessitates to find ways to fully make use of their professional potential, also in the context of liaison with representatives of the younger generations. *The HR policy of the Śnieżka Group* and the goals designed as part of the Sustainable Development Strategy published in the first quarter of 2023 assume, i.a.: implementation of activities aimed at building a culture of diversity and inclusion, also in relation to multi-generational teams.

AREA: ENVIRONMENT AND CLIMATE CHANGE

Risk related to the potentially negative impact on the environment and climate, as well as the impact of climate change on the Group

The Śnieżka Group identifies the risk of its negative impact on the environment and climate and the possible negative impact of climate change on the Group.

Climate risks

The analysis of risks related to the impact on *the environment and climate and the simultaneous recognition of the impact of climate change on the Group was the starting point for work on the Climate Policy of the Śnieżka Group* (described in section 3.3.6 of the Report) and the provisions of the *Śnieżka 2023+ Sustainable Development Strategy* (described section 3.1 of the Report).

The TCFD (Task Force on Climate-related Financial Disclosures) Guidelines and the analysis of emissions under Scope 1 and 2 developed on the basis of the GHG Protocol were used for this purpose. The following types of risks were analysed:

- **Physical risks:** financial costs and losses resulting from the increasing severity and frequency of physical factors contributing to climate risk, i.e. the impact of extreme weather events (e.g. floods, sea level rise, droughts, fires heat waves and storms, etc.) leading to e.g. damage to infrastructure, crops, disturbances in the supply chain.
- **Transition risks:** associated with the transition to a low-carbon economy. These risks are related to current and future regulatory, technological and market changes (disruptions in the current structure of demand and supply of electricity, natural resources, products and services) as well as changes in market trends, including consumer attitudes and behaviours.

The risks with the highest potential level of impact and probability are:

- **acute physical risk** resulting from specific events, in particular weather-related, such as storms, floods, fires or heat waves, which can cause damage and disrupt value chains.
- **long-term physical risks** arising from long-term climate change, such as temperature changes, rising sea levels, reduced water availability, biodiversity loss, and changes in land and soil productivity.
- **policy risks**, e.g. arising from energy efficiency requirements, carbon pricing mechanisms that drive up fossil fuel prices, or policies that support sustainable land management.

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- **market risk**, e.g. risk of litigation due to failure to avoid or mitigate adverse climate impacts or failure to adapt to climate change.

The analysis of climate risks has been included in the *Climate Policy* and will be included in the comprehensive risk management system.

Environmental risk

The Group's activities are related to the collection and processing of raw materials, production, storage and logistics, which may have a negative impact on the environment. This may apply in particular to the Group's value chain (scope 3), including any trace related to the extraction or production of raw materials and packaging by the Group's suppliers.

The Group's approach to environmental issues is multidimensional. A severe measure of the loss may be: significantly increased fees for using the environment, penalties for non-compliance with regulations and even suspension of production activities. Potential non-compliance by the Group with environmental standards may also result in so-called users and consumers giving up those products that have a negative impact on the natural environment.

In addition, within the meaning of the provisions of Regulation 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investments (the so-called Taxonomy), part of the Group's activities do not meet the nature of environmentally sustainable activities (section 3.6 of the Report).

The Group constantly monitors and manages the environmental and climate aspects by conducting its operations with due diligence, including:

- creating own good practices in the field of environmental protection and limiting the impact of its activities on the climate (*the Śnieżka Group's 2023+ Sustainable Development Strategy, the Śnieżka Group's climate policy, and the Śnieżka Group's quality, environment and health and safety policy* are in place);
- continuous monitoring of all activities aimed at meeting the obligations in the field of environmental protection (including natural resources) and climate protection;
- application of existing and, if possible, planned legal regulations in the area of environmental protection and counteracting climate change;
- prevention to exceed the permissible emission levels - incl. volatile organic compounds (VOCs) into the atmosphere - and protection of water and soil;
- fostering proper attitudes and awareness among the employees through appropriate management of hazardous and non-hazardous waste,
- selection of raw materials used in production and their meticulous environmental control - both at the design stage (development of new formulations) and production;

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- verification of existing product recipes in the context of the possibility of using alternative, more environmentally friendly raw materials;
- controlling and testing finished products (their emissivity, impact on the environment and health are tested) used both indoors and outdoors;
- safe storage of finished products;
- conducting reviews of environmental responsibility (it concerns the responsibility of individual workplaces for specific environmental aspects) and monitoring activities aimed at meeting the obligations in the field of environmental protection;
- preventing the impact of possible failures in the Group’s production facilities on the environment and climate. FFIL Śnieżka SA (in Brzeźnica and the Logistics Centre in Zawada) has a Failure Prevention Program in place.

In addition, the Group:

- concluded insurance contracts, including natural disasters (e.g. flood, wind, rain, hail, snow or ice pressure, lightning strike, earthquake, landslides and subsidence).
- develops technologies and implements investments aimed at minimizing the negative impact of the Group's operations on the environment and climate (i.e. reducing its environmental and carbon footprint).
- commissioned in 2022 the Śnieżka Group Logistics Centre, in which energy-saving technologies were used and which will allow, inter alia, for the optimization of transport and logistics of the Group's finished products.

At the same time, a certain part of the entire value chain of the Group is high-emission activity (e.g. production of packaging based on petroleum products and extraction or production of certain raw materials used by the Group) and it cannot be ruled out that future regulations on reducing emissions and energy consumption of production facilities located in the European Union in this area, will affect the business model and results of the Group. The following applicable documents within the Group protect against the materialization of the risk that may occur in the field of environmental protection and the negative impact on the climate: *the Śnieżka Group's 2023+ Sustainable Development Strategy, the Śnieżka Group's climate policy, and the Śnieżka Group's quality, environment and health and safety policy.*

In 2022 the Company:

- implemented a project to calculate the carbon footprint for the Śnieżka Group in the scope of 1, 2 and 3 for 2020–2022,
- monitored environmental and climate issues in the supply chain. implemented the Supplier Code (described in section 3.3.7 of the Report), which describes the Group's expectations

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regarding environmental and climate protection and sustainable development. In addition, these issues were included in the supplier's self-assessment questionnaire.

- developed the *2023+ Sustainable Development Strategy* and the *Climate Policy*. Both documents will be valid from 2023.

In 2023, the Company plans to undertake reduction plans to reduce the carbon footprint in the scope of 1 or 2.

Risk associated with environmental management standards

The main challenge in unifying the environmental management of the Śnieżka Group is the differences in the development of individual markets of the Group as well as in the national regulations applicable on these markets. Consequently, actions are taken to adopt the same environmental risk management standards throughout the Group. The companies strive to unify internal regulations, i.e. in the area of occupational health and safety, as well as the evaluation and classification of raw materials.

AREA: SOCIAL ISSUES

The risk related to the management of crisis communication

Due to the scale of business operations and communication, the Group is to some extent exposed to the risk of various events that may require the use of crisis communication. The Group is working to introduce systemic anti-crisis management related to reputation. The aim of the project is to ensure effective mitigation of potential risks.

AREA: RESPECT FOR HUMAN RIGHTS

Risk associated with work conditions, including occupational safety and health

Human rights may potentially be breached at the Śnieżka Group in connection with the work conditions (working time, work conditions, etc.) The Śnieżka Group mitigates the risk thanks to detailed guidelines and procedures set forth in the key documents such as the Labour Bylaws in effect at the specific companies of the Group.

In view of the nature of its operations, the Śnieżka Group has prepared and implemented very detailed procedures in the area of occupational safety and health which are complied with very strictly.

AREA: ANTI-CORRUPTION

Risk related to the possibility of occurring corruption events

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Taking a potential risk of corruption into consideration, the Śnieżka Group has developed and implemented the *Anti-Corruption Policy* which has been communicated to all employees. Also, a procedure for anonymous reporting of breaches of law, procedures and ethical standards has been introduced, in which training was conducted and appropriate materials were provided to employees.

AREA: DIVERSITY

Risk associated with potential cases of discrimination and harassment

There is a potential risk of occurrence of events which may be understood as discrimination and/or harassment. The Group has developed and implemented an anti-harassment procedure so as to prevent this risk. There is also an Anti-Harassment Committee operating at FFIL ŚNIEŻKA SA, and employee training on the subject is provided.

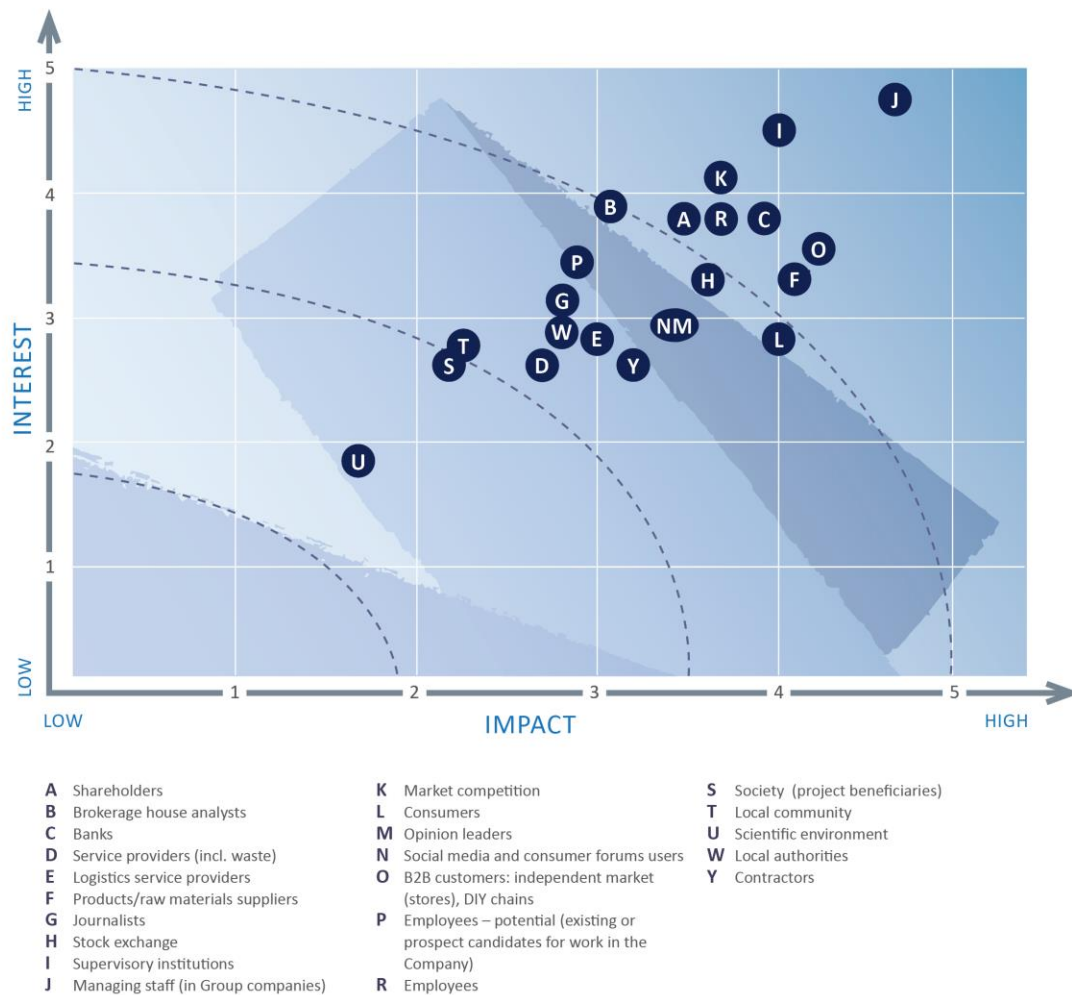
Data in PLN thousand

3.5.3 Stakeholders – stakeholder map

The chart presenting the key stakeholder map was prepared in 2021 during a strategic workshop with participation of the Company's key managers and members of the Management Board. The mapping of stakeholders was carried out as part of the project of creating the Company's Sustainable Development Strategy.

In 2022, no changes in the impact and interest of stakeholders occurred.

Figure 35. Stakeholder map



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3.5.4 A description of relationship with specific stakeholder groups.

Framework standards in the area of information and data management in relations with key stakeholder groups is regulated by the *Information Policy of FFIL Śnieżka SA* updated in 2022. The overriding objective of the Policy is to adopt a framework for managing information and data on the Company, including protecting the Company's interests in this area, mitigating the risks arising from a significant scale of the Company's operations and operating in many locations and on many markets. The standards adopted by the parent company are implemented in subsidiaries that have introduced their information policies consistent with the document in force in the parent company.

We address each of the stakeholder groups on an individual basis and communicate with each group in a manner adjusted to its needs. We believe that feedback is a valuable guidance that enables us to review, on an on-going basis, the actions taken with a view to building stable and transparent relationships with our stakeholders. The establishment of such relationships is a value for the Group.

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Table 33. Methods of managing relations with stakeholder groups

Stakeholder group	Methods of managing relations with stakeholder groups							
	Meetings	Satisfaction surveys/opinion polls	Training	Social Media	Conferences and industry events	Website	Internal communication	Phone/e-mail contacts
Shareholders	■	■				■		■
Brokerage house analysts		■		■		■		
Banks	■	■				■		■
Deliveries	■	■			■			■
Journalists	■	■		■	■	■		■
Stock exchange						■		■
Supervisory institutions						■		■
Managerial staff	■		■				■	■
Market competition	■			■		■		
Consumers	■	■		■		■		
Opinion leaders		■		■		■		■
Users of social media and consumer forums				■		■		
B2B customers	■	■	■			■		■
Employees (current)	■	■	■	■		■	■	■
Employees (potential)	■	■	■	■		■		■
Society (project beneficiaries)	■	■		■		■		■
Local community	■	■		■		■		
Local authorities	■	■		■		■		■
Contractors	■	■	■	■		■		■

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Below we present the most frequently used methods of communication with our stakeholders:

- **current employees** – company magazine, employee newsletter, intranet, information displays, posters, contacts via selected employee representatives
- **shareholders** - general meetings, reports (periodic and current), traditional meetings and videoconferences and chats
- **competition** – industry meetings, monitoring of activity in the media, monitoring of sales in the paint market
- **suppliers of raw materials** – meetings, phone conversations, industry events
- **B2B customers** – meetings, phone contact and training, portal „Customer Service Office” bok.sniezka.pl,
- **financing banks** – phone calls and meetings,
- **service providers** – tenders and meetings
- **prospective employees** – publication of vacancies, Employer Branding activities, fairs
- **local communities** – social campaigns addressed to the local community, the activity of the Śnieżka Your Opportunity Foundation and information provided to local media,
- **customers** – customer satisfaction surveys, social media, POS communication, competitions and promotional actions, advertisements via various communication channels
- **media** – briefings, post-results meetings and on-going contact - via the press office and directly,
- **public administration** – direct contacts as well as phone, e-mail and traditional communication

3.6 Compliance with the Taxonomy

Taxonomy is a classification tool designed to help investors, financial institutions and enterprises make informed investment decisions about environmentally friendly business activities. As a result, the Taxonomy is the basic element of the activity classification system - broken down into sustainable and not classified as sustainable. The establishment of the above-mentioned system and classification criteria aims to implement the “European Green Deal” development strategy - including the transition to a safe, climate-neutral, climate-resilient and more resource-efficient circular economy.

Pursuant to the Taxonomy Regulation, the Group is required to disclose in its annual report:

- percentage share of turnover coming from products or services related to environmentally sustainable activities,

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- percentage share of capital expenditures (CapEx) corresponding to assets or processes related to environmentally sustainable activities,
- percentage of operating expenses (OpEx) corresponding to assets or processes related to environmentally sustainable activities.

The definitions of turnover, Capex and Opex are provided in section 3.6.4.

To determine whether an activity is environmentally sustainable, it is necessary to examine whether it meets all four of the following criteria:

- the activity makes a significant contribution to one or more environmental objectives;
- the activity does not cause significant harm to any of the environmental objectives;
- operating in accordance with the Minimum Guarantees,
- meeting the Technical Qualification Criteria (TKK).

The environmental goals referred to above are:

1. climate change mitigation,
2. adaptation to climate change,
3. sustainable use and protection of water and marine resources,
4. transition to a circular economy,
5. pollution prevention and control,
6. protecting and restoring biodiversity and ecosystems.

Detailed requirements for the calculation and disclosure of the above-mentioned indicators are regulated by the Commission Delegated Regulation (EU) 2021/2178, the so-called delegated act to Art. 8.

3.6.1 Taxonomy compliance testing process

Taxonomy compliance testing process consisted of:

1. Identification – a review of the Group's activities and determining whether a certain type of activity in turnover, capital expenditures or operating expenses qualifies for the taxonomy. To identify the types of activity, the Group used their descriptions contained in the annexes to Commission Delegated Regulation (EU) 2021/2139, and compared them to the actual activity. In case of doubt, the NACE taxonomy was used as an aid.

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2. Allocation - assigning the value of turnover, capital and operational expenditure to individual identified in the first stage of activity. The assignment rules are described in section 3.6.4. Accounting principles.
3. Verification - the Group for the identified types of activities conducted a study of the criteria of significant contribution and no significant harm using the TKK set out in the annexes to Commission Delegated Regulation (EU) 2021/2139. The details of the assessment are described in section 3.6.2. Verification of compliance with the Technical Qualification Criteria. At this stage, an assessment was also carried out as to whether the Minimum Guarantees were met. The details of the assessment are presented in section 3.6.3.
4. Calculation - the Group, based on the information obtained during the process of examining compliance with the Taxonomy, prepared tables containing the required information and developed supplementary information, in accordance with the requirements of Annexes I and II to Commission Delegated Regulation (EU) 2021/2178.

The process was attended by representatives of the areas responsible for individual types of activity, as well as representatives of the areas responsible for finance.

3.6.2 Verification of compliance with the Technical Qualification Criteria (TKK)

The Group verified compliance with the Technical Qualification Criteria for selected types of activities eligible for the taxonomy. The individual criteria of significant contribution and no significant harm were analysed and it was verified to what extent a given type of activity complies with the TKK specified in Annexes I and II to Commission Delegated Regulation (EU) 2021/2139, extended by Commission Delegated Regulation (EU) 2022/1214.

The Group generates revenues mainly from the sale of products (own manufactured products), goods, materials and services. This activity is not recognized in the taxonomy of Annexes I and II to the Climate Delegated Act (Commission Delegated Regulation (EU) 2021/2139).

The Group expects that this activity will be included in the taxonomy as part of subsequent delegated acts that should be issued by the European Commission to Regulation 2020/852.

3.6.3 Verification of compliance with Minimum Guarantees

According to Art. 18 of Regulation 2020/852: "The minimum guarantees referred to in Art. 3 item c) are procedures followed by a business enterprise to ensure compliance with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight core conventions identified in the ILO Declaration on Fundamental Principles and Rights at Work and the principles and rights set out in the International Bill of Human Rights.

The verification of compliance with the Minimum Guarantees was carried out in the Group in accordance with the recommendations included in the Final Report on Minimum Safeguards by the Sustainable Finance Platform:

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- during first stage of the assessment it was verified whether the Group implemented and reported on the adopted due diligence procedures, primarily in the field of respect for human rights, employee rights, corruption, taxation and fair competition.

Compliance was verified taking advantage of a compliance assessment tool using the assessment methodology proposed by the Sustainable Finance Platform: World Benchmark Alliance Core UNGP Indicators. As a result of the analysis, it was determined that the organization has a complete due diligence process that complies with the guidelines.

- in the next step, it was verified whether the Group had committed serious or systematic human rights violations in the past. Any incidental human rights violations should be appropriately addressed, e.g. through the payment of compensation to victims, and should lead to the introduction of appropriate corrective measures to prevent similar violations in the future.

The verification proved no notifications addressed to the Group.

3.6.4 Accounting principles

In order to present the percentage of turnover, capital expenditure (CAPEX) and operational expenditure (OPEX) that qualify for the taxonomy, the Group applied the following rules:

- **Turnover** - the basis was the total revenues of the Group in 2022, disclosed in the consolidated statements of comprehensive income under "Sales revenues" item (described in note 3.2.1 to the consolidated statements). The turnover calculated in this manner is the denominator that allows to calculate the activity indicators qualifying for the taxonomy broken down into environmentally sustainable and environmentally unsustainable activities. The indicator numerator should present revenues from activities eligible for the taxonomy, broken down into sustainable and environmentally unsustainable activities.

The Group generates revenues mainly from the sale of products (own manufactured products), goods, materials and services.

- **Capital expenditure (CAPEX)** - the basis was capital expenditure in the Group, fully recognized in the consolidated statements of financial position under "Property, plant and equipment" item and described in note 3.8 to the consolidated statements. The expenditure is the denominator for calculating the activity indicators eligible for the taxonomy, broken down into environmentally sustainable and environmentally unsustainable activities. In the indicator numerator, it discloses the part of CAPEX that concerns the types of activities eligible for the taxonomy, broken down into environmentally sustainable and unsustainable activities.
- **Operational expenditure (OPEX)** - the basis was all non-capitalized costs, including: costs for the on-going servicing of the Group's assets and maintaining them in good condition. These costs include, inter alia, personnel costs of employees responsible for maintenance and repairs, costs of repairs and overhauls of devices, inspections, cleaning costs, fire protection costs, building protection costs. The sum of these costs is the denominator for calculating the activity indicators eligible for the taxonomy, broken down into environmentally sustainable

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and environmentally unsustainable activities. In the indicator numerator, it discloses the part of OPEX costs that relates to the types of activities eligible for the taxonomy, broken down into environmentally sustainable and environmentally unsustainable activities.

Other information

The data used for the calculations come from the financial and accounting systems of individual companies belonging to the Capital Group.

In the report for 2022, the Group discloses for the first time the share of activities in accordance with the taxonomy. However, the Group reveals for the second time the share of activities eligible for the taxonomy. The disclosure applies to the period from 01.01.2022 to 31.12.2022.

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Table 34. Percentage share of turnover in accordance with the taxonomy for the Capital Group

Działalność gospodarcza	Kod lub kody	Obrót	Udział procentowy obrotu	Kryteria dotyczące istotnego wkładu						Kryteria dotyczące zasady "nie wyrządza poważnych szkód"								Procent	Procent	E	T	
				tys. PLN	%	%	%	%	%	%	%	T/N	T/N	T/N	T/N	T/N	T/N					T/N
A. DZIAŁALNOŚĆ KWALIFIKUJĄCA SIĘ DO SYSTEMATYKI																						
A.1 Rodzaje działalności zrównoważonej środowiskowo (zgodna z systematyką)																						
Obrót ze zrównoważonej środowiskowo działalności (zgodnie z systematyką) (A.1)		-	0%	0%	0%	0%	0%	0%	0%								0%	nd				
Obrót z tytułu działalności zrównoważonej środowiskowo (zgodnej z systematyką) (A.1)		-	0%	0%	0%	0%	0%	0%	0%								0%	nd				
A.2 Działalność kwalifikująca się do systematyki ale niezrównoważona środowiskowo (działalność niezgodna z systematyką)																						
Obrót z działalności kwalifikującej się do systematyki ale niezrównoważonej środowiskowo (działalności niezgodnej z systematyką) (A.2)		-	0%																			
Obrót z działalności kwalifikującej się do systematyki ale niezrównoważonej środowiskowo (działalności niezgodnej z systematyką) (A.2)		-	0%														0%	nd				
RAZEM (A.1 + A.2)		-	0%														0%	nd				
B. DZIAŁALNOŚĆ NIEKWALIFIKUJĄCA SIĘ DO SYSTEMATYKI																						
Obrót z tyt. działalności niekwalifikującej się do systematyki (B)		791 686	100,0%																			
RAZEM (A + B)		791 686	100,0%																			

Table 35. Percentage share of turnover in accordance with the taxonomy for FFIL Śnieżka SA

			Kryteria dotyczące istotnego wkładu								Kryteria dotyczące zasady "nie wyrządza poważnych szkód"																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																													
Działalność gospodarcza	Kod lub kody	Obrót	Udział procentowy obrotu																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					

As a result of the analysis carried out at the level of the Group and the Company, no categories of revenues generated by the Group or the Company in 2022 were identified that would qualify for the taxonomy included in Annex I to the delegated act on climate.

The Śnieżka Group – Management's report on the activities for 2022

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Table 36. Percentage share of capital expenditure (CAPEX) in accordance with the taxonomy for the Capital Group

Działalność gospodarcza	Kod lub kody	Nakłady inwestycyjne	Udział procentowy nakładów inwestycyjnych	Kryteria dotyczące istotnego wkładu								Kryteria dotyczące zasady "nie wyrządza poważnych szkód"								Procent	Procent	E	T
				tys. PLN	%	%	%	%	%	%	%	T/N	T/N	T/N	T/N	T/N	T/N	T/N					
A. DZIAŁALNOŚĆ KWALIFIKUJĄCA SIĘ DO SYSTEMATYKI																							
A.1 Rodzaje działalności zrównoważonej środowiskowo (zgodna z systematyką)																							
Montaż, konserwacja i naprawa instrumentów i urządzeń do pomiaru, regulacji i kontroli charakterystyki energetycznej budynku	7.5	801	1,5%	1,5%	0%	0%	0%	0%	0%	T	T	nd	nd	nd	nd	T	1,5%	nd	E				
Nakłady inwestycyjne z tytułu działalności zrównoważonej środowiskowo (zgodnej z systematyką) (A.1)		801	1,5%	1,5%	0%	0%	0%	0%	0%								1,5%	nd					
A.2 Działalność kwalifikująca się do systematyki ale niezrównoważona środowiskowo (działalność niezgodna z systematyką)																							
Transport motocyklami, samochodami osobowymi i lekkimi pojazdami użytkowymi	6.5	932	1,7%																				
Montaż, konserwacja i naprawa sprzętu zwiększającego efektywność energetyczną	7.3	193	0,4%																				
Nakłady inwestycyjne z tytułu działalności kwalifikującej się do systematyki ale niezrównoważonej środowiskowo (działalności niezgodnej z systematyką) (A.2)		1 125	2,1%																				
RAZEM (A.1 + A.2)		1 926	3,6%																				
B. DZIAŁALNOŚĆ NIEKWALIFIKUJĄCA SIĘ DO SYSTEMATYKI																							
Nakłady inwestycyjne z tytułu działalności niekwalifikującej się do systematyki (B)		51 567	96,4%																				
RAZEM (A + B)		53 493	100,0%																				

Table 37. Percentage share of capital expenditure (CAPEX) in accordance with the taxonomy for FFIL Śnieżka SA

Działalność gospodarcza	Kod lub kody	Nakłady inwestycyjne	Udział procentowy nakładów inwestycyjnych	Kryteria dotyczące istotnego wkładu								Kryteria dotyczące zasady "nie wyrządza poważnych szkód"								Kategoria (działalność wspomagająca)	Kategoria (działalność na rzecz przejęcia)			
				tys. PLN	%	%	%	%	%	%	%	T/N	T/N	T/N	T/N	T/N	T/N	T/N	Procent			Procent	E	T
A. DZIAŁALNOŚĆ KWALIFIKUJĄCA SIĘ DO SYSTEMATYKI																								
A.1 Rodzaje działalności zrównoważonej środowiskowo (zgodna z systematyką)																								
Montaż, konserwacja i naprawa instrumentów i urządzeń do pomiaru, regulacji i kontroli charakterystyki energetycznej budynku	7.5	801	1,6%	1,6%	0%	0%	0%	0%	0%	T	T	nd	nd	nd	nd	T	1,6%	nd			E			
Nakłady inwestycyjne z tytułu działalności zrównoważonej środowiskowo (zgodnej z systematyką) (A.1)		801	1,6%	1,6%	0%	0%	0%	0%	0%								1,6%	nd						
A.2 Działalność kwalifikująca się do systematyki ale niezrównoważona środowiskowo (działalność niezgodna z systematyką)																								
Transport motocyklami, samochodami osobowymi i lekkimi pojazdami użytkowymi	6.5	467	0,9%																					
Montaż, konserwacja i naprawa sprzętu zwiększającego efektywność energetyczną	7.3	112	0,2%																					
Nakłady inwestycyjne z tytułu działalności kwalifikującej się do systematyki ale niezrównoważonej środowiskowo (działalności niezgodnej z systematyką) (A.2)		579	1,1%														1,1%	nd						
RAZEM (A.1 + A.2)		1 379	2,7%														2,7%	nd						
B. DZIAŁALNOŚĆ NIEKWALIFIKUJĄCA SIĘ DO SYSTEMATYKI																								
Nakłady inwestycyjne z tytułu działalności niekwalifikującej się do systematyki (B)		49 440	97,3%																					
RAZEM (A + B)		50 820	100,0%																					

Data in PLN thousand

As part of the examination of compliance with the Taxonomy, all investment projects implemented in 2022 in the Capital Group and in the Company were subject to analysis. Based on the qualification of the significance of the contribution to environmental objectives, technical eligibility criteria and the principle of not causing serious damage, the investments were divided into three groups.

The first is investment activities that are eligible for the taxonomy and consistent with the taxonomy (sustainable activity) - this includes activities consisting in the assembly, maintenance and repair of instruments and devices for measuring, regulating and controlling the energy performance of a building. Expenditures in this group account for 1.5% of all capital expenditures of the Group and 1.6% of all capital expenditures of the Company.

The second group consists of investment activities that are eligible for the taxonomy, but are inconsistent with the taxonomy - activities consisting in the assembly, maintenance and repair of energy efficiency equipment and activities in the area of transport by motorcycles, passenger cars and light commercial vehicles are included here. Expenditures in this group account for 2.1% of all capital expenditures of the Group and 1.1% of all capital expenditures of the Company.

The third group includes all other investment activities, i.e. those that do not qualify for the taxonomy.

Table 38. Percentage share of operational expenditure (OPEX) in accordance with the taxonomy for the Capital Group

Działalność gospodarcza	Kod lub kod	Koszty operacyjne	Udział procentowy wydatków operacyjnych	Kryteria dotyczące istotnego wkładu								Kryteria dotyczące zasady "nie wyrządza poważnych szkód"								Udział procentowy wydatków operacyjnych zgodnych z systematyką, rok 2021	Udział procentowy wydatków operacyjnych zgodnych z systematyką, rok 2022	Procent	Procent	Kategoria (działalność wspomagająca)	Kategoria ("działalność na rzecz przejęcia")
				Łagodzenie zmian klimatu	Adaptacja do zmian klimatu	Zasoby wodne i morskie	Gospodarka o obiegu zamkniętym	Zanieczyszczenie	Różnorodność biologiczna i ekosystemy	Łagodzenie zmian klimatu	Adaptacja do zmian klimatu	Zasoby wodne i morskie	Gospodarka o obiegu zamkniętym	Zanieczyszczenie	Różnorodność biologiczna i ekosystemy	Minimalne gwarancje									
																	tys. PLN	%	%						
				%	%	%	%	%	%	%	T	T	nd.	nd.	nd.	nd.	T	0,9%	nd	E	T				

A. DZIAŁALNOŚĆ KWALIFIKUJĄCA SIĘ DO SYSTEMATYKI																					
A.1. Rodzaje działalności zrównoważonej środowiskowo (zgodna z systematyką)																					
Montaż, konserwację lub naprawę sprzętu zwiększającego efektywność energetyczną.	7.3.	138	0,9%	0,9%	0%	0%	0%	0%	0%	T	T	nd.	nd.	nd.	nd.	T	0,9%	nd	E		
A.2. Działalność kwalifikująca się do systematyki, ale niezrównoważona środowiskowo (działalność niezgodna z systematyką)																					
Wydatki operacyjne z tytułu działalności kwalifikującej się do systematyki, ale niezrównoważonej środowiskowo (działalności niezgodnej z systematyką) (A.2)		-	0%																		
Razem (A.1+A.2)		138	0,9%														%			%	
B Działalność nie kwalifikująca się do systematyki																					
Obrót z działalności niekwalifikującej się do systematyki (B)		14 935	99,1%																		
Razem (A+B)		15 073	100,00%																		

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Data in PLN thousand

Table 39. Percentage share of operational expenditure (OPEX) in accordance with the taxonomy for FFiL Śnieżka SA

Działalność gospodarcza	Kod lub kody	Koszty operacyjne	Udział procentowy wydatków operacyjnych	Kryteria dotyczące istotnego wkładu								Kryteria dotyczące zasady "nie wyrządza poważnych szkód"								Udział procentowy wydatków operacyjnych				Kategoria ("działalność na rzecz przejścia")
				Łącznie	Adaptacja do zmian klimatu	Zasoby wodne i morskie	Gospodarka o obiegu zamkniętym	Zanieczyszczenie	Różnorodność biologiczna i ekosystemy	Łącznie	Adaptacja do zmian klimatu	Zasoby wodne i morskie	Gospodarka o obiegu zamkniętym	Zanieczyszczenie	Różnorodność biologiczna i ekosystemy	Minimalne gwarancje	Udział procentowy wydatków operacyjnych zgodnych z systematyką, rok 2022	Udział procentowy wydatków operacyjnych zgodnych z systematyką, rok 2021	Kategoria (działalność wspomagająca)		Procent	Procent	E	T
		tys. PLN	%	%	%	%	%	%	%	T/N	T/N	T/N	T/N	T/N	T/N	Procent	Procent	E	T					
A. DZIAŁALNOŚĆ KWALIFIKUJĄCA SIĘ DO SYSTEMATYKI																								
A.1. Rodzaje działalności zrównoważonej środowiskowo (zgodna z systematyką)																								
Montaż, konserwację lub naprawę sprzętu zwiększającego efektywność energetyczną.	7.3.	138	1,5%	1,5%	0%	0%	0%	0%	0%	T	T	nd.	nd.	nd.	nd.	T	1,5%	nd	E					
A.2. Działalność kwalifikująca się do systematyki, ale niezrównoważona środowiskowo (działalność niezgodna z systematyką)																								
Wydanki operacyjne z tytułu działalności kwalifikującej się do systematyki, ale niezrównoważonej środowiskowo (działalności niezgodnej z systematyką) (A.2)		- zł	0%																					
Razem (A.1+A.2)		138	1,5%														%	%						
B Działalność nie kwalifikująca się do systematyki																								
Obrót z działalności niekwalifikującej się do systematyki (B)		8 930	98,5%																					
Razem (A+B)		9 068	100,00%																					

As part of the examination of compliance with the Taxonomy, operational expenditures implemented in 2022 in the Capital Group and in the Company were subject to analysis. Based on the qualification of the significance of the contribution to environmental objectives, technical eligibility criteria and the principle of not causing serious damage, the expenditures were divided into three groups.

The first is operational expenditures eligible for the taxonomy and consistent with the taxonomy (sustainable activity) - assembly, maintenance or repair of equipment increasing energy efficiency are included here. Expenditures in this group account for 0.9% of all operational expenditures of the Group and 1.5% of all operational expenditures of the Company.

The second group consists of operational expenditures eligible for the taxonomy, but inconsistent with the taxonomy - expenditures were not classified in this group.

The third group includes all other operational expenditures, i.e. those that do not qualify for the taxonomy.

3.7 Principles used to prepare the Non-Financial Report

The Śnieżka Group's statement on non-financial information - constituting a separate part of the Management Board's report on operations - (hereinafter the "Statement") is the fulfilment of the obligation imposed by the Accounting Act (hereinafter "Act"), which transposes Directive 2014/95 /EU of the European Parliament of October 22, 2014 on disclosure of non-financial and diversity information by certain large entities and groups.

Data in PLN thousand

The statement was prepared for both FFIL Śnieżka SA, as the parent company (pursuant to Art. 49b (1) of the Act) and the entire Śnieżka Group (pursuant to Art. 55 (2b) of the Act).

The statement fulfils the obligations imposed by art. 49b paragraph. 2-8 of the Act, including the description of the business model and reporting on social, employee and environmental issues, respect for human rights and counteracting corruption. For the purpose of developing this Statement, an analysis of the Group's due diligence policies and procedures as well as the activities carried out in the Group's companies were performed. The scope of information and indicators presented in the Statement has been determined based on an internally conducted process of assessing their significance for understanding the development, results and situation of the Group.

Additionally, for the purposes of the Statement for 2022, it was analysed whether the business activity conducted by the Group qualifies for the taxonomy specified in the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on establishing a framework to facilitate sustainable investments (the so-called Taxonomy) - to the extent required by the above-mentioned Regulation in annual reports for 2022.

Data in PLN thousand

4. Risk management

This chapter presents significant risk factors and threats to the operations of the Śnieżka Group.

Due to the war taking place in Ukraine, as well as the lack of available reliable and complete information and data on its long-term global effects and on the markets of the Group's operations, including in the area of possible permanent changes in consumer behaviour and the financial situation of the Group's co-operators (suppliers and recipients), as at the date of preparation of the Group's report for 2022 - as in the case of all entities operating in Poland and worldwide - in the opinion of the Management Board of the Company, it is not possible to present all possible significant risk factors and threats to the Group's operations caused by them.

The Company's Management Board monitors the potential impact of the armed conflict in Ukraine on the Group's operations and takes actions to mitigate any negative effects for the Group. However, due to the inability to obtain reliable assumptions, currently all forecasts regarding the future - and in particular descriptions of risks related to the Group's operations - must, according to the Management Board, be analysed taking into account the abovementioned information.

In addition, the Group identified risk factors affecting non-financial issues. They are described in section 3.4.1 of the Report under: “Managing risks affecting non-financial issues”.

4.1 Risk associated with macroeconomic situation

Macroeconomic conditions play an important role for the Śnieżka Group. Changes in the economic, social and political environment - in Poland and other foreign markets, on which individual Group companies operate (primarily Hungary and Ukraine) - may adversely affect the Group's operations and its business and financial performance.

Risk associated with macroeconomic situation for the Śnieżka Group is mainly connected with:

- **consequences of the war in Ukraine**

The Śnieżka’s Management Board monitors the conditions in Ukraine on a regular basis and adapts the Group’s activities and plans to the current circumstances. In connection with the on-going military operations in Ukraine and its regional and global consequences, the following factors that have and/or may affect the markets on which the Group's companies operate and the Group's operations in the perspective of subsequent periods can be identified:

- exchange rate risk - depreciation of the zloty exchange rate (similarly to other currencies in Central and Eastern Europe), which may translate into an increase in the costs of imported raw materials and materials, and consequently an increase in the prices of the Group's products, and, on the other hand, a weakening of the purchasing power of individual customers;
- an increase in interest rates and the resulting increase in the costs of financing credit, factoring and financial lease obligations with a variable interest rate, as well as weakening the purchasing power of individual customers;

Data in PLN thousand

- further reduction of the purchasing power of the society as a result of rising inflation and economic slowdown or recession, and as a result, a decrease in demand for the Group's products;
- the Group's property insurance contracts contain standard clauses excluding the insurer's liability in the event of war;
- difficult flow of receivables;
- disturbances in the supply chains of imported raw materials, components and fuels, as well as temporarily constricted access to some of them;
- increase in fuel, natural gas and electricity costs;
- downgrading of ratings for selected countries from the conflict region and a general further increase in the risk of conducting business activities in those countries, which may ultimately translate into higher costs for selected Group companies operating on these markets;
- further difficulties in the operation of the Śnieżka-Ukraine plant, e.g. as a result of the lack of access to qualified employees or conscription of current employees for military service;
- extension of communication routes to selected countries and the resulting increase in transport costs;
- a decline in consumer sentiment in the Group's core markets and a possible decrease in demand in the Group's main markets, as a result.

Owing to the outbreak of war in Ukraine between February 24 and April 11, 2022, the operating activities of Śnieżka-Ukraine were suspended (deliveries and production were suspended from February 25, 2022). On April 11, 2022, this company was one of the first on the local market to resume both production and sales. Initially, the plant resumed single-shift production, then returned to full-time operation.

Despite a notable performance drop in Q1 of 2022 on the Ukrainian market, the subsequent quarters turned out to be better than anticipated. Śnieżka-Ukraine is capable of conducting its business activities due to its location outside the current war zone. The company's plant, as one of the few in the decorative paints and construction chemicals industry in Ukraine, is located in the western part of Ukraine - in Yavoriv, in the Lviv region, approx. 20 km from the Polish border.

In Q4 of 2022, due to massive rocket attacks on the energy infrastructure in Ukraine, a reduction in electricity consumption was introduced according to the developed schedules. Businesses adapted to the restrictions based on their capabilities, some enterprises continue to work using power generators, others follow energy supply schedules.

The Group's bottom-line may be significantly affected by changes in currency exchange rates, in particular: EUR/USD, EUR/PLN, USD/PLN, HUF/PLN and UAH/PLN. The greatest current currency risk

Data in PLN thousand

for the Śnieżka Group is related to the strengthening of the EUR/PLN exchange rate, which may increase the cost of purchasing raw materials used for production.

▪ **Lowering the purchasing power of society as a result of economic slowdown or recession**

The purchasing power of consumers has a huge impact on decisions on the purchase of paints and products for decorating and protecting wood.

The purchasing power of the society in 2023 may be affected by: inflation and its effects (including an increase in fees for electricity, gas, fuels or municipal waste management), new fees and taxes.

According to the NBP's central inflation projection, the highest price growth is expected in Q1 2023, when it will reach 19.6% y/y, then it will fall to 8% y/y in Q4 2023³⁶. According to the Central Statistical Office, the prices of consumer goods and services in December 2022, compared to the same month last year, increased by 16.6% (with an increase in the prices of goods - by 17.6% and services - by 13.4%).

According to GfK data, the Consumer Confidence Barometer in Poland in December 2022 was at the level of -17.2. In assessing the current financial situation of households, Poles are still pessimistic about the wealth of their wallets (-15.8). The future economic situation of the country was also assessed negatively (-42.6).

In Hungary, there may be a risk of reducing purchasing power due to rising inflation. In 2022, inflation was at 14.5%, despite the government freezing some prices. The inflation projection for 2023 presented by the National Bank of Hungary indicates that it will amount to 17.2% per year, although, as in Poland, it will decrease starting from Q2³⁷.

This risk may also appear in the case of Ukraine - as a result of the growing risk of escalation of hostilities.

▪ **Deterioration of the construction industry's condition**

According to the CSO's data for January 2023, entrepreneurs estimated that in the construction industry there was an increase in the use of production capacity to the level of approx. 82%, i.e. a decrease by approx. 1% on a year-on-year basis. In January 2023, the general economic ratio in the construction industry in Poland was -21.7. Energy and fuel prices, employment costs, prices of components and services, and costs of financing activities (credits, loans, etc.) are the main factors affecting the company's operating costs³⁸.

³⁶ Source: National Bank of Poland, Inflation and GDP projections – November 2022.

³⁷ Source: Magyar Nemzeti Bank (MNB), Inflation Report, December 2022, <https://www.mnb.hu/letoltes/eng-ir-digitalis-17.pdf>

³⁸ Source: Central Statistical Office, Business tendency in manufacturing, construction, trade and services - January 2023, <https://stat.gov.pl/obszary-tematyczne/koniunktura/koniunktura/koniunktura-w-przetworstwie-przemyslowym-budownictwie-handlu-i-uslugach-styczen-2023-roku,3,122.html>.

Data in PLN thousand

According to the Group's data, the condition of the construction industry may be affected by the unstable situation on the global market of raw materials, which may translate into scarcity in product deliveries and an increase in prices. The above-mentioned factors and phenomena affecting the condition of the construction industry may also impact this sector of the economy on each of the Group's key markets.

A possible decline in consumption, deterioration of public sentiment, rising energy prices, housing maintenance costs, an increase in the cost of loans and an increase in housing prices may lead to a weakened demand for housing - both on the primary and secondary market. It may also result in a reduction of expenses on renovations and modernization of apartments, which mainly determine the demand for decorative paints.

▪ **The condition and credit policy of banks.**

As expected by the Company, the monetary policy tightened further in 2022, which resulted in a series of natural consequences. A series of NBP interest rate increases significantly limited the availability of bank lending³⁹. Less accessible mortgages pushed developers to limit the number of new investments. On the contrary, it is also difficult to finance renovations based on loans, which has a certain impact on limiting demand. However, the company's internal data shows that the purchase of decorative products is mostly financed from savings and current income of consumers.

Rising interest rates significantly boosted the cost of interest on loans, which notably increased the financial costs of enterprises and households, forcing both to save and refrain from planned investments. The increase in interest rates had a major impact on the decline in demand for household housing loans. This, in turn, will translate into a gradual suppression of inflation - consumption will fall, and consequently also prices.

In 2023, there is still a risk of continued tightening of monetary policy, although the potential for further interest rate increases has been largely exhausted, and according to the NBP projections, inflation should start to slow down starting from the Q2 of 2023.

4.2 Strategic risk

Strategic risk is related to a possibility of negative financial and business consequences caused by inappropriate decisions made by the Group based on incorrect assessment of the strategic directions of the organization's development, in particular:

- inappropriate assessment of the future dynamics of the decorative paints and construction chemicals market - faster than assumed by the Group the pace of market development may result in the Group not adjusting its production potential to the increased demand and losing its current market position. On the other hand, a rapid contraction of the market, e.g. as a result of a sharp drop in demand for decorative products, may result in, i.a., accumulation of excessive inventories or incurring unnecessary costs by the Group, which will not be amortized

³⁹ Source: National Bank of Poland, Basic NBP interest rates in 1998-2022, https://www.nbp.pl/home.aspx?f=/dzienne/stopy_archiwum.htm

Data in PLN thousand

by a sufficiently high level of sales revenue and will have a negative impact on the achieved financial performance;

- inaccurate predictions of customer preferences - both in terms of the volume of product demand and product features (e.g. paint colours favoured by customers);
- incorrect assessment of future competitive phenomena (consolidation processes or new companies entering the market), which may lead to the loss of the current position on individual markets.

4.3 Risk associated with operating activities

It cannot be ruled out that the development of the macroeconomic environment in an unfavourable direction may in the future cause a number of adverse effects in the area of the Group's operating activities - including, for example, disruptions and interruptions in the operation of production plants, limited availability of raw materials for production and packaging, and an increase in their prices or issues with the supply or distribution of products. As at the date of preparation of the Group's report for 2022, the estimation of the probability of materialization of such scenarios and the scale of the above-mentioned possible effects in the area of operating activities of the companies comprising the Group is impossible.

By conducting business activities, the Śnieżka Group is exposed to various types of operational risk, such as:

- **Disturbances and interruptions in the operation of production facilities, as a result of failures and natural disasters.**

In order to reduce this type of risk in its plants, the Company pursues a continuous preventive maintenance policy, consisting in planning and implementing various types of activities throughout the year, the purpose of which is to prevent failures and undesirable downtimes.

The activities include:

- periodic inspections of fixed assets and equipment,
- maintenance and repairs,
- regular and scheduled parts replacement,
- tests, diagnosis and analysis,
- efficient removal of emerging damages and failures,
- ensuring continuous supply of electricity in the event of commercial power failure (by means of own power generators connected to the internal power grid of appropriate volume).

Data in PLN thousand

In order to support the planning and implementation of activities preventing downtime, the Company uses a CMMS (Computerized Maintenance Management Systems) class system of Queris company. It is specialized software designed for production plants with separate organizational units responsible for maintaining the technical condition of the plant at a certain level. The software provides the company with functions facilitating maintenance: work registration and planning, personnel management, order handling and adjustment of the software to the specifics of production.

The Group companies also have an appropriate property insurance contract with a number of additional clauses, including insurance against the effects of natural disasters.

Actions taken by the Company in individual production plants:

- Brzeźnica

All buildings have been equipped with the possibility of back-up power ensured by power generators, with the exception of the Solvent-Based Paints Department (at this department, the total power of the installed devices is very high and therefore the size of the generator and its maintenance costs would be disproportionate to the low long-term risk, e.g. over eight hours, power cuts. such a long unexpected power cut has not happened in 25 years).

In the R&D building, due to the limited power of the power generator supplied from backup sources, only the necessary elements of the building were secured - such as heating, ventilation and IT systems of the server room.

In order to ensure their efficiency, all power generators, apart from the regular maintenance and technical condition inspection, are serviced and inspected by a specialized external service once a year.

- Lubzina

In the event of a primary power failure, the Department is equipped with a power generator and a maintenance-free Automatic Reserve Switching system, which after a very short time (i.e. up to 5 minutes) is able to ensure continuity of production up to the level of approx. 60% of the power of all devices.

- Pustków

This Department is equipped with power generators in the event of a power failure. The power generated is not able to completely replace the electricity supply for production, but it can ensure the continuity of the process of filling and packing paint products.

- Zawada

In the event of a lack of basic power supply in the Logistics Centre, the infrastructure supplying the facility has been equipped with two power generators operating in synchronous mode. The power of the generators provides 100% of the facility's electricity needs. The power supply system is equipped with an automatic reserve switching system, which ensures automatic switching of the power supply

Data in PLN thousand

to the power generators in the event of a failure of the main power supply. Switching takes place in a very short time (approx. 5 min).

Protection of uninterruptible power supply to IT infrastructure

The strategic server rooms in Brzeźnica and Zawada are powered by two independent uninterruptible power supplies (UPS). The UPS units are monitored on an on-going basis by the Building Management System. Once a year, a specialized external technical service inspects and maintains them.

Protecting infrastructure against a lack of supply of natural gas for heating purposes

Office buildings are equipped with an air-conditioning system that can be switched to heating mode.

An exception is the office part of the Śnieżka Group Logistics Centre which is heated and cooled using fan coil units. The devices are powered by technological heat from the boiler room (heating) or cold from chillers (cooling). The office section of the Logistics Centre building does not have a built-in alternative that could serve as heating in the event of a gas shortage.

Historical data show that outages in gas supplies have not occurred in 25 years, and the risk of their occurrence is insignificant. However, in the event of a failure, the Company is capable of maintaining the heat level by taking advantage of electric heaters.

The production facilities in the Group's plants and warehouses in the Logistics Centre are not at risk of rapid cooling down in the short term due to the large accumulation of heat in the building.

In order to ensure the efficiency of the heating system and central heating boilers, the external service performs a technical inspection of these devices at least once a year.

It is also planned to include heating devices with remote monitoring of their operation status when updating the Building Management System.

- **The risk associated with the availability of raw materials for production and packaging and the increase in their prices**

As for the strategic raw materials used in the production of paints and varnishes, the Śnieżka Group is constantly exposed to the risk of significant price changes resulting from the global demand/supply relationship and the availability of raw materials. Therefore, the purchasing departments of individual Group companies monitor the situation and at the same time maintain constant contact with suppliers.

The paints and varnishes industry is strongly reliant on many groups of raw materials, in particular on the group of pigments. The main representative of this group are titanium whites (TiO₂), for which the price level is still unstable. Almost half of the titanium white production capacity in the world is concentrated in six global concerns, and the chemical market shows tendencies for further consolidation, which puts further pressure on titanium white prices. Possible failures and downtime in plants producing this raw material may cause difficulties with supply and lead to an increase in its price.

Data in PLN thousand

In addition, the Group sees a risk in the availability of basic raw materials for production, such as dispersions, which are strategic raw materials for the Group.

Also, in terms of strategic raw materials, there is also a risk of changes in the prices of polypropylene used for the production of plastic packaging (as well as the availability of recycled plastic) and the prices of sheet metal used for the production of metal packaging.

The risk group also includes solvents and alkyd resins, whose prices are correlated with the prices of crude oil, as well as dolomite fillers, in which transport costs constitute a significant part of the final price and are largely dependent on fuel prices.

Additionally, changes in electricity and gas prices may have a significant impact on the entire value chain of the Group, including the costs of production of raw materials.

▪ **The risk associated with supply**

Due to the current market and geopolitical environment, the availability of raw materials and packaging for the production of paints and varnishes may be temporarily disrupted. The actions taken by the procurement departments of individual Group companies, however, ensure uninterrupted continuity of production. These activities include, first of all, constant monitoring of the availability of raw materials, logistic constraints, exchange rates and inventory reserves. The Group also focuses on increasing the supply chain efficiency and sustainable diversification of raw materials.

Still, the basic risk for the Śnieżka Group in the field of supply of raw materials for the production of paints and varnishes is primarily related to: an increase in raw material prices, an increase in transport costs, an increase in energy and gas prices, temporary or long-term restrictions on access to raw materials and with changes in exchange rates.

Another challenge in the area of supply is the consolidation (both horizontal and vertical) of suppliers, customers and competitors, which may weaken the negotiating and purchasing position of the Śnieżka Group. To minimize these risks, the Group, inter alia, regularly analyses information on strategic stakeholders' actions in terms of adjusting purchasing forecasts to the current and forecast price situation.

Constant contact with suppliers is maintained, as well as exchange of information on current needs, smooth adjustment of demand from the Śnieżka Group and vendors' supply.

In addition, the Group estimates whether existing relationships and cooperative connections with suppliers do not contribute to dependence on any suppliers in any manner that could adversely affect the operations of the entire Group.

▪ **The risk associated with product distribution**

According to the Group, there is a risk related to the reduced availability of the Group's products, resulting from strategies implemented by business partners (DIY chains) and direct competitors. In order to minimize this risk, the Group develops a multi-channel sales strategy, continues to develop numerical distribution and build its own strong brands.

Data in PLN thousand

The war in Ukraine may affect the availability of the Group's products on eastern markets. In the first half of 2022, the Group also decided to terminate distribution agreements with Russian contractors. While, the sanctions imposed on Belarus due to the war in Ukraine contributed to a change in the method of deliveries to this country, which may affect the availability of the Group's products on the said market.

▪ **The risk associated with surplus**

The level of inventories and its optimization is an important element of working capital management for the Group. Therefore, the Group constantly monitors the level of inventories and their rotation, which is the result of the market demand for individual product groups offered within the product portfolio. The Group flexibly adjusts the level of inventories to the market's needs and keeps under constant control changes occurring in the product offer and its segmentation (e.g. premium products, value for money, etc.).

The Company takes into account that with constant production capacity, there may be a temporary increase in the level of inventories, resulting from changes in consumer sentiment and attitudes (decline in demand), due to the impact of the current macroeconomic environment.

the Śnieżka Group Logistics Centre, commissioned at the beginning of 2022, which increases the Group's warehouse space and at the same time consolidates the stock of finished products in one location, enables optimization of their use and flexible management.

In the first half of this year the war in Ukraine, where the Group has one of its production plants, also affected the inventory risk. The Group has taken steps to secure Śnieżka-Ukraine's stocks by relocating them to Poland until the company resumes its operations.

▪ **The risk associated with infrastructural constraints**

The Śnieżka Group Logistics Centre in Zawada was opened in the first days of 2022. Owing to this investment, the risk related to the lack of space for storing finished products and the risk of logistic difficulties have been reduced to a minimum. The commissioning of the Logistics Centre allowed to allocate warehouse space in the existing locations: Brzeźnica, Lubzina and Pustków for raw material warehouses. Thanks to this, we have minimized the risk associated with the lack of space to store raw materials.

Insignificant investments carried out in 2022 in the production area were aimed at maintaining the high-level capacity of the production lines. Works related to the optimization of production processes in Lubzina and Pustków plants were carried out. Such actions prevent potential infrastructural limitations related to, for example, intensive development and lack of sufficient production capacity.

4.4 The risk associated with competition

Individual companies comprising the Group operate in a highly competitive environment, created both by large international companies and local entities, present on these markets for a long time. Relatively high crossbars to enter the paint and varnish market mean that to start up new production

Data in PLN thousand

facilities in the industry would require large capital expenditure. The most likely way for a new player to enter the market or for significant changes in the balance of power may be an acquisition.

According to the information held by the Group, in 2022 no merger or acquisition transaction occurred in the key markets of the Group's operations, which would notably affect the market shares of the main sectors of the Group's operations.

A constant element of the Group's operations is monitoring of the activities of other entities in all key markets. The Group companies strive to limit the risk related to competition activities through appropriately planned investments as well as marketing and sales activities aimed at supporting the building of shares and brand recognition as well as the sale of the Group's products.

4.5 Risk related to the potentially negative impact on the environment and climate, as well as the impact of climate change on the Group

Risk related to the potentially negative impact on the environment and climate, as well as the impact of climate change on the Group has been described in chapter 3 of the Report "Statement on non-financial information", section 3.5.

4.6 Financial risk

There is a risk of a further significant increase in costs and a decrease in profitability as a result of the prolonged currency appreciation, and at the same time the impossibility of transferring the resulting cost increase to the price of products manufactured by the Group (due to market conditions). The risk of currency appreciation applies in particular to the euro, which the Group uses to purchase significant raw materials for production.

As at the date of preparing the Group's report for 2022, it is impossible to estimate the probability of such a scenario and the scale of the above-mentioned possible effects in the area of finance and liquidity of the Group companies.

Additionally, it cannot be ruled out that further development of the geopolitical and macroeconomic situation in the long term will cause a number of adverse effects in the area of the Group's finances - including, for example, contractors' failure to meet their obligations or problems with financial liquidity.

Currency risk

In its activity, the Śnieżka Group is exposed to the risk of fluctuating exchange rates. The Group imports raw materials used for the production of paint and varnish products and mainly pays in Euro. Therefore, the greatest currency risk for the Group is related to the strengthening of the EUR - PLN/HUF exchange rate. On the other hand, the Group exports products mainly to the countries of Central and Eastern Europe, where settlements are made in currencies most commonly used in international trade (USD, EUR), as well as in PLN.

Moreover, the currency risk resulting from the Group's capital investments in foreign companies should be taken into account. The most important exposures in this respect are investments in

Data in PLN thousand

companies in Hungary and Ukraine. Currency exposure in HUF resulting from the above is greater than that of export flows. The risk in net investment in Hungary in 2022 was secured by a foreign currency loan in HUF raised by FFIL Śnieżka SA. As at December 31, 2022, the loan was repaid and the security expired. The currency risk related to credit exposure in this currency is mitigated thanks to effective management of cash surpluses within the Group. Whereas, the currency risk in UAH related to investments in Ukraine was mitigated by the systematic payment of dividends to FFIL Śnieżka SA by Śnieżka-Ukraina. Currently, as a result of the war in Ukraine, the local company is unable to pay dividends to the parent company.

From the point of view of currency exposure, as at the date of publication of the periodic report for 2022, the following currency pairs are most important for the Śnieżka Group: EUR/PLN; EUR/HUF and EUR/UAH.

From the point of view of currency exposure, as at the date of publication of this report for 2022, the following currency pairs are most important for the Śnieżka Group:

- EUR/PLN and EUR/HUF: exposure in the amount of approx. EUR 55 million.

In order to minimize the negative impact of exchange rates on generated revenues and profits, the Group monitors on an on-going basis the currency exposure and conducts a risk currency analysis. As at the date of the Report, the risk is still significant.

High volatility on the currency market is conditioned, inter alia, by the pending conflict in Ukraine. Also, macroeconomic indicators of the Polish economy affect the value of PLN in relation to other currencies.

During 2022, the Group used forwards, which were purchased between February and August of 2022. These instruments constituted cash flows hedges resulting from purchases of raw materials in Euro. As at 31 December 2022, the Group had no unrealized hedging instruments for the purchase of raw materials.

Interest rate risk

The Śnieżka Group has credit, factoring and financial lease obligations with a variable interest rate and therefore is exposed to the risk related to an increase in interest rates. As at December 31, 2022, the Group's total liabilities on loans and borrowings and financial leasing amounted to PLN 302,403 thousand.

Throughout 2022, the reference interest rates (WIBOR, BUBOR) in Poland and Hungary went up, which affected the Company's financing in PLN and HUF, which in turn had a notable impact on the Group's financing costs. The increase in official interest rates in both Poland and Hungary poses the risk of an increase in the Group's financing costs.

In the reporting period, the Group did not apply interest rate risk hedging.

The risk associated with receivables

Data in PLN thousand

The Group actively manages the contractors' credit risk, comprehended as contractors' failure to comply with their obligations toward the Group. In order to reduce the credit risk of contractors, the Śnieżka Group is developing the adopted receivables management policy based on cooperation mainly with reliable, long-term partners.

The Group actively manages the above-mentioned risk by, inter alia, limiting and monitoring trade credit to individual clients depending on their financial condition and development dynamics and by using financial instruments (e.g. factoring). In this process, the Group takes advantage of modern tools and procedures as well as cooperation with business intelligence agencies. The policy of establishing trade credit limits and payment terms and conditions is closely related to bonuses granted to customers for timely payments, which additionally protects the Group's interests. Hedging instruments for the sales transactions carried out by the Group are: real estate mortgages, statements on submission to enforcement, promissory notes applied adequately to the volume of granted trade limits to individual customers.

In 2022, the Group used a favourable (taking into account market financing costs) level of discounts for its clients to reduce the level of receivables and thus reduce the related risk. In the reporting period, the Group also used financial instruments available on the market to reduce the trade credit risk and improve the receivables cycle ratios.

Expansion to new markets is associated with uncertainty in terms of obtaining receivables. In order to meet this challenge, the Group reduces the risk by insuring receivables from newly won customers or by using tools securing export sales. It also uses trade finance tools (letters of credit). The insurance guarantees the inflow of receivables, thereby eliminating the adverse impact of ineffective transactions on the Group's financial liquidity, while maintaining sales profitability. On the Ukrainian market, the Group conducts sales mainly on prepayment terms, thanks to which Śnieżka-Ukraine's receivables are not at risk. Additionally, the Group applies a policy of controlling receivables also between related entities. Permanent monitoring ensures a possibility of managing receivables rationally, which has a positive effect on the effectiveness of the decisions made.

The Śnieżka Group intends further activities aimed at subsequent facilitation of the risk management process related to receivables and envisages the implementation of new solutions to improve the results achieved in this area.

Liquidity risk

The risk of losing liquidity is related to the company's ability to settle its current liabilities and the ability to raise funds to finance its operations.

The Group constantly monitors the due dates of receivables and liabilities, striving to maintain financial balance also through the use of various sources of financing (bank loans, factoring, trade credits). The threat to the Group may be the tightening of credit policies by banks, limiting the possibility of obtaining external financing. In order to minimize such risk, the Group companies (mainly FFIL Śnieżka SA) increased their financing opportunities in 2022 by signing new agreements extending their financing period.

Data in PLN thousand

As at December 31, 2022, the Group settled its liabilities in a timely manner, which is confirmed by the liquidity ratios presented in the Report.

4.7 IT risk

Failures of key IT systems, the effects of ransomware attacks or unauthorized access by cybercriminals through other activities to key management support systems, process control systems, as well as to confidential, yet unpublished data, including other events in the area of IT security may have a direct impact on production processes, competitive position and reputation of the Śnieżka Group.

In order to minimize this risk, the Group develops and updates systems used to ensure information security, regularly backs up key data, and has extensive anti-virus protection against phishing emails. The Group companies in Poland are constantly monitored by the IT security operations centre (so-called SOC, Security Operation Centre), which responds to security incidents.

As part of IT risk mitigation in the Group, in 2022 the *Śnieżka Group Digital Security Policy* was implemented (described in section 3.3.10 of the Report). There is also a roadmap for developing the maturity of IT security systems and measures have been implemented to build cybersecurity awareness among employees (described in section 3.4.8 of the Report). The Change IT program is dedicated to digital transformation.

4.8 The risk related to the loss and the inability to obtain qualified staff

An important risk factor that may directly translate into the possibility of implementing the strategy adopted by the Group is the risk in the area of employees: related to both the loss and the inability to recruit staff with high qualifications, competences and experience, open to new knowledge and development, values and adapted to the organization's objectives and culture. The staff with appropriate, specialist or practical knowledge in specific business areas is crucial to building and maintaining the Group's competitive advantage. Competences that will be particularly in demand are soft skills, such as emotional intelligence, critical thinking, problem solving, and the ability to teach oneself and others.

In the Śnieżka Group, we consider the risk related to the loss and inability to recruit qualified staff in the context of:

- the influence of managerial and leadership competences of persons managing teams on the level of rotation, particularly in difficult, unstable situations and with high dynamics of change;
- facing the management staff with challenges in teams related to changes on the labour market and unstable economic situation;
- the phenomenon of quiet quitting observed on the labour market;
- the risk of voluntary departures of employees related to the difficulty of retaining highly qualified, competent and experienced staff who make a significant contribution to the implementation of the Group's strategic goals;

Data in PLN thousand

- struggle to keep the best talents in the face of growing competition from foreign employers and companies whose model is fully based on remote work.

The fluctuation and potential loss of competencies important for the Group may cause a decrease in the effectiveness of the Group's operations and temporary problems with the implementation of the assumed business plans. Hiring new employees in some areas of the organization is associated with a time-consuming recruitment process and a relatively long adaptation process, and may be associated with the risk of a temporary reduction in the quality of work. The departure of qualified employees additionally hampers the pursuit of a long-term personnel policy and may increase labour costs.

Both the departures of employees and the process of their recruitment, particularly in areas characterized by a narrow field of specialization or those with the need for unique skills, are subject to a systematic process of monitoring and analysis in the Group.

The *Śnieżka Group's personnel policy* is in place in the Group companies, the assumptions of which support the minimization of the risk of loss and the inability to recruit qualified staff adapted to the organization's objectives and culture (description is included in section 3.3.2 of the Report).

In 2022, a number of measures were taken to reduce the risk of losing employees and facilitate the acquisition of appropriate competencies within the Group. The Group companies focused on the further standardization of processes in the field of human resource management and increasing their flexibility. This enables a quick reaction to the information about their expectations and needs obtained from the market and from employees. Performance indicators related to employee issues are described in the Report in section 3.4.4 "Employee involvement and development".

4.9 Legal risk

The EU legal regulations which affect the paints and varnishes industry are constantly becoming more severe and complex.

In order to prevent this risk, the Group constantly monitors legal changes that may have an impact on production and measures to dynamically adapt the technological process to these changes.

There is also a risk related to differences in the interpretation of tax regulations. Despite observing by the Group both domestic and EU legal regulations in the field of accounting, tax information included in tax returns and declarations may be considered by the Polish tax authorities to be unlawful. If the tax authorities adopt a different tax interpretation than the one applied by the Group to calculate the tax liability, such a situation may have a significant impact on the Group's financial results.

4.10 Risks characteristic to the major foreign markets on which the Group operates

Hungary

In Hungary, there is still a risk of a decrease in the level of consumption and household spending related to the persistent risk of a further increase in inflation above the expected level (in December

Data in PLN thousand

2022, inflation in Hungary amounted to 24.5% y/y, and 14.5% throughout the entire year⁴⁰). In response to high inflation readings, the National Bank of Hungary tightened its monetary policy, increasing the level of the reference interest rate to 13%, which notably hindered access to credit⁴¹.

Economic growth is also an essential indicator of the risk of a decline in consumption and household spending. Flash estimate shows that Hungary's GDP in 2022 maintained high growth rate of 4.6% y/y⁴², but according to the forecast of the European Commission in 2023 there will be a significant slowdown in growth to 0.6% y/y⁴³.

The scarcity of an agreement between the Hungarian government and the European Commission on the National Recovery Plan remains a serious risk for the economy. Hungary, right after Poland, is the largest net beneficiary of EU funds.

Another important risk is Hungary's attitude to Russian aggression in Ukraine, which may result in a deeper isolationism of the country within the European Union. As the only country in the EU, Hungary rejected sanctions against Russia, banned the supply of arms to Ukraine through its territory, and was reluctant to provide financial assistance from the EU to Kiev⁴⁴.

Ukraine

The major risks related to the Ukrainian market stem from military operations conducted in Ukraine. On February 24, 2022, the troops of the Russian Federation crossed the borders of Ukraine, unilaterally starting an armed conflict. Ukraine declared martial law and general mobilization. As at the date of the publication of the Report, fighting continues chiefly in the north, east and south-east of the country. In addition, bombings are carried out on many Ukrainian cities not yet involved in combat, as well as sabotage and subversive activities.

The political and economic situation in Ukraine is monitored on an on-going basis by the Group as regards the actual and potential impact of the situation on the activities of the subsidiary Śnieżka-Ukraina and other Group companies.

The Company estimates that currently there are no indications that would indicate a permanent loss of the possibility of continuing operations in Ukraine. The exposure to risk of assets held in Ukraine as at December 31, 2022 is presented in section 2.1 of the Report.

The fixed assets of Śnieżka-Ukraina are located in the Lviv region, Yavoriv district, not far from the Polish border. According to the information held by the Company, the assets of this company are

⁴⁰ Source: Hungarian Central Statistical Office, <https://www.ksh.hu/>.

⁴¹ Magyar Nemzeti Bank, Base rate history, https://www.mnb.hu/en/Jegybanki_alapkamat_alakulasa.

⁴² Hungarian Central Statistical Office, <https://www.ksh.hu/>

⁴³ The European Commission, Economic forecast for Hungary, February 2023, https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/hungary/economic-forecast-hungary_en.

⁴⁴ Source: <https://www.dw.com/pl/węgrzy-nowy-rok-ue-i-problemy-z-orbanem/a-64313888>.

Data in PLN thousand

currently not at risk. Śnieżka-Ukraine has production capacity at the pre-war level, and one of the major challenges, it is currently facing, is ensuring the continuity of raw material supplies.

Despite rebuilding cooperation with its partners from areas of Ukraine not affected by warfare and better than expected sales revenues starting from the Q2 of 2022, the on-going armed conflict in this country has a significant impact on the financial performance of Śnieżka-Ukraine and translates into the bottom line of the entire Group .

In Q4 of 2022, due to massive rocket attacks on the energy infrastructure in Ukraine, a reduction in electricity consumption was introduced according to the developed schedules. Disruptions in the supply of energy at the production plant may affect the operational efficiency of Śnieżka-Ukraine. They may also have a negative impact on repair works, and thus - on a decrease in demand for Śnieżka-Ukraine's products.

Additionally, military operations make it difficult to deliver the Group's products to the Kazakh, Georgian and Armenian markets, although the sales volume in these markets is insignificant.

It cannot be completely ruled out that a possible escalation of the armed conflict in other regions of Ukraine may influence the decision to close the Ukrainian production plant again. Śnieżka-Ukraine manages the volume of production and sales on an uninterrupted basis, adjusting them to the changing circumstances in Ukraine.

The consequences of military operations on the current macroeconomic situation in Ukraine is described in section 1.1.1 of the Report, and its impact on the paints and varnishes market in this country - in section 1.1.2. In addition, the impact of the war in Ukraine is indicated in section 4.1 "Risk related to the macroeconomic situation".

▪ **The risk associated with the availability of raw materials for production**

Certain producers from Ukraine are struggling with the supply of raw materials, which have so far been purchased, i.a., in Belarus and Russia. Currently, the directions of supply have been reoriented to the European Union market and other countries, which notably increased the prices of some product groups.

Due to the pending military aggression against Ukraine, Śnieżka-Ukraine was also forced to reorient the supply chain (a small part of the raw materials used by the Group's companies before the assault on Ukraine was produced in the Russian Federation). Additionally, in Q1 of 2022, the company was challenged with several logistical issues related to the supply of new raw materials across the border between Ukraine and the European Union.

In order to avoid the risk of raw material supply disruptions, the Company constantly monitors the supply market and tests alternative solutions. Moreover, it is working with current suppliers on a possible change of the location of component production.

Belarus

Data in PLN thousand

A risk specific to the Belarusian market is the still unstable socio-political situation affecting the conditions of running business activities in this country. The Śnieżka Group, operating on the Belarusian market, must bear in mind the possibility of situations that may adversely affect its bottom line and assets located in Belarus.

There is a risk that the policy pursued by the Belarusian authorities will contribute to further sanctions imposed by the European Union, which will result in the reduction in exports, the fall of Belarus' GDP⁴⁵ and a further increase in currency risk (devaluation of the Belarusian ruble).

Another risk predominant to Belarus is economic protectionism - activities carried out by the government to protect the domestic market against the influx of imported goods (customs duties, permits or expensive certificates). The actions of the Belarusian authorities may have significant restrictions in trade with the European Union the countries, including Poland, and accelerate the pace of integration with Russia.

In addition, the risk factors encompass consequences of Belarus's membership of the Eurasian Customs Union (including Russia), including the related expansion to the Belarusian market of Russian manufacturers of construction materials.

⁴⁵ Source: <https://www.osw.waw.pl/pl/publikacje/analizy/2021-11-08/bialorus-fenomen-okresowego-wzrostu-gospodarczego>

5. Corporate governance and corporate information

5.1 A set of corporate governance principles and a statement on the application of corporate governance

FFIL ŚNIEŻKA SA applies recommendations and principles of corporate governance specified in “*Best Practice for GPW Listed Companies 2021*” document. Its content is available at: https://www.gpw.pl/pub/GPW/pdf/Uch_13_1834_2021_DPSN2021.pdf.

From the date of entry into force *Best Practice for GPW Listed Companies 2021*, the Management Board of FFiL Śnieżka SA strives to ensure that the principles and recommendations referred to in this document are applied to the Company to the widest possible extent. At the same time, the Management Board declares that in 2022 the Company withdrew from applying or applied partially the following principles/ recommendations:

Principle/Recommendation	FFiL ŚNIEŻKA SA’s comment
1. INFORMATION POLICY AND COMMUNICATION WITH INVESTORS	
1.2. A company facilitates to get acquainted with its financial results included in the periodic report as soon as possible after the end of the reporting period, and if it is not possible for justified reasons, it publishes at least preliminary estimated financial results as soon as possible.	<p>The principle is not applied.</p> <p>The dynamic growth of the Śnieżka Group in recent years (i.e. the implementation of fundamental changes to the Group's operating model at the beginning of 2021, earlier acquisitions of companies and the Group's expansion) has now a very large impact on the process of preparing consolidated financial statements and the dates of their publication. The Company, however, makes every effort to publish the financial results achieved by the Group as soon as possible and does not exclude the possibility of shortening the publication dates of periodic reports in the future - especially quarterly and semi-annual reports. The Company's information policy provides for the possibility of publishing profit warning reports.</p>
1.3 In its business strategy, a company also takes into account ESG issues, in particular including:	
1.3.1. environmental issues, including measures and risks related to climate change and sustainable development issues;	<p>The principle is not applied.</p> <p>The Company did not disclose the business strategy document to the public. Concurrently, the Company developed the <i>Śnieżka 2023+ Sustainable Development Strategy</i> (hereinafter referred to as the Sustainable Development Strategy, Strategy), which will be extensively described in the Statement on non-financial information along with the publication on March 14, 2023 of the annual report for 2022.</p> <p>The shape of the Sustainable Development Strategy is the result of previous activities, external analyses, involvement of employees, management staff and the Management Board, as well as research of the Company's stakeholders. The final step was to develop a materiality</p>

	<p>matrix, which was the starting point for defining strategic objectives.</p> <p>The strategy includes 3 key pillars of responsibility towards the environment and actions for sustainable development. As part of them, a total of 9 areas were determined that define the priorities for the further development of Śnieżka in the spirit of sustainable development.</p> <p>As part of the Strategy, 21 strategic and 71 operational objectives have been defined, which will be implemented by FFIL Śnieżka SA and Śnieżka ToC Sp. z o.o., both in the short and long term. In order to effectively implement the Strategy, responsibility has been assigned at the level of specific organizational units.</p> <p>By implementing the assumptions of the new Strategy, the Company is performing selected UN Sustainable Development Objectives for 2030: "Good health and quality of life", "Clean and accessible energy", "Less inequalities", "Responsible consumption and production" and "Climate action".</p> <p>Information on the implementation of the Strategy and on sustainable development (including ESG indicators and data) will be published on the Company's website and in annual reports of the Management Board on the activities of the Śnieżka Group (part of the annual report).</p>
1.3.2. social and employee matters, concerning, inter alia, actions taken and planned to ensure gender equality, proper working conditions, respect for employees' rights, dialogue with local communities, relations with clients.	The principle is not applied, see the comment to section 1.3.1 above.
1.4. In order to ensure proper communication with stakeholders, in the scope of the adopted business strategy, a company publishes on its website information on the assumptions of its strategy, measurable goals, in particular long-term objectives, planned activities and progress in its implementation, determined by means of financial and non-financial measures. Information on the strategy in the ESG area should, inter alia:	The principle is not applied, see the comment to section 1.3.1 above.
1.4.1. explain how the decision-making processes in a company and its group entities take account of climate change issues, pointing to the resulting risks;	The principle is not applied, see the comment to section 1.3.1 above.
1.4.2. present the value of the equal wage ratio paid to its employees, calculated as the percentage difference between the average monthly remuneration (including bonuses, awards and other allowances) of women and men for the last year, and provide information on actions taken to eliminate any inequalities in this respect, along with the presentation of related risks and the time horizon in which it is planned to achieve equality.	<p>The principle is not applied, see the comment to section 1.3.1 above.</p> <p>In addition, the Company indicates that its objective is to maintain the comparability of salaries of women and men employed in similar positions. This objective is monitored gradually, starting with FFIL Śnieżka SA and Śnieżka ToC Sp. z o.o. In 2022, the adjusted wage gap was below 5% (this indicator means the difference between the average remuneration of men and women, expressed as a percentage of the average remuneration of men by employment category).</p>

Data in PLN thousand

2. MANAGEMENT BOARD AND SUPERVISORY BOARD

2.1. A company ought to have a diversity policy towards the management board and supervisory board, adopted respectively by the supervisory board or the general meeting. The diversity policy defines the diversity objectives and criteria in such areas as gender, field of education, specialist knowledge, age and professional experience, as well as indicates the date and method of monitoring the achievement of the objectives in question. In terms of gender diversity, the condition for ensuring the diversity of the company bodies is the participation of the minority in a given body at a level not lower than 30%.

The principle is not applied.

The Company has not developed and does not apply any diversity policy towards the management board and supervisory board. The fundamental criteria for selection for management and supervisory positions in the Company are competences and meeting the requirements for a given position. Characteristics such as gender or other factors, such as age, do not influence the evaluation of candidates as they may lead to discrimination.

Diversity in the Group has a practical aspect. For example, women hold (and have historically held) managerial and supervisory positions within the Group companies.

At the end of 2022, 68 women were employed in management positions - of a managerial nature - in Śnieżka Group companies, which constituted a total of 33.2% of all persons employed in these positions. According to the definition adopted in the Company, only persons managing teams of employees are classified as managerial positions.

2.2. The decision-makers on the appointment of members of the management board or supervisory board of a company should ensure the versatility of these bodies by selecting persons who ensure diversity in their composition, enabling, inter alia, achieving the target minimum minority participation rate set at a level of not less than 30%, in line with the objectives set out in the adopted diversity policy referred to in principle 2.1.

The principle is not applied.

In the Company's opinion, the right to appoint members of the supervisory board lies upon the shareholders, and members of the management board - upon the supervisory board.

2.11. In addition to the activities resulting from legal provisions, once a year the supervisory board draws up and presents an annual report for approval to the ordinary general meeting. The report referred to above contains at least:

2.11.6. information on the degree of implementation of the diversity policy in relation to the management board and the supervisory board, including the achievement of the objectives referred to in principle 2.1.

The principle is not applied.

The Company does not apply this principle due to the waiver of principle 2.1.

3. INTERNAL SYSTEMS AND FUNCTIONS

3.1. A listed company maintains effective systems of: internal control, risk management and supervision of compliance with the law, as well as an effective internal audit function, appropriate to the size of the company and the type and scale of activities, for which the management bears responsibility.

The principle is not applied.

The Company maintains internal control, risk management and compliance systems, but no internal audit unit has been organisationally separated.

Data in PLN thousand

<p>3.3. A company belonging to the WIG20, mWIG40 or sWIG80 index appoints an internal auditor in charge of the internal audit function, acting in accordance with generally recognized international standards of the professional practice of internal audit. In other companies where no internal auditor was appointed to meet the above-mentioned requirements, the audit committee (or the supervisory board, if it serves as an audit committee) assesses annually whether there is a need to appoint such a person.</p>	<p>The principle is not applied. The Company maintains internal control, risk management and compliance systems, but no internal audit unit has been organisationally separated.</p>
<p>3.4. Remuneration of persons responsible for risk management and compliance and the head of internal audit should depend on the performance of assigned tasks, and not on the short-term performance of the company.</p>	<p>The principle is not applied. There are designated persons responsible for risk management and compliance in the Company, but there is no person in charge of internal audit.</p>
<p>3.6. The head of internal audit reports organisationally to the president of the management board, and functionally to the chairman of the audit committee or the chairman of the supervisory board, if the board performs the function of the audit committee.</p>	<p>The principle is not applied. The Company has no person in charge of internal audit.</p>
<p>3.7. Principles 3.4 - 3.6 are also applicable to entities comprising the company's group that are significant for its operations, if they have designated persons to perform these tasks.</p>	<p>The principle is not applied. The Company does not apply this principle due to the waiver of principle 3.4. and 3.6.</p>
<p>3.10. At least once every five years in a company belonging to the WIG20, mWIG40 or sWIG80 index, an independent auditor, appointed by the audit committee, reviews the internal audit function.</p>	<p>The principle is not applied. The Company does not apply this principle due to the waiver of principle 3.1.</p>
<p>4. SHAREHOLDER MEETING AND SHAREHOLDER RELATIONS</p>	
<p>4.1. A company should enable its shareholders to participate in the general meeting by means of electronic communication (e-general meeting), if it is justified in view of the shareholders' expectations reported to the company, and if it is able to provide the technical infrastructure necessary to conduct such a general meeting.</p>	<p>The principle is not applied. In the Company's opinion, the current mode of holding general meetings, carried out pursuant to the provisions of the Commercial Companies Code, is sufficient.</p>
<p>4.3. A company provides publicly available real-time broadcast of the general meeting.</p>	<p>The principle is not applied. The Company strives to conduct general meetings as efficiently as possible. As it aim at limiting additional technical and organizational burdens, the Company does not broadcast the sessions in real time.</p>

Data in PLN thousand

5.2 Internal control and risk management systems in relation to processes of preparing financial statements

The primary features of the Śnieżka Group’s systems for internal control and risk management pertaining to the preparation of financial statements and consolidated financial statements are based on the following provisions of law and standards:

- International Accounting Standards (IAS);
- International Financial Reporting Standards (IFRS), related interpretations announced in the form of Regulations of the European Commission;
- The Accounting Act (in the areas not governed by IAS/IFRS),
- the internal procedures for preparing periodic reports, made public in relation to the status of a public company.

As far as ownership supervision over subsidiaries is concerned, the supervision is exercised by the Corporate Governance Department of FFIL Śnieżka SA.

5.3 The Articles of Association

FFIL ŚNIEŻKA SA operates on the basis of the Articles of Association. The Articles of Association is available at the Company’s website: <https://sniezkagroup.com/relacje-inwestorskie/lad-korporacyjny/>. Any amendments to the Articles of Association require a consent of the Shareholder Meeting and the entry into the Register of Entrepreneurs in the National Court Register.

Pursuant to the Articles of Association, governing bodies of the Company are:

- General Meeting,
- Supervisory Board,
- Management Board.

In 2022 the Articles of Association was not subject to change.

5.4 General Meeting

The competences of FFIL ŚNIEŻKA SA’s General Meeting are set out in § 10 item 1 of the Articles of Association.

The competences of the General Meeting of the Company, apart from issues specified in legal regulations and other provisions of its Articles of Association, include:

Data in PLN thousand

- adopting the regulations of the shareholder meeting,
- approving the Regulations of the Supervisory Board,
- determining the rules for remunerating members of the Supervisory Board and members of the Management Board,
- appointing a representative to conclude contracts with board members,
- acquiring of own shares by the Company,
- determining the amount of remuneration for members of the Supervisory Board, delegated to permanent individual performance of supervision.

In addition, pursuant to § 10 item 2 of the Articles of Association, the consent of the general meeting for the purchase or sale of real estate is not required.

Pursuant to the Articles of Association, general meetings of FFIL Śnieżka SA are held in Warsaw (where the Company's registered seat is located), in Brzeźnica or in Dębica.

The manner of operation of the General Meeting, as well as the rights of shareholders and the manner of their implementation are specified in the provisions of the Code of Commercial Companies and Regulations of the General Meeting, available on the Company's website at: <https://sniezkagroup.com/relacje-inwestorskie/lad-korporacyjny/>

5.5 Supervisory Board and audit committee

5.5.1 Supervisory Board

The rules for appointing members of the supervisory board

Pursuant to § 12 of the Company's Articles of Association, a supervisory body consists of five to seven members appointed by the general meeting for a joint three-year term of office. The number of members of the supervisory board is determined by the general meeting. Members of the Supervisory Board are elected by the General Meeting, provided that three members of the Supervisory Board including the Chairman of the Supervisory Board are elected by shareholders holding series A shares, in such a way that for every 30 000 of series A shares give entitlement to indicate a candidate for one member of the Supervisory Board, including the Chairman of the Supervisory Board. If that preference expires over some series A registered shares, each remaining 20 000 series A shares give entitlement to indicate one Supervisory Board Member, including the Chairman of the Supervisory Board.

The members of the supervisory board of the Company are elected for three-year term of office.

Composition of the Supervisory Board

In 2022, from January 1 to May 31, the Supervisory Board of the eighth term of office was composed of:

Data in PLN thousand

- Stanisław Cymbor - Chairman of the Supervisory Board
- Jerzy Pater - Vice-Chairman of the Supervisory Board
- Jarosław Wojdyła - Secretary of the Supervisory Board
- Zbigniew Łapiński - Member of the Supervisory Board
- Rafał Mikrut - Member of the Supervisory Board
- Dariusz Orłowski - Member of the Supervisory Board

The current Supervisory Board was appointed at the General Meeting of the Company held on May 25, 2018.

On May 31, 2022, the General Meeting of the Company appointed a new composition of the Supervisory Board:

- Jerzy Pater - Chairman of the Supervisory Board
- Stanisław Cymbor - Vice-Chairman of the Supervisory Board
- Rafał Mikrut - Secretary of the Supervisory Board
- Ewa Hałucha - Member of the Supervisory Board
- Piotr Kaczmarek - Member of the Supervisory Board
- Zbigniew Łapiński - Member of the Supervisory Board
- Dariusz Orłowski - Member of the Supervisory Board

Detailed information on the members of the Supervisory Board was included by the Company in the current report no. 14/2022.

The duties of the supervisory board

The chairman of the supervisory board manages the work of the board, chairs the board meetings and coordinates the work of other board members. If the chairman of the board is unable to perform his duties, his duties are performed by the vice-chairman. The chairman convenes board meetings. The management board or a member of the supervisory board may request the convening of the supervisory board, providing a proposed agenda. The supervisory board may adopt resolutions using means of remote communication. The supervisory board holds meetings as needed, but at least three times a year. The supervisory board exercises permanent supervision over the Company's operations in all areas of its operations. In order to perform its duties, the supervisory board may examine all Company documents, request reports and explanations from the management board, and review the Company's assets.

Data in PLN thousand

The competences of the supervisory board include in particular: adopting the regulations of the supervisory board, assessment of management board reports on the Company's operations and financial statements, assessment of management's applications regarding distribution of profit or loss coverage, annual submission to the general meeting a concise assessment of the Company's standing, approval of the plan, work regulations of the Company's management board, appointing the president of the management board and, at the request of the president, other members of the management board, dismissing all or individual members of the management board for important reasons, delegating a member of the supervisory board to temporarily perform the duties of members of the management board, appointing an auditing firm, making statements in all matters that require resolutions of the general meeting, issuing opinions on all matters addressed to it by the management board.

5.5.2 Audit Committee

The Audit Committee operates in the Company, whose operation is regulated by the *Regulations of the Audit Committee of the body of the Supervisory Board of FFil Śnieżka SA*, adopted by the resolution of the Supervisory Board of 29 September 2017.

The most important tasks of the Audit Committee include: supervision over the operation and monitoring of the Company's accounting, intermediation between the external auditor and the Supervisory Board, preparation of recommendations for the Supervisory Board regarding the financial reporting process in the Company and the Capital Group and selection of an audit company.

Until May 31, 2022, the Audit Committee, appointed by the Supervisory Board of the eighth term of office on May 25, 2018, operated in the company. It was composed of:

- Jarosław Wojdyła - Chairman of the Audit Committee
- Stanisław Cymbor - Member of the Audit Committee
- Dariusz Orłowski - Member of the Audit Committee

On May 31, 2022, the Supervisory Board of the ninth term of office appointed new members of the Audit Committee:

- Ewa Hałucha - Chairman of the Audit Committee
- Piotr Kaczmarek - Member of the Audit Committee
- Dariusz Orłowski - Member of the Audit Committee

All members of the Audit Committee comply with the independence criteria set out in art. 129 section 3 items 1-10 of the Act of May 11, 2017 on statutory auditors, auditing firms and public supervision.

The Chairman of the Audit Committee - Ewa Hałucha has the knowledge and skills in the field of accounting or auditing of financial statements confirmed by an entry in the list of Polish Chamber of Statutory Auditors under number 10636.

Data in PLN thousand

A member of the Audit Committee - Dariusz Orłowski has knowledge and skills in the field of the industry in which FFIL Śnieżka SA operates. He has been a member of the Supervisory Board of FFIL Śnieżka SA since 2011.

In 2022 six meetings of the Audit Committee were held.

5.6 Management Board

The rules for appointing members of the management board

Pursuant to § 15 of the Company's Articles of Association, the management board consists of one to five members appointed for a joint three-year term. The number of board members is determined by the Supervisory Board. The Supervisory Board appoints the President of the Management Board and - at his request - other members of the management board. The President of the Management Board manages the work of the board, chairs its meetings and coordinates the work of other board members. The president has the right to appoint vice presidents from among other members of the board. The appointed vice president of the board substitutes the president during his absence.

The composition of the Management Board

Members of the Management Board of FFIL Śnieżka SA in 2022:

- Piotr Mikrut - President of the Management Board,
- Witold Waśko – Vice President of the Management Board, CFO,
- Joanna Wróbel-Lipa – Vice President of the Management Board, Sales Director,
- Zdzisław Czerwiec - Vice President of the Management Board, Supply Chain Management Director

The Management Board in the above composition was appointed for the eighth term of office on April 26, 2019. The exception is Zdzisław Czerwiec, who was appointed Member of the Management Board by the Supervisory Board of FFIL Śnieżka SA on February 26, 2021.

Data in PLN thousand

The current composition of the Management Board of FFIL ŚNIEŻKA SA:

- Piotr Mikrut - President of the Management Board



- Witold Waśko – Vice President of the Management Board, CFO



Data in PLN thousand

- Joanna Wróbel-Lipa – Vice President of the Management Board, Sales Director



- Zdzisław Czerwec - Vice President of the Management Board, Supply Chain Management Director



The duties of members of the management board

The Management Board executes strategic objectives and oversees the execution of the Company’s operational objectives. Management board members perform their duties in person, in accordance with the function each time indicated by the supervisory board in the resolution on appointment to the management board.

The division of assignments between the individual members of the management board is specified in the *"Organizational Regulations of Fabryka Farb i Lakierów Śnieżka Spółka Akcyjna"*. In addition, the

Data in PLN thousand

president of the board manages the work of the board, chairs its meetings and coordinates work of other board members.

The scope of activities of the management board includes managing the Company's affairs, operations and its assets, as well as representing the Company - except for matters reserved for other bodies.

Two members of the management board or one board member together with a proxy are required to make declarations of will on behalf of the Company.

While managing the Company's affairs, the management board is subject to limitations resulting from the provisions of law, the Articles of Association and resolutions of the general meeting and the supervisory board. The general meeting and the supervisory board may not issue binding instructions to the management board regarding the conduct of the Company's affairs.

Activities requiring a resolution of the management board performed without a relevant resolution may be subsequently confirmed by a resolution of the management board.

The special responsibilities of the management board include:

- arranging the Company's accounting - in accordance with the applicable regulations and the Company's interests and ensuring that it is properly maintained,
- preparation of the financial statements by March 30 of the following financial year, introducing the annual report on the company's activities to the financial statements and submitting reports to the supervisory board
- submitting annual reports to the registry court in the form and time limits specified by applicable law,
- keeping records of the minutes of the general meeting and issuing certified copies of resolutions,
- providing oral and written explanations and drawing up reports at the request of the supervisory board and shareholders present at the general meeting,
- developing draft resolutions regarding decisions which, on the basis of the Commercial Companies Code and the Company's Articles of Association, fall within the competence of the general meeting,
- requesting a meeting of the supervisory board together with the agenda and requesting it to approve the draft resolutions of the general meeting,
- carrying out post-audit recommendations.

Data in PLN thousand

5.7 Remuneration policy

As at 31 December 2022, the Company applied the *Remuneration Policy for Members of the Management Board and Supervisory Board of Fabryka Farb i Lakierów "Śnieżka" S.A.* ("Remuneration Policy"), which was developed on the basis of the act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies. The purpose of its development was to ensure corporate transparency and supervision over the remuneration of members of the management board and supervisory board of the Company.

The Remuneration Policy was adopted by Resolution of the General Meeting of the Company of June 16, 2020.

The Remuneration Policy takes into account the experience of applying the solutions currently in force in the Company, relating to the establishment and payment of remuneration to members of the management board and supervisory board, which - as shown by the increase in the value of the Company and its harmonious and stable development - are part of the Company's business strategy, whose foundation is a long-term leading position in the segment of decorative paint markets of Central and Eastern Europe. The Remuneration Policy is also in line with its long-term interests, objectives and values.

The principles of determining and paying remuneration implemented in the Company will allow to adjust the personal goals of persons acting as members of the management board and supervisory board with the long-term interests of FFIL Śnieżka SA. The remuneration principles encourage members of the management board and supervisory board to take actions focused on long-term objectives and results as well as the sustainable development of the Company and the entire Śnieżka Group, while ensuring the stability of the Company's operations.

The Remuneration Policy - considering the organizational values indicated in the *HR Policy of Śnieżka Group* - is an integral part of building high commitment in the Company. It enables to align the common interests of the Company, members of the management board and the supervisory board while maintaining an appropriate relationship between these interests, ensuring the avoidance of conflicts of interest and contributing to the long-term success of FFIL Śnieżka SA.

The company published the Remuneration Policy and the resolution on it (along with the date of its adoption and voting results) on its website: <https://sniezkagroup.com/relacje-inwestorskie/lad-korporacyjny/>.

5.7.1 Remuneration of members of the management board

The remuneration of management board members may consist of fixed and variable components. They may receive additional non-cash benefits related to their function or position. The general meeting of the Company is responsible for establishing the principles of remunerating the board members. The amount of fixed components of remuneration for members of the management board and the rules for calculating variable components of remuneration may be established by the supervisory board on the basis of the general meeting's authorization.

Data in PLN thousand

In order to stimulate the development of the Company, take into account the short-term objectives of the Company and maintain the stability of employment in key management positions, the remuneration of management board members may include variable remuneration components, including an annual bonus and awards for special achievements. The president of the management board may be entitled to apply to the supervisory board for bonuses and awards for members of the management board resulting from additional tasks, special achievements or jubilees.

Variable remuneration components

Variable remuneration components may be based on all or some of the following criteria:

- 1) financial criterion - the financial results achieved by the Company or the Group in the period the variable remuneration component is awarded for;
- 2) loyalty criterion - the period of performing the function of a management board member;
- 3) social involvement criterion - taking into account social interests in the activities of the Company or the Group;
- 4) environmental criterion - taking into account in the operations of the Company or the Group its contribution to environmental protection;
- 5) CSR criterion - supporting the implementation activities undertaken by the Company or the Group in the area of corporate social responsibility of the Company or the Group;
- 6) criterion - individual, covering individual qualifying elements of a management board member, including special achievements, additional tasks or professional jubilees.

Variable remuneration components in the form of a financial instrument for members of the management board may also be awarded under incentive programs. In addition to the awarded remuneration, members of the management board may be entitled to other cash and non-cash benefits, which include in particular:

- 1) the option of taking advantage of the benefits specified in the Regulations of the Company Social Benefit Fund;
- 2) the option of taking advantage of MyBenefit program;
- 3) the option of joining the pension scheme operating in the Company on the terms provided for the Company’s employees;
- 4) defrayal of premium costs for third party liability insurance of persons holding managerial positions (the so-called D&O); life and health as well as lost remuneration due to incapacity for work due to illness or accident;

Data in PLN thousand

- 5) the right to take advantage of training to improve professional qualifications indicated for the performance of the function of a management board member;
- 6) the option of taking advantage of a company vehicle for private purposes;
- 7) any other non-wage benefits that are available to employees (or associates) of the Company according to the basis of employment;
- 8) any other benefits resulting from the labour code and due to members of the management board on the basis of employment based on an employment contract;
- 9) any other benefits resulting from other mandatory provisions of law.

The sum of the variable remuneration components - including bonuses and other cash and non-cash benefits (including in the form of financial instruments) paid in a calendar year - ought to be in the range from 0 to 9 times the sum of the fixed components of the remuneration of the management board member. The maximum proportion is taken taking into account the potential level of payments that would include the results "higher than target ones."

Remuneration amount

Table 40. Remuneration of Members of the Management Board of FFil Śnieżka SA in 2022

	Remuneration and bonuses 2022	Income earned in subsidiaries 2022	Remuneration and bonuses 2021	Income earned in subsidiaries 2021
Piotr Mikrut	596.5	-	1 339.7	-
Witold Waśko	681.8	-	1 334.6	-
Joanna Wróbel-Lipa	373.1	240.0	1 099.3	243.6
Zdzisław Czerwiec	615.4		746.3	20.0
Total	2 266.8	240.0	4 520.0	263.6

As at 31 December 2022, members of the management board did not have any debts due to loans granted by the Company.

The Śnieżka Group does not enter into agreements with members of the management board providing for compensation in the event of resignation or dismissal of such persons, with the exception of compensation in the amount of three-month basic remuneration in the event of dismissal from the function during the given term of the Management Board. No additional compensation is paid in the event of dismissal due to a merger or acquisition.

In 2022, the Company did not have any liabilities arising from pensions and similar benefits for former management, supervisory or former members of administrative bodies as well as liabilities incurred in connection with these pensions.

Data in PLN thousand

5.7.2 Remuneration of members of the supervisory board

Remuneration of members of the supervisory board may only be composed of fixed components. This solution is a measure to implement the strategy of the long-term objectives of the Company, separating substantially the remuneration of supervisory board members from the short-term objectives of the Company.

Supervisory board members do not receive any additional non-cash benefits related to the performance of their functions. They are not entitled to bonuses or other additional cash or non-cash benefits. The general meeting is responsible for establishing the detailed principles of remunerating the supervisory board members.

Remuneration amount

Table 41. Remuneration of Members of the Supervisory Board of FFIL Śnieżka SA in 2022

	Remuneration and bonuses 2022	Income earned in subsidiaries 2022	Remuneration and bonuses 2021	Income earned in subsidiaries 2021
Stanisław Cymbor	373.2	-	339.3	-
Jerzy Pater	373.2	-	339.3	-
Jarosław Wojdyła	62.2	-	135.7	-
Zbigniew Łapiński	151.5	-	137.8	-
Rafał Mikrut	149.3	-	136.2	-
Dariusz Orłowski	149.3	-	135.7	-
Ewa Hałucha	87.5	-	-	-
Piotr Kaczmarek	88.4	-	-	-
Total	1 434.8	-	1 224.1	-

As at 31 December 2022, supervisory bodies did not have any debts due to loans granted by the Company. In addition, in 2022, the Company did not have any liabilities arising from pensions and similar benefits for former management, supervisory or former members of administrative bodies as well as liabilities incurred in connection with these pensions.

5.8 Shares and shareholding structure

As at 31 December 2022, FFIL ŚNIEŻKA SA’s share capital was comprised of 12,617,778 shares of nominal value of PLN 1.00 each.

In 2022 the Company’s share capital was not subject to change.

Data in PLN thousand

The Company's share capital consists of the following series of shares:

- series A preferred registered shares - 100,000
- series B preferred registered shares - 400,000
- series C,D,E,F ordinary shares - 12,117,778

Series A and B registered shares are preferential for vote so that one share corresponds to 5 votes at the general meeting.

In addition, according to the Company's Articles of Association - series A shares entitle to elect three members of the supervisory board, including the chairman of the supervisory board, in a manner that every 30,000 shares entitle to appoint one member of the supervisory board, including the chairman of the supervisory board. If that preference expires over some series A registered shares, each remaining 20 000 series A shares give entitlement to indicate one supervisory board member, including the chairman of the supervisory board.

On March 14, 2023, the holders of series A and B shares were:

Holders of series A shares	The number of shares held (items)
Stanisław Cymbor	33,334
Jerzy Pater	33,333
Piotr Mikrut	16,667
Rafał Mikrut	16,666

Holders of series B shares	The number of shares held (items)
Stanisław Cymbor	133,333
Jerzy Pater	133,334
Piotr Mikrut	133,333

Shares of all series are equally preferred as to dividends and return on equity.

No restrictions on the exercise of voting rights prevail at FFIL Śnieżka SA.

Restrictions regarding the transfer of ownership of the Company's securities concern holders of preferred registered shares of FFIL Śnieżka SA. The transfer of preferred registered shares under any legal title or their conversion into bearer shares requires prior submission of purchase offer to all shareholders holding series A shares by a shareholder interested in transferring or converting into a bearer share.

Data in PLN thousand

The general meeting of the Company must express its consent on the decision on issuing or purchasing shares.

The Company did not have employee share schemes in 2022.

Company’s shares held by managing and supervising persons

As at March 14, 2023, the Company's shares held by the managing and supervising persons were as follows:

Managing persons	The number of shares held (items)
Piotr Mikrut	1,270,833
Witold Waśko	198

Supervising persons	The number of shares held (items)
Stanisław Cymbor	2,541,667
Jerzy Pater	2,541,667
Rafał Mikrut	1,270,833

In the period from the date of publication of the last periodical report (for Q3 of 2022), i.e. on November 17, 2022, no changes in the ownership of the Company's shares by the managing and supervising persons occurred.

Ownership structure of significant blocks of shares of the Company

As at the date of publication of the Report, significant shareholders of FFIL Śnieżka SA, holding at least 5% of the total number of votes at the General Meeting of the Company were the following persons and entities:

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Data in PLN thousand

	The number of shares held (items)	Share in the share capital (in %)	Number of votes	Share in the total number of votes at GMS (in %)
Jerzy Pater *	2,541,667	20.14	3,208,335	21.95
	including directly 166,667	1.32	833,335	5.7
Stanisław Cymbor **	2,541,667	20.14	3,208,335	21.95
	including directly 166,667	1.32	833,335	5.7
Piotr Mikrut	1,270,833	10.07	1,870,833	12.8
Rafał Mikrut	1,270,833	10.07	1,337,497	9.15
Powszechne Towarzystwo Emerytalne Allianz Polska	1,816,307	14.39	1,816,307	12.43
Powszechne Towarzystwo Emerytalne Nationale-Nederlanden	1,185,323	9.39	1,185,323	8.11

*Jerzy Pater holds the Company’s shares indirectly by PPHU Elżbieta i Jerzy Pater Sp. z o.o. (PPHU Elżbieta i Jerzy Pater Sp. z o.o. holds 2,375,000 shares, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

** Stanisław Cymbor holds the Company’s shares indirectly by PPHU Iwona i Stanisław Cymbor Sp. z o.o. (PPETU Iwona i Stanisław Cymbor Sp. z o.o. holds 2,375,000 shares, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

In the period from November 17, 2022, i.e. the publication of the last periodic report, i.e. the report for Q3 of 2022, according to the information held by the Company, there was one change in the structure of significant blocks of shares issued by the Company. On January 5, 2023, Powszechne Towarzystwo Emerytalne Allianz Polska S.A. managing Allianz Polska OFE and Allianz Polska Dobrowolny Fundusz Emerytalny, informed that as a result of the merger with Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A., managing the Second Allianz Polska OFE, the total share of Allianz OFE, Allianz DFE and Drugi Allianz OFE increased to 1 816,307 shares, i.e. 14.39% of the share capital of the Company, which gives the right to exercise 1,816,307 votes constituting 12.43% of the total number of votes at its general meeting.

The Company informed about the change in the structure of significant blocks of shares in current reports No. 1/2023 and No. 1/2023/KOR.

Data in PLN thousand

Figure 36. Shareholding structure at FFIL ŚNIEŻKA SA – share in the share capital (as at 14.03.2023, data in %)

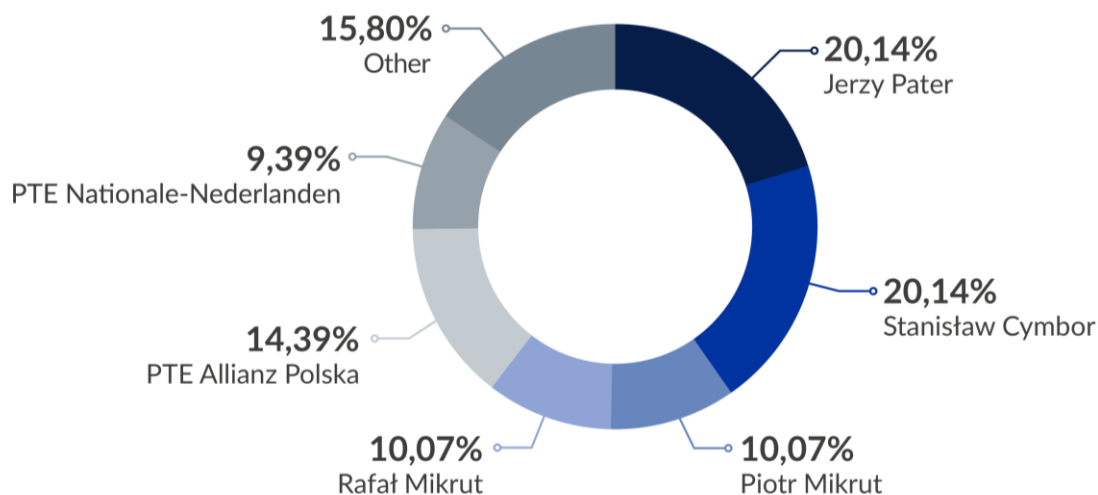
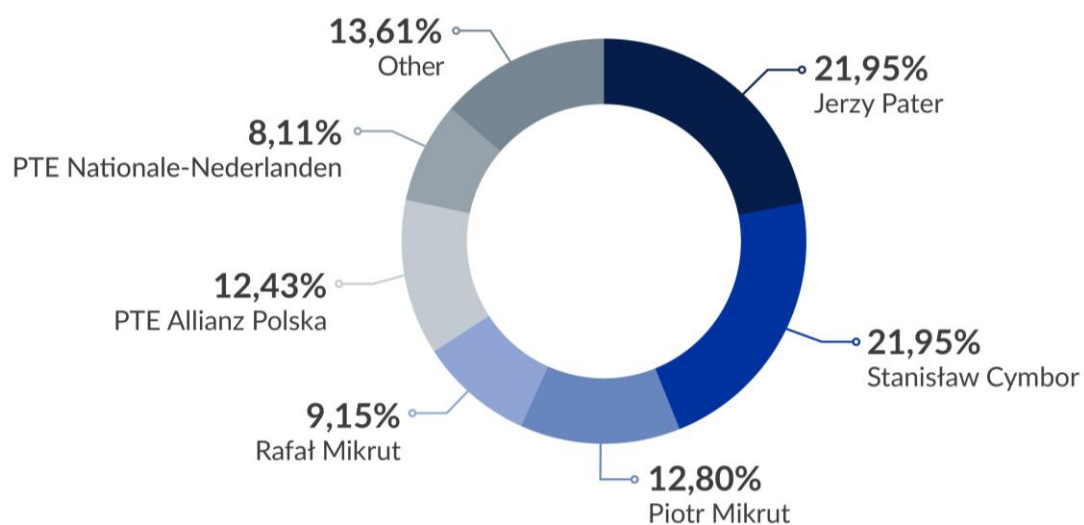


Figure 37. Shareholding structure at FFIL ŚNIEŻKA SA – share in the total number of votes (as at 14.03.2023, data in %)



5.9 FFIL Śnieżka SA at WSE

5.9.1 Stock exchange listings

The shares of FFIL Śnieżka SA have been listed on the Warsaw Stock Exchange since December 31, 2003 (the rights to shares debuted two days earlier - December 29).

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Data in PLN thousand

At the end of December 2022, the Company’s shares were included in the following stock exchange indices: WIG140, sWIG80TR, WIGdiv, WIG-Poland, WIG BUDOWNICTWO, sWIG80 and WIG.

In 2022, the price of FFil Śnieżka SA shares decreased by (-)19.1%. For comparison, the main index of the Warsaw Stock Exchange WIG lost (-)17.1%, and WIG Budownictwo gained 8.5%.

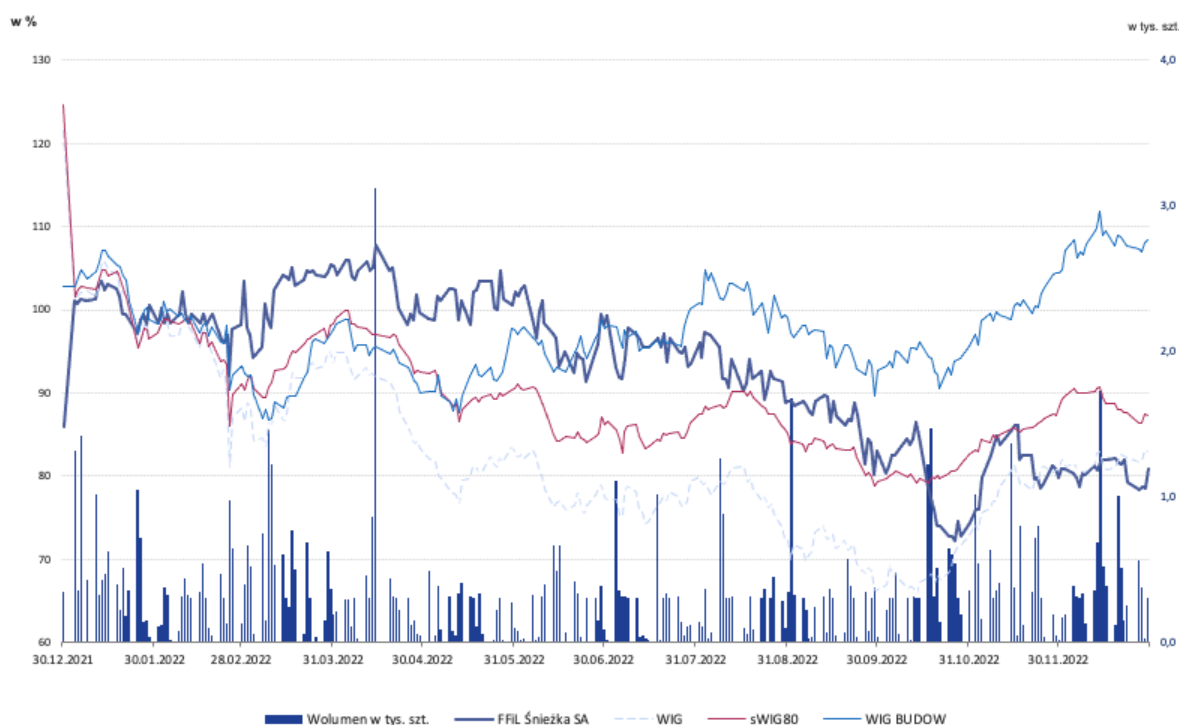
In 2022, the closing price of FFil Śnieżka SA shares on the Warsaw Stock Exchange ranged from PLN 55.20 (October 26) to PLN 82.40 (April 14, August 27 and 30).

At the end of 2022, the market value of FFil Śnieżka SA decreased to PLN 0,78 billion (from PLN 0.96 billion at the end of 2021).

The P/BV ratio (share price/book value per share attributable to shareholders of the parent company) was 2.66 (-0.51 y/y), and P/E (price/earnings per ordinary share attributable to shareholders of the parent company) was at the level of 21.26 (+5.11 y/y).

Figure 38. FFIL ŚNIEŻKA SA’s listings at WSE in 2022

30.12.2021 = 100%



Data in PLN thousand

5.9.2 Activities in the area of investor relations

FFiL Śnieżka SA, as a company listed on the Warsaw Stock Exchange, fulfils all obligations resulting from the provisions of law. In addition, taking care of transparency and relationships with its stakeholders, it conducts active activities in the area of investor relations.

In 2022 the Company:

- organized meetings and videoconferences on a regular basis for professional participants of the capital market and media representatives. Following publication of periodic reports (for 2021, the Q1 of 2022, the H1 of 2022 and the Q3 of 2022), ten meetings were held in total;
- organized an investor chat together with the StockWatch.pl portal. It was devoted to discuss the financial performance after the season in 2022;
- prepared an abbreviated annual report and an interactive report available on the website for its stakeholders available at: <https://raportroczny2021.sniezka.pl/>. In both editions of the report, the Company clearly summarized the activities of the entire Group in 2021 (also in the non-financial area);
- introduced a new form of informing the market on financial performance by means of a two-page spread sheets with the most important data;
- launched a new corporate website available at: <https://sniezkagroup.com/> with access to the report archive, financial and operational performance, calendar and information on general meetings. The website has the ability to present data in the form of interactive charts that allow you to analyse historical data. The solution used to aggregate materials related to the publication of periodic results enables easy access to reports, performance presentations, comments, factsheets or detailed spread sheets;
- used FFiL ŚNIEŻKA SA's profile on Twitter (<https://twitter.com/SniezkaSA>) to communicate with its investors and journalists by posting interesting tweets about corporation events.

5.9.3 Dividend

Since the debut at the Warsaw Stock Exchange FFiL ŚNIEŻKA SA has been regularly distributing dividends. The sum of dividends paid to shareholders in this period is PLN 478,987 thousand.

On May 31, 2022, the General Meeting of FFiL ŚNIEŻKA SA adopted a resolution on the dividend distribution from the 2021 profit in the amount of PLN 2.50 (two fifty) per share, i.e. in the total amount of up to PLN 31,544 thousand. The dividend date was established to June 15, 2022, and the dividend payment was carried out on August 1, 2022. The number of shares covered by the dividend as at May 31, 2022 was 12,617,778.

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Data in PLN thousand

Dividend (from profit for year)	Dividend per share (in PLN)	Dividend amount (in PLN '000)
2021	2.5	31,544
2020	3.6	45,424
2019	2.6	32,806
2018	2.6	32,806
2017	2.2	27,759
2016	3.2	40,377
2015	3.15	39,746
2014	3.1	39,115
2013	2.5	31,545
2012	2.5	31,545
2011	1.35	17,034
2010	1.7	23,036
2009	1.6	21,686
2008	1.35	18,297
2007	1.1	15,235
2006	1	13,850
2005	0.44	6,248
2004	0.42	5,964
2003	0.35	4,970
		478 987

The Company's shares are included in WIGdiv dividend index. The WIGdiv index includes companies that have distributed regularly dividends over the last 5 financial years. The WIGdiv is a total return index and its calculation takes into account both the prices of its shares as well as dividend and subscription rights income.

Data in PLN thousand

5.10 Diversity policy

FFIL ŚNIEŻKA SA has not developed and does not apply any diversity policy to the company’s administrative, management and supervisory bodies.

The main criteria for appointments to administrative, managerial and supervisory positions in the Company are high qualifications (education, competence, professional experience) as well as fulfilment of requirements for a given position. Characteristics such as gender or age do not affect the evaluation of candidates, whereas the Company strives to ensure versatility and diversity in the Company’s governing bodies and among its key managers.

At the same time, the Śnieżka Group is implementing a Diversity Policy covering all employees and associates of the Group throughout the entire value chain. It has been described in section 3.3.3 of the Report. Description of the Group’s policies and due diligence procedures in relation to diversity.

5.11 Auditing firm

The Management Board of FFiL Śnieżka SA - based on the statement of the Supervisory Board - presents below information on current and periodic information required by § 70 item 1(7) of the Regulation.

On April 5, 2022, the Supervisory Board made a selection - according to the applicable regulations - of an entity PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. to conduct both the audit and statutory review of the standalone financial statements of Fabryka Farb i Lakierów Śnieżka SA as well as the consolidated financial statements of the Śnieżka Group for 2022.

The Company concluded an agreement with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. on July 6, 2022 in the said scope.

Subject of the agreement

The subject of the above mentioned agreement with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. is to audit the financial statements of the Company and the Group for the period from January 1, 2022 to December 31, 2022, carried out in accordance with the requirements of the Accounting Act of 29 September 1994 and National Standards on Auditing.

In addition, the subject of the above agreement is to review the Company’s interim financial statements and the Group’s consolidated financial statements for the period from January 1, 2022 to June 30, 2022, in accordance with the Accounting Act and National Standards on Auditing.

Independence and impartiality

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. was entered by the National Council of Statutory Auditors on the list of auditing firms under no. 144.

Data in PLN thousand

The aforementioned auditing firm and members of the audit team of the Company and the Group fulfilled the conditions for preparing an impartial and independent audit report on the annual financial statements in accordance with applicable regulations, professional standards and ethics.

Rotation and grace period

FFiL Śnieżka SA adheres to the applicable regulations related to the rotation of the auditing firms and the key statutory auditor and mandatory grace periods.

The Company has already taken advantage of the PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k.’s services regarding audit and review of financial statements from 2016 to 2021.

Auditing firm’s remuneration

The auditing firm’s remuneration, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., due for the annual audit and review of the interim financial statements of the Group and the Company for the financial year ended December 31, 2022 amounts in total PLN 303 thousand with reference to the parent company:

- PLN 245 thousand for statutory audit within the meaning of Art. 2 item 1 of the Act on statutory auditors,
- PLN 40 thousand for reviewing the interim financial statements.
- PLN 18 thousand for other assurance services (report on the compliance of the format of the consolidated financial statements with the requirements of the Single European Electronic Format “ESEF”).

In addition, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. was reimbursed direct costs such as travel, accommodation, etc. up to a maximum of PLN 12,000 net. In connection with the requirements referred to in art. 55 of the Act on Statutory Auditors, the remuneration will also be increased by costs in the amount of 1.98% of the remuneration for the audit under the supervision fee in the amount of PLN 6,000.

The Company also concluded an agreement with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. regarding the assessment of the Remuneration Report prepared by the Supervisory Board for 2022. The remuneration in this respect will amount to PLN 15,000.

VAT will be added to the above amounts at the applicable rate.

The auditing firm’s remuneration, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., amounts in total PLN 150 thousand.

The remuneration for the audit and review of financial statements for 2021 amounted to PLN 298 thousand.

Data in PLN thousand

In addition, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. was reimbursed direct costs such as travel, accommodation, etc. up to a maximum of PLN 10,000 net. In connection with the requirements referred to in art. 55 of the Act on Statutory Auditors, the remuneration will also be increased by costs in the amount of 2.8% of the remuneration for the audit under the supervision fee in the amount of PLN 8,600.

VAT tax was added to the above amounts at the applicable rate.

Neither did the Company conclude with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. other agreements, nor did it pay remuneration for auditors other than mentioned above.

Policy on selecting an auditing firm

FFiL Śnieżka SA has a policy on selecting an auditing firm and a policy on providing additional non-audit services by an auditing firm.

Selection of an auditing firm is carried out in accordance with the *Policy on selecting an auditing firm to conduct the audit and review of financial statements* (available at the Company's website: <https://sniezkagroup.com/relacje-inwestorskie/lad-korporacyjny/>) adopted by a resolution of the Audit Committee on May 15, 2020. The policy corresponds to the *Procedure on selecting an auditing firm* prepared by the Audit Committee and adopted by a resolution of March 26, 2018.

The policy on selecting an auditing firm to conduct the audit and review of financial statements determines the guidelines and principles that the audit committee should be driven by at the stage of preparing recommendations and the supervisory board by selecting an entity empowered to audit the financial statements of the Company and the Śnieżka Group. They take into account the requirements resulting from the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, and in particular:

- the need to maintain the impartiality and independence of the auditing firm and the statutory auditor;
- previous experience of the auditing firm in the audit and review of public interest entities and capital groups;
- potential to perform the scope of services whose performance is to be entrusted to the auditing firm (i.e. statutory audit and review of separate and consolidated financial statements);
- holding (in the appropriate value) an insurance policy against the civil liability by an auditing firm;
- professional qualifications and experience of persons directly involved in audit activities;
- the price proposed by an auditing firm;

Data in PLN thousand

- time of conducting the audit and review of the financial statements;
- the maximum period of uninterrupted duration of audit orders and statutory reviews carried out by the same audit firm or an audit firm related to that audit firm or any member of the network operating in the European Union to which these audit firms belong, not exceeding 10 years;
- the interval between the audits and statutory inspections carried out in the same public interest entity for a period of 10 years, amounting to at least the next 4 years, counting from the end of the last audit and statutory inspection;
- the key statutory auditor may not conduct audit and statutory review in the same public interest entity for a period longer than 5 years. The key statutory auditor may conduct the statutory audit and review in the entity referred to in the preceding sentence again after at least 3 years have elapsed from the end of the last statutory audit and review.

The policy corresponds to the *Procedure on selecting an auditing firm*, which takes into account cooperation of a member of the management board - the CFO, the audit committee and the supervisory board. The aim of the procedure is to efficiently and effectively collect bids from auditing firms, which are subsequently analysed by the audit committee, in order to submit to the supervisory board an appropriate recommendation on selecting entities authorized to perform the audit. The recommendation covers at least two auditing firms together with the justified preference of the audit committee for one of the presented entities. The final decision regarding the selection of an auditing firm is made by the supervisory board. However, if the supervisory board decides to select another entity than recommended by the audit committee, it should provide reasons for departing from the audit committee's recommendation and provide such justification to the shareholder meeting of the Company.

Additional services provided by an auditing firm are set out in the "Policy of providing by an audit firm conducting audits and reviews of financial statements by entities related to this auditing firm and by a member of the auditing firm network of permitted non-audit services" adopted by the resolution of the Audit Committee of March 26, 2018.

The indicated policy has been in force at FFIL Śnieżka SA since 2018. The core assumption of this document is to minimize the risk that a statutory auditor or an auditing firm conducting audits of the Company's financial statements (or other entities mentioned in the title of this policy) provides directly or indirectly to the audited entity, its parent company or its subsidiaries within the European Union, any prohibited services other than auditing or auditing activities. The exceptions are services set out in art. 136 sec. 2 of the act on statutory auditors, auditing firms and public supervision (The act on Statutory Auditors), the provision of which is possible only to the extent not related to the tax policy of FFIL Śnieżka SA, after carrying out by the audit committee an assessment of threats and safeguards of independence and expressing a relevant consent. In addition, if the statutory auditor or auditing firm provides the services referred to above, these entities are obliged to comply with the regulations contained in art. 69-73 of the act on Statutory Auditors determining solutions aimed at ensuring the independence and objectivity of the statutory auditor and the auditing firm.

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A GLOSSARY OF TERMS

Wood stain and varnish - an agent for colouring wood which penetrates its structure and permanently stains its surface. It preserves the visible grain pattern and allows to level the substrate colour or mask the differences between shades.

Titanium dioxide (white) (TiO_2) - the most widespread, and at the same time one of the most expensive, white inorganic pigment. The core raw material used for the production of paints featuring high coverage efficiency. First of all, it is characterized by refractive index, and thus the greatest ability to scatter it. Titanium white is obtained by the sulfate (older) or chloride (latest) method - the latter allows to obtain titanium white of better quality, used in the production of high quality paints. Companies comprising the Śnieżka Group mainly use titanium white for production.

Construction chemicals - a group of products used in construction industry as construction, insulation or finishing materials. It includes: products based on mineral and/or organic binders (produced in the form of dry mixes intended for use after mixing with water, or ready-to-use products) and coating materials (paints, varnishes, preservatives, primers, etc.).

DIY - "Do It Yourself" - the definition of an idea related to independent, non-commercial performance, usually for one's own needs, of various works without the help of professionals, often as part of a hobby.

The abbreviation "DIY" is also used to describe home-improvement stores, where one can find many products from various fields, with particular emphasis on technical areas (construction, interior finishing, electronics, garden decoration). These are self-service stores with a large area. The DIY market - apart from the independent market - is the second most important distribution channel for products of the Group.

ESG - environmental, social and corporate governance. Indicates the main areas of sustainable development of enterprises.

Acrylic paint - a waterborne product based on acrylic dispersion. Facade paints based on such dispersion feature high resistance to weather conditions and UV radiation. After drying and full curing, acrylic paint with a high binder content features high resistance to scrubbing or multiple washing.

Ceramic paint - a type paint with the addition of ceramic components. Three layers resistant to dirt and scrubbing. It is recommended for all interior areas within the building, including those exposed to heavy duty use.

Chlorinated rubber paint - modified with the addition of chlorinated rubber paint, features faster drying time and higher resistance to water and atmospheric pollution than conventional alkyd paints. Used for decorative and protective painting of steel and cast-iron elements used outdoors, especially exposed to external factors.

Alkyd paint - a solvent-based paint, whose binder is alkyd resin and a diluent mineral spirits or xylene. Used for decorative and protective painting of interior and exterior wood, wood-based materials,

Data in PLN thousand

plasters and steel and cast-iron elements. It is not suitable for painting underwater elements (it softens when in contact with water).

Undercoat - provides adhesion to the substrate for decorative and topcoat paints and levels slight surface irregularities. Its coat is thick enough to break the dark colour of the substrate, which is important when applying light surface coats.

Latex paint - high-quality water-borne paint featuring efficient covering properties and high content of binder (resins). Forms a layer featuring high resistance parameters.

Matt paint - paint with a matt coating on which the light is significantly diffused; this effect allows to hide small defects of the substrate.

Oil based paint - used for decorative and protective painting of wood and metal. Generally, it is characterized by high resistance to disinfectants, atmospheric and mechanical factors, and also features a non-flammable coating. Due to its properties, it is recommended for application in living quarters, in health care facilities, schools and areas intended for storing food products (without direct contact with food).

Satin paint - a paint containing high-quality resins and pigments. It reflects the light to a large extent, which makes the room bright. It features high resistance to washing and scrubbing.

Formaldehyde -volatile organic compound, occurring e.g. in construction materials, furniture, everyday products; toxic in high concentrations. The innovative formula applied in Magnat Ceramic Care contains a formula that reduces the level of formaldehyde in the air, picking and converting it into water vapour molecules during a chemical process.

Formulation - is a document informing about the qualitative and quantitative composition of the product, as well as the method of its production (the sequence of individual steps taken during the production process).

Putty - a construction material whose main binder is gypsum (natural or synthetic). It is used for final finishing of wall and ceiling surfaces by hand or machine.

Primer - an acrylic resin formulation that perfectly penetrates the substrate. It binds all loose particles and strengthens its surface. It reduces and levels the substrate absorption, retains water which contributes to proper drying of subsequently applied products including: adhesives, putties and paints.

Enamel primer - a product that combines primer, undercoat and topcoat. Applied for anticorrosive painting of steel, cast iron, metal, wood and wood-based materials as well as for restoration of old coatings.

Stain and varnish - a product intended for painting interior and exterior wood and wood-based materials combining the features of varnish and stain. It provides a thin flexible protective and decorative coating and stains wood, partially penetrating its structure. Available also in colourless version.

Data in PLN thousand

Varnish - a solution or suspension of film-forming agents (e.g. oils, natural or synthetic resins) used to cover the surface of objects for decorative and protective purposes.

Acrylic varnish - a fast-drying varnish featuring higher resistance to abrasion and mechanical damage. Used for protective and decorative varnishing of interior furniture, panelling, wooden and wood-based objects as well as toys for children.

Pigments - substances used for dyeing paints and varnishes. Due to their origin, they are divided into organic and inorganic ones. Generally, the more pigments in the paint the higher covering efficiency. One of the most popular pigments used in the production of paints is titanium white.

Chlorinated rubber undercoat - a protective agent intended for anti-corrosive priming of exterior steel and cast-iron elements. It features higher resistance to mechanical damage and scratches.

Sealing and fixing products - silicones, adhesives and foams.

Solvent - an ingredient found in paints and varnishes. Water or a solvent can be a diluent (e.g., mineral spirits, xylene). It is responsible for application properties, such as the thickness of the applied coating using a painting tool, easy application and drying time. Water is used in emulsion paints.

CLP Regulation - *Regulation (EC) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on the classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548 / EEC and 1999/45 / EC and amending Regulation (EC) No 1907/2006.*

CLP Regulation - *Regulation (EC) No 305/2011 of the European Parliament and of the Council of 9 March 2011 laying down harmonized conditions for the marketing of construction products and repealing Council Directive 89/106 / EEC.*

REACH Regulation - *Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 on the registration, evaluation, authorization and restriction of chemicals (REACH) and establishing the European Chemicals Agency.* The purpose of this Regulation is to ensure a high level of health and environmental protection, including promotion of alternative methods for assessment of hazards of substances, as well as free circulation of substances in the internal market while supporting competitiveness and innovation.

Independent market, a market on which companies operate independently of each other, mainly commercial and service ones, based on handling contractors, investors and final consumers in the local scope of activity. Retail stores are handled indirectly by distributors and are mostly non-affiliated - operate independently.

Binders (resins) - natural or synthetic substances that bind pigments and fillers in paints with each other and with the substrate. They ensure paint properties such as: wash and scrub resistance and gloss. Generally, the higher the resin content, the higher the quality and resistance of the paint.

Data in PLN thousand

Thermal insulation system - a set of construction materials for thermal insulation of a building together with a plaster coating and products for facade renovation. The Group's offer in this scope (within the Foveo Tech brand) includes: adhesive mortar, plaster (render), paint, primers, undercoat, reinforced mesh, mosaic plaster.

Decorative systems - decorative products (paints, adhesives) that provide the decorated surface with a variety of visual and structural effects sold under the Magnat brand.

Carbon footprint – the total sum of greenhouse gas emissions caused directly or indirectly by the organization. The carbon footprint includes emissions of carbon dioxide, methane, nitrous oxide and other greenhouse gases expressed in CO₂ equivalent.

Fillers - substances insoluble in the binder or water used to modify or affect some of the physical properties of paints. Fillers regulate the viscosity, thickness and structure of the coating, as well as the gloss/matt degree of the paint.

Washability - the property of the coating, featuring easy stains and dirt removal according to PN-EN ISO 11998:2007.

Data in PLN thousand

MANAGEMENT BOARD’S STATEMENT

The Management Board’s statement regarding financial statements and reports on operations

(pursuant to the requirements of § 70 section 1 item 6 of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information provided by the issuer of securities and conditions for recognizing as equivalent information required by the law of a non-member state)

The Management Board of FFIL Śnieżka SA declares that, to the best of its knowledge, the consolidated financial statements of the Śnieżka Group for 2022 and the financial statements of FFIL Śnieżka SA for 2022, as well as comparative data, have been prepared in accordance with the applicable accounting principles and reflect real, reliable and transparent asset and financial situation of the Company and the Group as well as the financial result of the Company and the Group. In addition, the annual report on the activities of the Śnieżka Group, including the report on the activities of FFIL Śnieżka SA, contains a true image of the Group and the Company’s development, achievements and standing, including a description of basic risks and threats.

Information of the Management Board regarding the selection of an audit firm

(pursuant to the requirements of § 70 section 1 item 7 and § 71 section 1 of the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information provided by the issuer of securities and conditions for recognizing as equivalent information required by the law of a non-member state)

The Management Board of FFIL Śnieżka SA, based on the statement of the Company's Supervisory Board, informs that the Supervisory Board selected an auditor conducting an annual audit of the separate and consolidated financial statements for 2022 in accordance with applicable law, including the selection of an auditing firm and taking into account internal regulations of FFIL Śnieżka SA in this respect.

In addition, the Management Board of the Company informs that:

- an auditing firm PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. and members of the team performing the audit of the annual separate financial statements of the Company and the consolidated financial statements of the Śnieżka Group for the financial year 2022 comply with the conditions for preparing an impartial and independent report on the separate and consolidated annual financial statements in accordance with applicable regulations, professional standards and ethics;
- The Company adheres to the applicable regulations related to the rotation of the auditing firms and the key statutory auditor and mandatory grace periods;
- The Company has a policy on selecting an auditing firm and a policy on providing additional non-audit services by an auditing firm, related entity to the auditing firm or a member of its network, including services conditionally exempted from the prohibition by the auditing firm.

Signatures of the Management Board of FFIL ŚNIEŻKA SA

Piotr Mikrut

President of the Management Board

Zdzisław Czerwec

Vice President of the Management Board

Witold Waśko

Vice President of the Management Board

Joanna Wróbel-Lipa

Vice President of the Management Board

Warsaw 14 March 2023