

CONSOLIDATED REPORT OF THE ŚNIEŻKA GROUP

for the first half of 2023

The Śnieżka Group – Management's report on the activities for H1 of 2023

Data in PLN thousand

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Data in PLN thousand

SUMMARY OF THE PERIOD

Highlights, including achievements and failures

In the first half of 2023, sales revenues of the Śnieżka Group ("Group") increased by 7.7% y/y and amounted to PLN 434.5 million.

The sales performance and profits in the reporting period were largely influenced by the implementation of a long-term marketing and sales strategy, an element of which is the pricing policy. It assumes, *inter alia*: consistently implemented changes in product prices in response to rising prices of raw materials used in production and a number of other costs of conducting a business activity (e.g. transport costs, logistics prices and salaries).

It should be emphasized, however, that unfavourable macroeconomic conditions still persist affecting the entire industry, where the Group operates. This includes: high inflation contributing to a decline in consumers' purchasing power and still unfavourable, although improving compared to last year, consumer sentiment indicators reflected in surveys. The Group's performance was positively influenced by the trend of premiumization, i.e. purchasing higher quality products, having been observed on the Group's key Polish market for several years.

From January to June this year the Group generated a consolidated net profit of PLN 41.3 million (+79.8% y/y), an EBIT profit of PLN 60.6 million (+43.0% y/y) and an EBITDA profit of PLN 80.2 million PLN (+32.6% y/y). Net profit attributable to shareholders of the parent company amounted to PLN 38.3 mln.

Additionally, the Group's profits in H1 of 2023 were also affected by the favourable euro exchange rate.

The Management Board of FFIL Śnieżka SA (the "Company") indicates that the Group's performance should always be analysed after the end of the entire year, primarily due to seasonality in the industry in which the Group's key companies operate. This is also due to the difficulty of predicting the future macroeconomic situation, consumer demand, the situation on the raw materials and packaging markets, as well as the further course of the war in Ukraine or its end, including the short- and, above all, long-term effects of this conflict.

Geographical structure of revenues

The Group's key markets are as follows: Poland (with a 69.8% share in the revenue structure in the first half of the year), Hungary (14.9% share) and Ukraine (9.4% share).

In terms of value, the Group's sales on the Polish market increased by 6.8% y/y, to PLN 303.4 million. The Group's revenues in Hungary amounted to PLN 64.9 million (-8.7% y/y), in Ukraine PLN 40.8 million (57.5% y/y) and on other foreign markets PLN 25.4 million (14.4% y/y).

The most important performance achieved in the second quarter of 2023

Data in PLN thousand

In Q2 of 2023, the Group generated PLN 233.1 million in sales revenues (9.2% y/y), PLN 33.0 million in operating profit (34.7% y/y), PLN 42.7 million EBITDA profit (+26.3% y/y) and PLN 24.1 million net profit (118.8% y/y). The profit attributable to the shareholders of the parent company amounted to PLN 22.0 million (148.1% y/y).

The impact of the armed conflict in Ukraine on the Group

In the first quarter of 2022 Śnieżka-Ukraina temporarily suspended its operations, i.e. from February 25, 2022, it stopped deliveries and production. The production was resumed on April 11, 2022. Therefore, the performance of the first quarter of 2023 is incomparable to the performance in Ukraine in the same period of 2022.

The Company's Management Board indicates that the situation on the market in question remains uncertain and demanding and that the performance of the first half of 2023 should not, in the Company's opinion, be any basis for estimating the performance of subsequent periods.

Investments

In the first half of 2023, the Śnieżka Group carried out investments at a level ensuring the continuation of effective operating activities. Total capital expenditure (CAPEX) in this period accounted for PLN 7.4 million and was 74% lower than in the same period last year. The largest share in this amount were the expenses of FFiL Śnieżka SA related to the continuation of investments in the new Logistics Centre located in Zawada near Dębica, in fixed assets, as well as on the modernization of installations in selected production departments.

In the coming years, the Management Board intends to recommend to Śnieżka's shareholders a dividend payment of 50% of the consolidated net profit of the Śnieżka Group attributable to the shareholders of the parent company (FFiL Śnieżka SA) until the net debt ratio is reduced to the level of one-times consolidated EBITDA.

Dividend

On April 27, 2023, the Ordinary General Meeting of FFiL Śnieżka SA adopted a resolution on the payment of dividend from net profit for 2022 and supplementary capital created from profits from previous years. The value of the dividend was established at PLN 25.2 million, i.e. PLN 2.00 per share. The dividend date was May 16 this year, and its payment was made on May 31 this year.

Factors that may affect the Group's performance

The main factors that may affect the performance of the Group over the next six months are primarily:

- demand for the Group's products and possible changes in consumer sentiment and behaviour,
- armed conflict on the territory of Ukraine and its consequences,
- changes in currency exchange rates,
- price developments (including raw materials, packaging, energy and logistics),
- remuneration costs,
- macroeconomic situation and its consequences.

Data in PLN thousand

SELECTED FINANCIAL INFORMATION

The Śnieżka Group – consolidated data (unaudited)

	in PLN '000	in EUR '000		
	as at / the period of 6 months ended as at 30 June 2023	as at / the period of 6 months ended as at 30 June 2022	as at / the period of 6 months ended as at 30 June 2023	as at / the period of 6 months ended as at 30 June 2022
I. Net revenues from sale of products, goods and materials	434 545	403 376	94 200	86 884
II. Profit from operating activities	60 556	42 341	13 127	9 120
III. Gross profit	49 534	32 967	10 738	7 101
IV. Net profit	41 311	22 981	8 955	4 950
- Net profit attributable to shareholders of the parent company	38 335	19 978	8 310	4 303
- Net profit attributable to non-controlling interests	2 976	3 003	645	647
V. Comprehensive income for the period	36 377	24 540	7 886	5 286
- Comprehensive income for the period attributable to shareholders of the parent company	32 664	22 043	7 081	4 748
- Comprehensive income for the period attributable to non-controlling interests	3 713	2 497	805	538
VI. Net cash flows from operating activities	47 477	(24 925)	10 292	(5 369)
VII. Net cash flows from investing activities	(13 577)	(30 982)	(2 943)	(6 673)
VIII. Net cash flows from financing activities	(28 972)	66 310	(6 281)	14 283
IX. Total net cash flows	4 928	10 403	1 068	2 241
X. Total assets	827 195	916 276	185 874	195 760
XI. Liabilities and provisions for liabilities	490 168	592 201	110 143	126 522
XII. Long-term liabilities	280 185	246 775	62 959	52 723
XIII. Short-term liabilities	209 983	345 426	47 184	73 799
XIV. Equity	337 027	324 075	75 731	69 238
- Equity attributable to the shareholders of the parent company	312 485	294 790	70 217	62 981
- Equities attributable to non-controlling interests	24 542	29 285	5 515	6 257
XV. Share capital	12 618	12 618	2 835	2 696
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	1.82	0.71	0.39
- Earnings per share attributable to shareholders of the Parent Company	3.04	1.58	0.66	0.34
XVIII. Diluted earnings per ordinary share in PLN/EUR	3.27	1.82	0.71	0.39
- Diluted earnings per ordinary share attributable to shareholders of the Parent Company	3.04	1.58	0.66	0.34
XIX. Carrying amount per share in PLN/EUR	26.71	25.68	6.00	5.49
XX. Diluted carrying amount per share in PLN/EUR	26.71	25.68	6.00	5.49
XXI. Declared or paid dividend per share attributable to shareholders of the parent company (in PLN/EUR)	2.00	2.50	0.45	0.53

The Śnieżka Group – Management's report on the activities for H1 of 2023

Data in PLN thousand

FFIL ŚNIEŻKA SA - standalone data (unaudited)

	in PLN '000		in EUR '000	
	as at / the period of 6 months ended as at 30 June 2023	as at / period 6 months ended 30 June 2022	as at / the period of 6 months ended as at 30 June 2023	as at / period 6 months ended 30 June 2022
I. Net revenues from sale of products, goods and materials	286 657	260 080	62 141	56 019
II. Profit from operating activities	75 067	41 539	16 273	8 947
III. Gross profit	55 991	29 933	12 138	6 447
IV. Net profit	54 274	26 960	11 765	5 807
V. Comprehensive income for the period	51 712	27 731	11 210	5 973
VI. Net cash flows from operating activities	(16 731)	(22 307)	(3 627)	(4 805)
VII. Net cash flows from investing activities	31 173	(13 826)	6 758	(2 978)
VIII. Net cash flows from financing activities	(12 901)	30 050	(2 797)	6 473
IX. Total net cash flows	1 541	(6 083)	334	(1 310)
X. Total assets	905 872	916 828	203 553	195 878
XI. Liabilities and provisions for liabilities	656 221	690 907	147 455	147 611
XII. Long-term liabilities	515 400	486 151	115 812	103 865
XIII. Short-term liabilities	140 821	204 756	31 643	43 746
XIV. Equity	249 651	225 921	56 098	48 268
XV. Share capital	12 618	12 618	2 835	2 696
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	4.30	2.14	0.93	0.46
XVIII. Diluted earnings per ordinary share in PLN/EUR	4.30	2.14	0.93	0.46
XIX. Carrying amount per share in PLN/EUR	19.79	17.90	4.45	3.83
XX. Diluted carrying amount per share in PLN/EUR	19.79	17.90	4.45	3.83
XXI. Declared or paid dividend per share attributable to shareholders of the parent company (in PLN/EUR)	2.00	2.50	0.45	0.53

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

	6 months of 2023	6 months of 2022
Particular items of the condensed statement of comprehensive income were translated at the average EURO exchange rate in the period	4.6130	4.6427
	as at 30 June 2023	as at 30 June 2022
Particular items of the financial position statement were translated at the EURO exchange rate at the end of the period	4.4503	4.6806

CONCISE DESCRIPTION OF THE ŚNIEŻKA GROUP

What makes us different

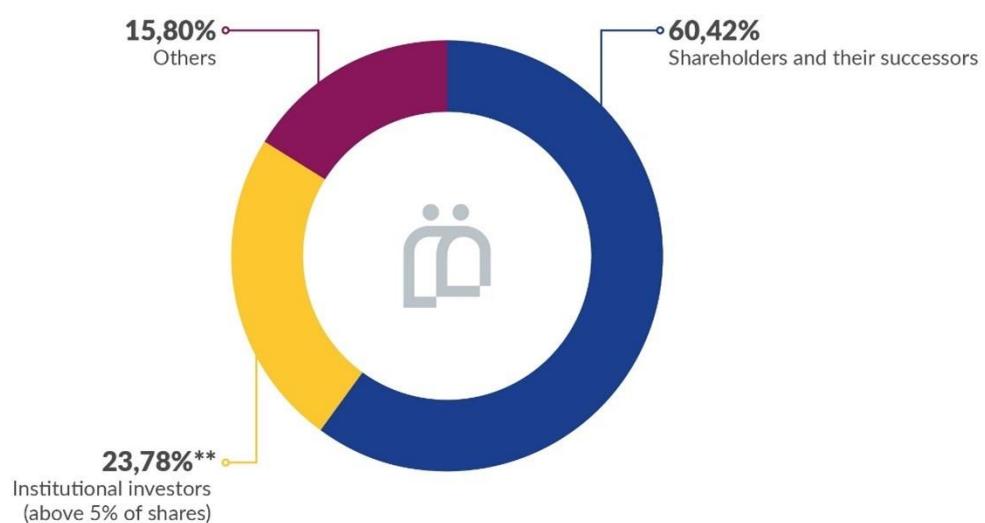


Data in PLN thousand



Shareholding structure of FFiL Śnieżka SA**

(share in the share capital in%)



*Data as at 19.09.2023

** PTE Allianz Polska: 14.39%; PTE Nationale – Nederlanden: 9.39%

Key brands of the Group:



Data in PLN thousand

1. COMMENT TO FINANCIAL PERFORMANCE

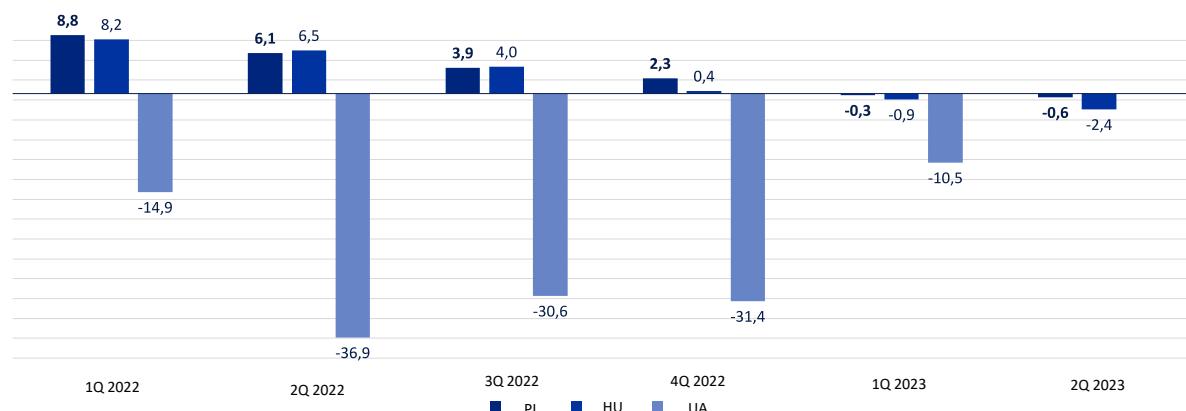
1.1 Macroeconomic situation and industry condition

1.1.1 Macroeconomic situation

In H1 of 2023, the European economy recorded growth, although not as dynamic as before. In its latest forecast, the European Commission predicts a slowdown in the economic growth rate in the European Union (to 0.8% in 2023 and 1.3% in 2024). As indicated, domestic demand remains weak and the economy is also affected by the effects of tightening the monetary policy. In addition, the EU economy cannot rely on strong support from external demand.

However, the EC anticipates a slight rebound in growth in 2024 due to the expected decline in inflation, a strong labour market and an increase in real incomes¹.

Figure 1. Annual gross domestic product dynamics y/y for the key markets of the Group on a quarterly basis (in %)



Source: GUS, Hungarian Central Statistical Office, State Statistics Service of Ukraine* (the data on GDP in Q2 of 2023 were not available as at the date of publication of the Report).

Poland

Polish GDP in Q1 of 2023 shrank by 0.3%, and in Q2 (according to the preliminary estimate of the Central Statistical Office) - by 0.6% y/y. According to the NBP projection, the economy is to accelerate in Q3 and Q4 and is to go up by 0.6% throughout the year².

¹ Source: Komisja Europejska, Summer 2023 Economic Forecast: Easing growth momentum amid declining inflation and robust labour market, September 2023.

² Source: NBP, Inflation Report, July 2023.

Data in PLN thousand

Sold production of industry in the period January-June 2023 decreased by 1.7% compared to the same period last year³. In the first half of this year, construction and assembly production increased by 3.8% y/y, while in the "building construction" category decreased by 5.3% y/y in the same period⁴.

There was still an increase in the number of apartments commissioned - in H1 of 2023 - 111.9 thousand (+2.5% y/y). On the contrary, the number of apartments with a building permit or a building design application declined significantly. The fall in dynamics amounted to -34.7% y/y (111.9 thousand). There was also a drop in the number of apartments whose construction had been initiated (-28.5% y/y; 85.6 thousand)⁵.

Consumer price index (CPI) in Poland in June 2023 was 11.5% y/y, and in the entire H1 of 2023 15.0% compared to the same period last year. In the given period, the highest price increases were recorded in the categories of food and alcoholic beverages (+20.8% y/y), apartment or house use and energy (+18.7% y/y) and restaurants and hotels (+16.2% y/y)⁶.

The recorded unemployment rate in H1 of 2023 in Poland ranged between 5.0 and 5.5%, reaching 5.0% at the end of June compared to 5.2% in June 2022⁷. In June this year the average employment in the enterprise sector went up by 0.2% y/y, and the average salary in the sector in question boosted by 11.9%, to PLN 7,335.2⁸.

According to the Central Statistical Office's data in June 2023 the entrepreneurs' assessment of the general economic climate remained negative. The assessment of the economic situation in the industrial processing and construction sectors amounted to -11.9 and -9.7, respectively⁹. The PMI for the Polish industry, which reflects the sentiment among purchasing managers, dropped to 45.1 points¹⁰.

The World Bank maintained its GDP forecast for 2023 for Poland published in January 2023 at 0.7%¹¹. The European Commission anticipates the national GDP growth by 0.5% in 2023 and inflation of 11.4% y/y¹².

³ Source: CSO, Dynamics of sold production of industry in June 2023, July 2023.

⁴ Source: CSO, Dynamics of construction and assembly production in June 2023, July 2023.

⁵ Source: CSO, Housing construction in the period January-June 2023, July 2023.

⁶ Source: CSO, Consumer price index of goods and services in June 2023, July 2023.

⁷ Source: CSO, Recorded unemployed and unemployment rate.

⁸ Source: CSO, the average employment and salaries in the enterprise sector in June 2023, July 2023.

⁹ Source: CSO, Economic situation in industrial processing, construction, trade and services, July 2023.

¹⁰ Source: Investing.com, Poland - Manufacturing PMI, June 2023.

¹¹ Source: The World Bank, Global Economic Prospects, June 2023.

¹² Source: The European Commission, Spring 2023 Economic Forecast for Poland, September 2023.

Data in PLN thousand

The International Monetary Fund ("IMF") estimates economic growth in Poland in 2023 at 1.2%¹³.

Hungary

The Hungarian economy (GDP) shrank by 0.9% y/y in Q1 of 2023, and by 2.4% in Q2, keeping Hungary in a technical recession¹⁴. However, available forecasts unanimously indicate that throughout 2023, GDP is to go up between 0.1 and 0.6% compared to 2022.

Inflation in Hungary in June 2023 was 20.1% y/y, and throughout the first half of the year - 23.6% y/y. Inflation projections presented by the Hungarian National Bank (MNB) point out that the inflation peak occurred in January and that the market is currently undergoing the disinflation process. Following the MNB forecasts, by the end of 2023, inflation should reach approximately 6.3% y/y¹⁵. In the first half of the year, the fastest price growth was recorded in the categories of fuels and energy carriers (42.9% y/y) and food (38.4% y/y).

The volume of construction production in the period January-June this year fell by 7.0% compared to the same period of the previous year. Industrial production declined by 4.8% y/y in the reporting period.

In H1 of 2023, the unemployment rate fluctuated between 3.8 and 4.0%, reaching 3.8% at the end of June, which denotes an increase of 0.4% y/y¹⁶. In the period from January to June 2023, average gross earnings in Hungary amounted to HUF 556,700 (i.e. approximately PLN 6,675), an increase of 13.6% compared to the same period of the previous year.

As at the date of this Report, the World Bank forecasts economic growth in Hungary this year at 0.6%, which means an increase in the January forecast by 0.1%¹⁷, while the IMF predicts GDP growth at 0.5%¹⁸. The European Commission forecasts a similar approach - according to it, the Hungarian economy may end 2023 with growth of 0.5% y/y¹⁹.

¹³ Source: International Monetary Fund, World Economic Outlook Update, July 2023.

¹⁴ Source: Hungarian Central Statistical Office.

¹⁵ Source: Magyar Nemzeti Bank, Inflation Report, June 2023.

¹⁶ Source: Hungarian Central Statistical Office, Economic activity of population, July 2023.

¹⁷ Source: The World Bank, Global Economic Prospects, June 2023.

¹⁸ Source: International Monetary Fund, World Economic Outlook, April 2023.

¹⁹ Source: The European Commission, European Economic Forecast. Spring 2023, May 2023.

Data in PLN thousand

Ukraine

Official data from the State Statistics Service of Ukraine reported that in Q1 of 2023, Ukrainian GDP decreased by 10.5% y/y²⁰. In its forecast for 2023, the IMF predicts a further decline in Ukrainian GDP, but by 3% y/y²¹. The IMF also drew attention to the resilience of the Ukrainian economy operating in war conditions. Ukraine's economy is adapting and recovering at a faster pace than initially forecast.

In H1 of 2023, inflation in Ukraine decreased significantly. The Ministry of Finance of Ukraine indicates that the economic and financial situation has stabilized. It emphasizes that stable tax revenues were achieved in 2023 and the inflation rate is in a downward trend²². In June 2023, CPI inflation amounted to 12.8% y/y (compared to 21.5% y/y in June 2022)²³. The reduction in price growth dynamics was mostly due to the actions introduced by the National Bank of Ukraine (NBU) aimed at, inter alia, ensuring exchange rate stability²⁴. In H1 of 2023, the hryvnia remained stable also due to seasonal factors and market saturation with the supply of foreign currency from households. The NBU continued to maintain a fixed dollar exchange rate of 36.5686 UAH/USD²⁵.

In the first half of 2023, the interest rate remained at the same level of 25%²⁶.

The effects of the war strongly affected the labour market. In the first quarter of this year the unemployment still remained high. However, its precise determination is difficult due to the inability to perform full-scale measurements and due to the mass emigration of Ukrainians from the country as the result of the war break-out. Over the first 6 months of 2023, however, the unemployment rate gradually decreased owing to more intense business activity. The NBU forecasts that the unemployment rate is to reach 18.3% by the end of 2023²⁷. On the contrary, employers are often unable to fully fill open vacancies due to the mobilization of people conscripted for military service. According to experts, although the Ukrainian labour market remains unbalanced (employers' expectations do not match the availability of employees), the percentage of people working is on the increase²⁸.

²⁰ Source: State Statistics Service of Ukraine, Macroeconomic indicators, May 2023.

²¹ Source: International Monetary Fund, World Economic Outlook, April 2023.

²² Source: Ministry of Finance of Ukraine, General Fund of State Budget Received UAH 133.7 billion of Revenues in June 2023, July 2023.

²³ Source: National Bank of Ukraine, NBU comment on inflation in June 2023, July 2023.

²⁴ Source: ibidem

²⁵ Source: The National Bank of Ukraine, Official exchange rates.

²⁶ Source: National Bank of Ukraine, NBU interest rate.

²⁷ Source: National Bank of Ukraine, Monthly report on the assessment of the macroeconomic and monetary situation, July 2023.

²⁸ Source: Eastern European Studies. University of Warsaw, Expert: Unemployment in Ukraine is falling, yet the imbalance in the labour market remains, <https://studium.uw.edu.pl/ekspertka-bezrobocie-na-ukrainie-spada-ale-nierownowaga-na-rynk-u-pracy-pozostaje/>, August 2023

Data in PLN thousand

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

1.1.2 The paint and varnish market

The main markets where the Śnieżka Group operated in H1 of 2023 were as follows: Poland, Hungary and Ukraine. In these three markets, the Group generated approx. 94,1% of consolidated sales revenues in the reporting period.

Poland

According to the data of the Polish Association of Paint and Adhesive Producers, in H1 of 2023, the decorative paint market recorded a single-digit increase in value (in percentage terms) y/y, with a simultaneous single-digit decrease in the volume sold y/y (in percentage terms).

The group believes that there are two basic reasons for this situation. The first is the trend of premiumization (consumers purchasing higher quality products, which are usually characterized by higher prices), which has been observed for several years. The second one concerns the supply side and is related to the significant price change observed in the entire category of construction chemicals products.

Prices of paints and varnishes are slowly settling. In June, they recorded the lowest growth dynamics, over a dozen per cent, since the beginning of the year²⁹. Although the geopolitical situation remains tense due to the war in Ukraine, the biggest shock on the renovation and construction market resulting from its impact on the market has already passed. The current situation allows to run business activities.

The economic situation on the Polish market of decorative paints and construction chemicals also depends on the consumer sentiment. In June 2023, compared to the previous month, there was an improvement in consumer sentiment, both current and regarding future periods. Current consumer confidence indicator (BWUK), describing current trends in individual consumption, amounted to -28.2 and was 1.7% higher with reference to the previous month³⁰. The Leading Indicator of Consumer Confidence (WWUK), describing the expected trends in individual consumption in the coming months, amounted to -14.8, which accounts for an increase of 0.5% on a monthly basis³¹.

According to internal data of the Company, as in previous years, decorative paints were used primarily for renovation or refurbishment of apartments³². The Group estimates that decisions to purchase interior emulsions are less likely to stem from the need to finish a new apartment. Last year, Poles

²⁹ Source: PSB Group, Price trends, July 2023.

³⁰ Source: 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.

³¹ Source: CSO, Consumer economic situation - June 2023, June 2023.

³² Source: Group internal study.

Data in PLN thousand

most often acquired paint to refresh their living quarters (renovations). In the Group's opinion, this translates that a smaller number of commenced construction sites and issued building permits will not have a significant impact on the Company's sales performance in the coming years³³.

In H1 of 2023, no changes occurred among the main players on the Polish market of decorative paints and construction chemicals. 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%.

Hungary

According to the Group's data, in H1 of 2023, the Hungarian market recorded a single-digit growth y/y (in percentage terms in local currency) as far as the value is concerned. In volume terms, there was a double-digit decline in sales volume y/y (in percentage terms).

An important factor in the value growth of the local market is the increase in product prices, also observed in the category of paints and products for wood protection and decoration. According to the Group's analyses, over the last few years, the prices of products in this category have been subject to trends similar to those of the CPI inflation rates announced by the Hungarian Central Statistical Office (KSH). This means that after the peak of inflation in Q1 of 2023, a period of disinflation took place (decrease in inflation dynamics)³⁴.

Other important factors influencing the economic situation in the industry, in the Group's opinion, remain similar to those prevailing in the first quarter of this year, including: maintained high interest rates, which result in lower disposable income of households; economic slowdown and wage growth³⁵; consumers' assessment of the future economic situation remaining relatively low, which makes them refrain from purchasing activities more often³⁶.

In the Group's opinion, no significant changes in consumer attitudes occurred compared to previously reported periods.

In the reporting period, the largest entities operating on the Hungarian market were as follows: Poli-Farbe (from the Śnieżka Group), PPG Trilak and AkzoNobel Coatings. Their total share on that market is estimated at approx. 75%.

Ukraine

³³ Source: Ibidem.

³⁴ Source: Hungarian Central Statistical Office, Prices, July 2023.

³⁵ Source: Hungarian Central Statistical Office (KSH), National accounts – GDP, July 2023.

³⁶ Source: OECD, Consumer confidence index (CCI), July 2023.

Data in PLN thousand

The decorative paints and construction chemicals market in Ukraine saw signs of recovery in the first half of 2023. Still in the first quarter, the country was affected massive missile attacks, which in the case of the paints and varnishes industry resulted in unstable operation of production plants due to power cut. The market situation, however, improved at the end of March this year, and in the second quarter of this year electricity supplies became stable.

According to the Group's estimates, the total value of the market of paints and agents for wood protection and decoration in Ukraine increased in Q1 of 2023 by approximately 25-30% compared to the same period last year. This is the result of the low base of last year's performance due to the outbreak of the war, as well as the on-going reconstruction of devastated buildings and renovation and construction works in households and new buildings, carried out mainly in the western and central regions of Ukraine. In the first half of this year many industry enterprises located in the eastern regions of Ukraine suffered from further supply of raw materials³⁷. One of the main challenges for manufacturers of decorative paints and construction chemicals is the logistics and delivery of raw materials, the majority of which are imported from Europe or Turkey. This affects high production costs.

An essential issue for enterprises is the availability of staff. Fleeing the war, many workers went abroad and to other regions of Ukraine, and some were mobilized.

The consequences of the war and the destruction of infrastructure in eastern Ukraine had a negative impact on the activities of companies producing paints and other decorative products, the factories of which are located near the front line. To the best of the Group's knowledge, investments in the reconstruction of damaged warehouse space or modernization of production lines are still suspended.

Due to the on-going war, forecasting the situation on the market of paints and agents for wood protection and decoration on the Ukrainian market in subsequent periods is currently very difficult. The key entities currently operating on the Ukrainian market include: Śnieżka-Ukraina from the Śnieżka Group, Meffert Hanza Farben, Eskaro, Polisan, Henkel, DAW, Feidal and ZIP.

1.1.3 Raw materials and currencies

Raw materials

The Group is constantly exposed to risk related to changes in prices of key raw materials, which stems from the global demand/supply relationship, their availability and currency exchange rates.

However, the first half of 2023 was characterized by a relatively stable price level in most groups of raw materials used for the production of paints. There was a slight drop in prices in some groups of raw materials, such as whites, styrene-acrylic and acrylic dispersions, alkyd resins, pigments and solvents. In turn, a slight increase in prices is noticeable in groups of raw materials such as dolomite

³⁷ Source: Chem-Courier, July 2023 https://chem-courier.com.ua/ru/latestissue?issue=2&select=HK_LKMUKRAINE

Data in PLN thousand

fillers, calcium carbonates and gypsum. Prices for plastic, metal and paper packaging remained unchanged.

Higher transport costs as well as increases in electricity and gas prices contributed to the rise in raw material prices in the reporting period.

In H1 of 2023, the Śnieżka Group had stable and continuous access to the raw materials, it is supplied with. The continuity of supplies of raw materials to the Śnieżka Group companies may still be affected by difficulties or congestion on the Belarusian and Ukrainian borders.

Slight boost in raw material prices are possible in 2023. However, taking into account the current market situation, it is not possible to foresee their dynamics.

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

In H1 of 2023 Polish zloty slightly strengthened against major currencies.

The exchange rate for the euro against the Polish zloty was 4.45 on June 30 this year. The zloty was recorded to have strengthened in the first half of this year. The price went down by approximately PLN 0.24 (-5.1%) compared to the end of last year and by PLN 0.23 (-4.9%) at the end of the reporting period compared to the quotations on June 30, 2022. EUR/PLN quotations in the first half of 2023 ranged from 4.4286 to 4.7895 (the average NBP exchange rate was PLN 4.6288, less than PLN 0.01 less than in the first half of last year).

A particularly high level of strengthening was recorded in relation to the US dollar - its quotations against the Polish zloty as of June 30 this year fell by over PLN 0.29 (-6.7%), to the level of 4.10. During the first six months of this year USD/PLN quotations ranged from 4.0330 to 4.4888 (the average NBP exchange rate was PLN 4.2836, by PLN 0.04 higher than in the first half of last year). At the end of the reporting period, the exchange rate of the American currency in relation to the quotations from June 30, 2022 decreased by PLN 0.38 (-8.4%).

The valuation of the Polish zloty during the reporting period was determined by various factors - including the war in Ukraine, global inflationary pressure and the interest rate policy of the largest central banks and the National Bank of Poland.

Data in PLN thousand

Figure 2. EUR and USD quotations against PLN



Source: NBP.

The Hungarian forint exchange rate increased against the Polish zloty in the reporting period. On June 30, 2023, its exchange rate was 1.1990 (PLN per 100 HUF), while at the end of 2022 it was 1.1718, and at the end of June last year 1.1797. The appreciation of forint quotations at the end of the period on an annual basis amounted to 1.6%, and in relation to quotations at the end of 2022 - 2.3%. The valuation of the Hungarian currency in the first half of 2023 remained volatile in the range of 1.1619 to 1.2551. The average NBP forint exchange rate (PLN per 100 HUF) in the first half of this year was 1.2155 and was over PLN 0.02 lower than in the first half of last year.

Data in PLN thousand

Figure 3. HUF 100 quotations against PLN



Source: NBP.

UAH/PLN exchange rate during the first half of this year ranged from 0.1092 to 0.1258. Since the outbreak of the war on February 24, 2022, the official UAH exchange rate according to the National Bank of Poland was periodically "frozen" and maintained a constant rate until the beginning of April this year, when the UAH/PLN exchange rate was released again. As of June 30, this year the rate was -23.9% lower y/y, and compared to the end of last year decreased by -11.2%. The average NBP exchange rate of UAH in the reporting period was 0.1196 compared to 0.1441 in the first half of last year.

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Data in PLN thousand

Figure 4. UAH quotations against PLN



Source: The National Bank of Ukraine (NBU).

In H1 of 2023, the Śnieżka Group continued the rules introduced last year regarding the translation of financial statements of the Śnieżka-Ukraina company operating in Ukraine, for which the functional currency is the Ukrainian hryvnia (UAH).

As a rule, when converting the reports of foreign entities, the Group adopted the closing rate, defined as the immediate exchange rate as at the balance sheet date (the parent company assumed that it was the average NBP exchange rate from the last business day preceding the balance sheet date).

Due to the extraordinary situation on the Ukrainian market caused by the war, the Group compares the NBP exchange rate from the last business day preceding the balance sheet date with the NBU (National Bank of Ukraine) exchange rate on each balance sheet date. If the differences are not significant, the Group applies the exchange rate set by the NBP as the closing rate, and if the differences are significant, the Group applies the NBU exchange rate.

As at June 30, 2023, the Group adopted the closing rate set by the National Bank of Poland at which the Group exchanges UAH for PLN, i.e. 1 UAH = PLN 0.1106.

Financial data of foreign entities are translated into the presentation currency, i.e. PLN, for the purposes of recognition in the consolidated financial statements of the Group applying the following principles:

- assets and liabilities of foreign entities are translated from the functional currency into the Group's presentation currency (PLN) at the closing rate;

Data in PLN thousand

- statements of comprehensive income of foreign entities are translated from functional currency into the Group's reporting currency (PLN) for each reporting period. The conversion rate is the arithmetic mean of the average rates;
- the resulting exchange differences are recognized by the Group in other comprehensive income.

1.2 Sales volumes

1.2.1 The Śnieżka Group

In the first half of 2023, sales revenues of the Śnieżka Group ("Group") went up by 7.7% y/y and amounted to PLN 434.5 million.

The performance in the reporting period was primarily influenced by the increase in sales on the Polish market, which dominates the Group's total revenues, and higher sales on the Ukrainian market, which is rebuilding its share in the Group's revenue structure to performance comparable to the one prior to the outbreak of the war on February 24, 2022. The implementation of the long-term marketing and sales strategy, which includes the pricing policy, had a positive impact on the performance in H1 of 2023. It assumes, *inter alia*: consistently implemented changes in product prices in response to rising prices of raw materials used in production as well as due to higher costs of conducting a business activity (e.g. transport costs, logistics prices and salaries).

It should be emphasized, however, that unfavourable macroeconomic conditions still persist affecting the entire industry, where the Group operates. This includes: high inflation contributing to a decline in consumers' purchasing power and still unfavourable, although improving compared to last year, consumer sentiment indicators reflected in surveys. The Group's performance, however, was positively influenced by the trend of premiumization, which has been going on for several years, i.e. purchasing higher quality products in Poland.

The Group's performance in H1 of 2023 was also significantly affected by the on-going armed conflict in Ukraine and its effects on the entire region of Central and Eastern Europe, where key markets for the Group are located. In 2022 - especially in the last days of February and March - sales in Ukraine were not possible.

Moreover, the Company's Management Board decided to withdraw from the Russian market. The sales performance in the period January-June 2023 on the Group's main markets and the main factors contributing to them:

- Poland** (69.8% share in the revenue structure)

The sales value generated by the Group on the Polish market rose by 6.8% y/y to PLN 303,356 thousand. Primarily, this is the result of continued customer migration and the selection of premium products, as well as price list updates in response to rising costs. According to the Group's own data, this is better performance than the entire market, which in H1 of 2023 recorded a single-digit percentage increase as far as the value compared to the same period of the previous year is concerned.

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Data in PLN thousand

▪ **Hungary** (14.9% share in the revenue structure)

The revenues generated by the Group in Hungary amounted to PLN 64,943 thousand and declined by 8.7% compared to last year. This is mainly followed by a significant weakening of the purchasing power of local customers. Record high inflation affects negatively consumer sentiment and renovation plans of Hungarians, which in turn limits the demand for products of the entire industry. As for the structure of the Capital Group's revenues, the share of revenues from the Hungarian market decreased from 17.6% in 2022 to 14.9% in H1 of 2023. Based on the Group's own data, the decline in the Group's sales in the market in question was lower than the sales fall in the entire market of decorative paints and agents for the protection and decoration of wood in Hungary.

▪ **Ukraine** (9.4% share in the revenue structure)

In Ukraine, the Group generated revenues of PLN 40,805 thousand, i.e. 57.5% higher than in the same period of 2022. The performance is incomparable to H1 of 2022 due to the fact that, as a result of the outbreak of war in the territory of this country, the Śnieżka Group temporarily suspended the operating activities of Śnieżka-Ukraina in 2022, withholding deliveries and suspending production from February 25, 2022. On April 11, 2022, this company was the first to resume both production (initially for one shift, then full-time) and sales on the local market. In local currency, Śnieżka-Ukraina doubled its revenues. The share of the Ukrainian market in the Group's revenue structure increased from 6.4% to 9.4% y/y, i.e. it approached the levels from the years preceding the war.

On other markets ("Other" segment), the Group generated sales revenues of PLN 25,441 thousand, i.e. 14.4% higher than the year before.

In total, the Group's revenues generated in H1 of 2023 on foreign markets accounted for 30.2% of its total revenues.

Table 1. Sales revenues of the Śnieżka Group by countries

	the period of 6 months ended as at 30 June 2023	Structure	the period of 6 months ended as at 30 June 2022	Change (y/y)
Poland	303 356	69.8%	284 054	6.8%
Hungary	64 943	14.9%	71 170	-8.7%
Ukraine	40 805	9.4%	25 915	57.5%
Other	25 441	5.9%	22 237	14.4%
Total sales	434 545	100.0%	403 376	7.7%

The Group's sales structure is dominated by decorative products. During the first six months of 2023, sales of this product group reached PLN 351,537 thousand. In the analysed period, they accounted for 81.0% of the Group's total sales revenues, and their share in the sales structure was 1.5% higher than the year before. Construction chemicals featured the second highest share in the sales structure (11.6%). The Group's revenues from the sale of products in this category amounted to PLN 50,558 thousand and were by 0.6% lower than a year earlier.

Data in PLN thousand

Revenues from the sale of goods - the third most important group in the product structure with a share of 4.5% - decreased by 1.8%, to PLN 19,654 thousand.

Table 2 Sales revenues of the Śnieżka Group by product categories

	the period of 6 months ended as at 30 June 2023	Structure	the period of 6 months ended as at 30 June 2022	Change (y/y)
Decorative products	351 537	81.0%	320 771	9.6%
Construction chemicals	50 558	11.6%	50 869	-0.6%
Industrial products	4 663	1.1%	5 598	-16.7%
Goods	19 654	4.5%	20 024	-1.8%
Other revenues	4 016	0.9%	2 673	50.2%
Materials	4 117	0.9%	3 441	19.6%
Total sales	434 545	100.0%	403 376	7.7%

1.2.2 FFIL Śnieżka SA

Since the change of the business model that took place at the beginning of 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. („Śnieżka ToC”), 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 H1 of 2023, FFIL Śnieżka SA generated sales revenues of PLN 286,657 thousand, i.e. 10.2% higher than in the same period of the previous year. The dominant share in the total revenues of the Company (98.2%) in the reporting period was the sale of products and goods to Śnieżka ToC, recognized in the "Poland" segment. Compared to the previous year, it increased by 9.7%, i.e. to PLN 281,374 thousand.

In addition, in the reporting period, FFIL Śnieżka SA also generated revenues from the sale of raw materials to its subsidiaries located in Hungary and Ukraine, as well as from the sale of advertising materials to Śnieżka ToC, in the total amount of PLN 10,975 thousand. The Company's revenues from sales to key foreign markets ("Hungary" and "Ukraine" segments) accounted for 1.6% of its total revenues.

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Data in PLN thousand

Table 3 Sales revenues of the FFIL ŚNIEŻKA SA by countries

	the period of 6 months ended as at 30 June 2023	Structure	the period of 6 months ended as at 30 June 2022	Change (y/y)
Poland	281 374	98.2%	256 485	9.7%
Hungary	621	0.2%	1 754	-64.6%
Ukraine	4 124	1.4%	1 469	180.7%
Other	538	0.2%	372	44.6%
Total sales	286 657	100.0%	260 080	10.2%

In the breakdown by product categories, the Company's sales structure - as in the case of the entire Group - was dominated by decorative products. Their share in revenues was 78.7% (+2.2% y/y). The second and third places in the sales structure were taken by: construction chemicals (6.5%) and goods (5.6%), respectively.

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

	the period of 6 months ended as at 30 June 2023	Structure	the period of 6 months ended as at 30 June 2022	Change (y/y)
Decorative products	225 764	78.7%	198 828	13.5%
Construction chemicals	18 498	6.5%	20 762	-10.9%
Industrial products	89	0.0%	75	18.7%
Goods	15 918	5.6%	16 123	-1.3%
Other revenues	15 413	5.4%	14 374	7.2%
Materials	10 975	3.8%	9 918	10.7%
Total sales	286 657	100.0%	260 080	10.2%

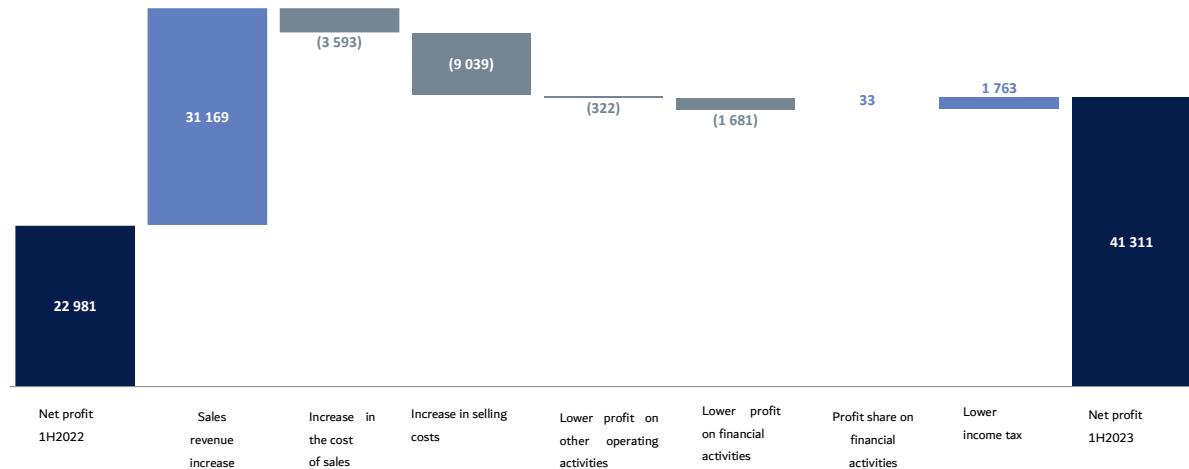
1.3 Major factors affecting the financial performance

1.3.1 The Śnieżka Group

In the first six months of 2023, the Śnieżka Group generated a consolidated net profit of PLN 41,311 thousand, i.e. 79.8% higher than in the corresponding period of the previous year. Net profit attributable to the shareholders of the parent company amounted to PLN 38,335 thousand (91.9% 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 net bottom line between January and June of 2023 was primarily affected by:

- an increase in sales revenues by 7.7% (PLN 31,169 thousand), with higher performance achieved on the Polish market (6.8%), where the demand for premium brand products and mid-priced products maintains, a lot better on the the Ukrainian market (57.5%) and other markets (14.4%), and a decrease on the Hungarian market (in PLN by 8.7%),
- an increase in the cost of sales by 1.5% (PLN 3,593 thousand) as a result of lower sales volume combined with simultaneous pressure from higher prices of raw materials used in production,
- an increase in selling costs by 6.3% (PLN 4,389 thousand);
- an increase in general administrative expenses by 9.6% (PLN 4,650 thousand), caused mainly by a boost in salaries,
- positive result on other operating activities in H1 of 2023,
- lower result on financial activities compared to the first half of the previous year by PLN 1,681 thousand, mainly caused by an increase in debt servicing costs due to an increase in interest rates,

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Data in PLN thousand

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

	the period of 6 months ended as at 30 June 2023	the period of 6 months ended as at 30 June 2022	Change (y/y)
Sales revenues	434 545	403 376	7.7%
Cost of sales	248 469	244 876	1.5%
Selling costs	73 951	69 562	6.3%
General administrative expenses	53 021	48 371	9.6%
Profit on other operating activities	1 452	1 774	-18.2%
Profit on financial activities	(11 126)	(9 445)	-
Share in associate's profit	104	71	46.5%
Gross profit	49 534	32 967	50.3%
Profit on operating activities (EBIT)	60 556	42 341	43.0%
Profit on operating activities + depreciation (EBITDA)	80 154	60 440	32.6%
Income tax	8 223	9 986	-17.7%
Net profit, including:	41 311	22 981	79.8%
<i>Profit attributable to shareholders of the parent company</i>	38 335	19 978	91.9%

The Company did not publish forecasts of financial results for 2023, both on a consolidated and standalone basis.

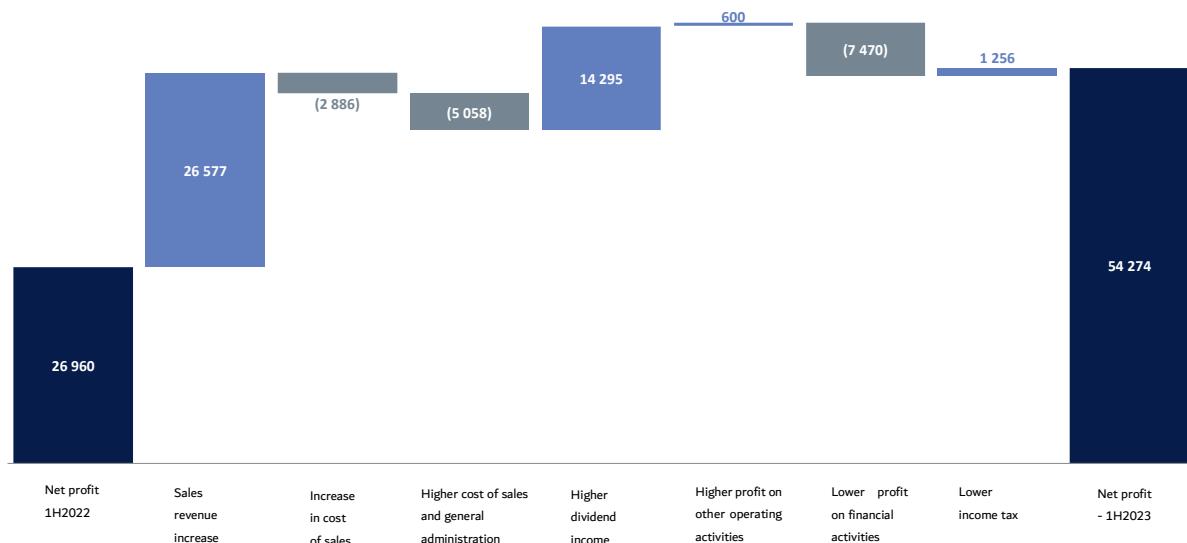
1.3.2 Fabryka Farb i Lakierów Śnieżka SA

FFiL Śnieżka SA generated a net profit of PLN 54,274 thousand in the first six months of 2023, i.e. 101.3% higher than in the same period of the previous year.

The Śnieżka Group – Management's report on the activities for H1 of 2023

Data in PLN thousand

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



The performance of the Company in this period was mainly due to:

- an increase in sales revenue by 10.2% to PLN 286,657 thousand;
- an increase in cost of sales by 1.4%, (PLN 2,886 thousand) as a result of continued pressure from the prices of raw materials used in production,
- an increase in selling costs by 10.7% (PLN 1,347 thousand),
- an increase in general administrative expenses by 11.0% (PLN 3,711 thousand),
- income from dividends from subsidiaries in the amount of PLN 45,670 thousand, i.e. by 45.6% (PLN 14,295 thousand) higher y/y resulting from the management of the Capital Group's net debt,
- improvement the result by PLN 600,000 on other operating activities in the aftermath of, inter alia, the valuation of options for a minority shareholder in a Hungarian company,
- lower result on financial activities compared to the first half of the previous year by PLN 7,470 thousand, mainly due to the increase in debt servicing costs,
- lower income tax by PLN 1,256 thousand.

Data in PLN thousand

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

	the period of 6 months ended as at 30 June 2023	the period of 6 months ended as at 30 June 2022	Change (y/y)
Sales revenues	286 657	260 080	10.2%
Cost of sales	206 654	203 768	1.4%
Selling costs	13 992	12 645	10.7%
General administrative expenses	37 514	33 803	11.0%
Interest revenue	45 670	31 375	45.6%
Profit on other operating activities	900	300	200.0%
Profit on financial activities	(19 076)	(11 606)	64.4%
Gross profit	55 991	29 933	87.1%
Profit on operating activities (EBIT)	75 067	41 539	80.7%
Profit on operating activities + depreciation (EBITDA)	87 390	51 469	69.8%
Income tax	1 717	2 973	-42.2%
Net profit	54 274	26 960	101.3%

1.4 Financial standing

1.4.1 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). Therefore, the values of such balance sheet items as: total assets, trade receivables and trade liabilities as at the end of June, as a rule, differ significantly from the values of these balance sheet items at the end of the previous year.

Due to the above, the Management Board decided to provide a commentary on the performance presenting the state of assets and liabilities after six months of the year: as at June 30, 2023 and June 30, 2022.

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Data in PLN thousand

Table 7 The Śnieżka Group's assets

Group's assets	30.06.2023	30.06.2022	Change (y/y)
Fixed assets, including:	560 851	586 402	-4.4%
- Tangible fixed assets	488 537	501 648	-2.6%
- other fixed assets	72 314	84 754	-14.7%
Current assets, including:	266 179	329 648	-19.3%
- Inventory	125 411	163 775	-23.4%
- Trade and other receivables	105 234	124 378	-15.4%
- Cash and cash equivalents	23 677	26 167	-9.5%
- other current assets	11 857	15 328	-22.6%
Non-current assets classified as held for sale	165	226	-27%
Total	827 195	916 276	-9.7%

On June 30, 2023, the value of the assets of the Śnieżka Group was PLN 827,195 thousand, which is a decline of PLN 89,081 thousand (-9.7%) compared to the end of June last year. The value of the Group's fixed assets (representing 67.8% of its total assets) decreased by 4.4% during the year to PLN 560,851 thousand.

The value of the Group's current assets amounted to PLN 266,179 thousand, which means a drop by 19.3% compared to June 30, 2022. The main item of the Group's current assets were inventories valued at PLN 125,411 thousand, the value of which, compared to the previous year, shrank by 23.4%. The decrease in their value is the result of dynamic inventory management in response to current demand.

The second largest item were trade receivables and other receivables worth PLN 105,234 thousand, i.e. 15.4% lower than a year earlier.

At the end of June 2023, the Group had PLN 23,677 thousand cash (-9.5% y/y) and PLN 11,857 thousand of other current assets in the form of income tax receivables.

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Data in PLN thousand

Table 8 The Śnieżka Group's liabilities

Group's liabilities	30.06.2023	30.06.2022	Change (y/y)
Total equity, including:	337 027	324 075	4.0%
- Equity (attributable to the shareholders of the parent company)	312 485	294 790	6.0%
- Equity of non-controlling interests	24 542	29 285	-16.2%
Total liabilities	490 168	592 201	-17.2%
Long-term liabilities	280 185	246 775	13.5%
Short-term liabilities, including:	209 983	345 426	-39.2%
- Trade and other liabilities	109 109	154 131	-29.2%
- Short-term liabilities on loans and borrowings	48 912	130 783	-62.6%
- Other short-term liabilities (including provisions, option liabilities, income tax, leasing)	51 962	60 512	-14.1%
Total	827 195	916 276	-9.7%

On June 30, 2023, the Group had equity of PLN 337,027 thousand, i.e. 4.0% higher than at the end of June last year. This was mainly due to the reduction in the valuation of the option to purchase shares of Poli-Farbe Vegyipari Kft. At the same time, its level of external debt decreased. Consequently, the Group financed its operations in 40.7% from its own funds, which means an increase in this level by 5.4% y/y.

At the end of the reporting period, the Group's long-term liabilities amounted to PLN 280,185 thousand, which account for 13.5% rise (PLN 33,410 thousand) y/y. This stems predominantly from the conversion of short-term debt into long-term one. Liabilities due after twelve months from the balance sheet date accounted for 33.9% of the balance sheet total, which denotes an increase of 6.9% y/y.

The Group's short-term liabilities amounted to PLN 209,983 thousand, i.e. a decline by 39.2% y/y and accounted for 25.4% of the balance sheet total. Their decrease results primarily from a decrease in current loan liabilities by 62.6%, to PLN 48,912 thousand. As at June 30, 2023, they constituted 5.9% of the balance sheet total.

Concurrently, the Group's trade and other liabilities decreased. Compared to the end of June 2022, they fell by PLN 45,022 thousand (-29.2% y/y), which resulted mostly from minor purchases and a decline in the EUR/PLN exchange rate.

Furthermore, other short-term liabilities of the Group went down by 14.1% (PLN 8,550 thousand). This was mainly followed as a result of a decrease in income tax liabilities and in liabilities due to options for the purchase of minority-owned shares.

Put and call options

Data in PLN thousand

The Group's balance sheet includes a put option, i.e. a liability for an option to purchase shares of Poli-Farbe Vegyipari Kft. held by a minority.

It reduces the Group's equity (i.e. by PLN 33,157 thousand as at June 30, 2023). The core of this option is that Lampo Kft. – the other shareholder of Poli-Farbe – has a possible right to sell (put option), and FFIL Śnieżka is obliged to acquire the remaining 20% of shares in this Hungarian subsidiary. On the contrary, the call option entitles the Company, in special circumstances, to acquire the remaining 20% of shares.

1.4.2 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. Consequently, the Company decided to provide a commentary on the performance presenting the state of assets and liabilities after six months of the year: as at June 30, 2023 and June 30, 2022.

Table 9 FFIL ŚNIEŻKA SA's assets

Company's assets	30.06.2023	30.06.2022	Change (y/y)
Fixed assets, including:	655 704	655 039	0.1%
- Tangible fixed assets	417 706	417 814	0.0%
- Shares and stocks in other entities	203 096	202 734	0.2%
- other fixed assets	34 902	34 491	1.2%
Current assets, including:	250 168	261 789	-4.4%
- Inventory	87 388	116 183	-24.8%
- Trade and other receivables	148 275	129 224	14.7%
- Cash and cash equivalents	3 088	1 236	149.8%
- other current assets	11 417	15 146	-24.6%
Total	905 872	916 828	-1.2%

On June 30, 2023, the Company's assets amounted to PLN 905,872 thousand, which is a decrease of PLN 10,956 thousand (-1.2%) compared to the end of June last year.

The value of the Company's fixed assets (representing 72.4% of its total assets) increased by 0.1% during the year, to PLN 655,704 thousand.

The value of the Company's current assets amounted to PLN 250,168 thousand, i.e. it was 4.4% lower than on June 30, 2022. The main item of these assets were trade and other receivables worth PLN 148,275 thousand (14.7% higher than a year earlier). Inventories were valued at PLN 87,388 thousand (-24.8% y/y, i.e. less by PLN 28,795 thousand). This is a derivative of the supply chain management optimization process, including: the operation of the new Logistics Centre.

The Śnieżka Group – Management's report on the activities for H1 of 2023

Data in PLN thousand

At the end of June 2023, the Company had PLN 3,088 thousand of cash and cash equivalents (+149.8% y/y) and PLN 11,417 thousand of other current assets in the form of income tax receivables.

Table 10. FFIL ŚNIEŻKA SA's liabilities

Company's liabilities	30.06.2023	30.06.2022	Change (y/y)
Equity	249 651	225 921	10.5%
Total liabilities	656 221	690 907	-5.0%
Long-term liabilities, including:	515 400	486 151	6.0%
- Long-term interest-bearing loans and borrowings	504 436	475 671	6.0%
- Other long-term liabilities	10 964	10 480	4.6%
Short-term liabilities, including:	140 821	204 756	-31.2%
- Trade and other liabilities	71 454	102 511	-30.3%
- Current portion of interest-bearing loans and borrowings	50 432	86 587	-41.8%
- Other short-term liabilities (including provisions, option liabilities, income tax, leasing)	18 935	15 658	20.9%
Total	905 872	916 828	-1.2%

As at June 30, 2023, the equity of FFIL Śnieżka SA increased by 10.5% (PLN 23,730 thousand) y/y as a result of retaining part of the net profit generated by it in 2022. At the same time, following a reduction in the level of external financing (including also loans from subsidiaries) and a higher net profit, the Company financed its operations with its own funds in 27.6%. This means an increase in this indicator (by 2.9%) compared to the end of June last year.

At the end of the reporting period, the Company's long-term liabilities amounted to PLN 515,400 thousand (an increase of PLN 29,249 thousand y/y) and accounted for 56.9% of the balance sheet total. This stems mainly from the conversion of short-term debt into long-term one.

The Company's short-term liabilities decreased by 31.2% (PLN 63,935 thousand). This balance sheet item was primarily influenced by a decrease in the Company's current credit liabilities by 41.8% (PLN 36,155 thousand).

On June 30, 2023, they amounted to PLN 50,432 thousand. Short-term trade and other liabilities decreased by 30.3% (PLN 31,057 thousand) y/y. This is mostly the result of reduced purchases of raw materials and packaging in EUR with a simultaneous lower exchange rate of this currency. As at the balance sheet date, other short-term liabilities of the Company increased by 20.9% y/y.

The greatest impact on this rise was the increase in provisions for future employee benefits by PLN 4,331 thousand. At the same time, the Company's income tax liabilities decreased PLN 1,503 thousand.

As part of the liabilities presented in the report, the Company has loans from its subsidiary - Śnieżka ToC, which is an element of liquidity management in the Group. As at June 30, 2023, their balance

Data in PLN thousand

from Śnieżka ToC is PLN 256,699 thousand (long-term liabilities) and PLN 1,529 thousand interest (short-term liabilities).

1.5 Cash flows

1.5.1 The Śnieżka Group

In the first six months of 2023, the Group generated positive cash flows of PLN 3,761 thousand (after adjustment for exchange rate differences from the conversion of foreign units), compared to PLN 9,977 thousand a year earlier.

Consequently, at the end of the reporting period, the Group had cash worth PLN 23,677 thousand, i.e. by PLN 2,490 thousand lower than a year earlier.

Figure 7. The Group's cash flows in H1 of 2023



This performance was due to:

- **positive cash flows on operating activities in the amount of PLN 47,477 thousand**

Their amount was positively influenced primarily by the gross profit generated by the Group in the amount of PLN 49,534 thousand, yet negatively by the income tax paid (PLN 14,976 thousand).

- **negative cash flows on investing activities in the amount of PLN 13,577 thousand**

The Group companies spent a total of PLN 14,634 thousand for the purchase of tangible fixed assets and intangible assets. The vast majority of this amount accounts for expenses incurred by FFiL Śnieżka SA in the areas of production and logistics.

Data in PLN thousand

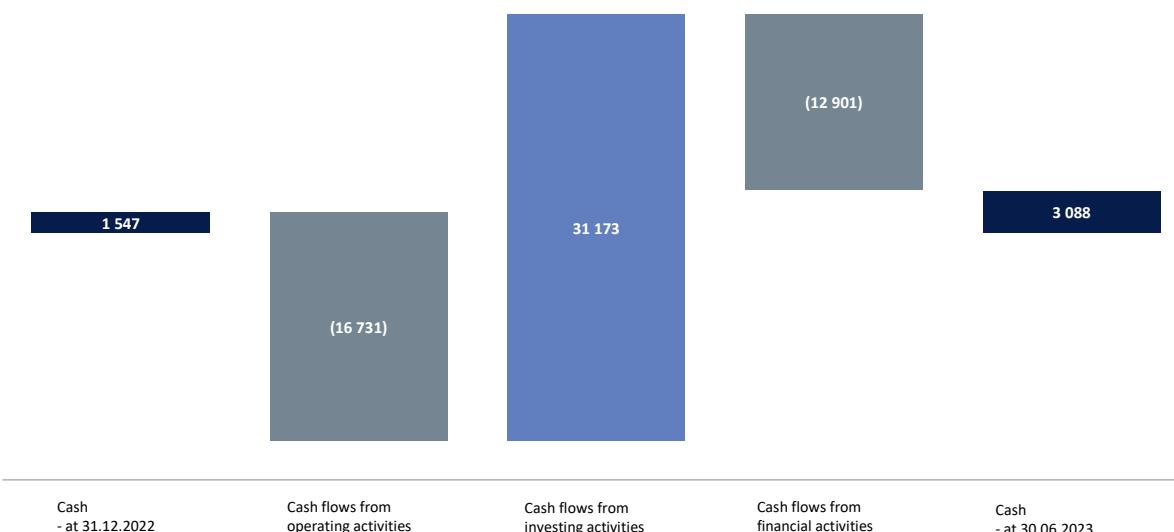
▪ **negative flows on financial activities at the level of PLN 28,972 thousand**

In addition to the proceeds from existing credit lines in the amount of PLN 183,844 thousand - resulting from investment needs and current operating activities - the greatest impact on cash flows on financial activities had the partial repayment of loans (PLN 166,674 thousand), debt servicing costs (PLN 13,467 thousand) and paid dividends (PLN 32,029 thousand).

1.5.2 Fabryka Farb i Lakierów Śnieżka SA

Following six months of 2023, the Company generated positive cash flows of PLN 1,541 thousand (compared to negative ones of PLN 6,083 thousand a year earlier). Consequently, at the end of the reporting period, the Company had cash worth PLN 3,088 thousand, i.e. by PLN 1,852 thousand more than a year earlier.

Figure 8. FFIL ŚNIEŻKA SA's cash flows in H1 of 2023



This performance was due to:

▪ **negative cash flows on operating activities in the amount of PLN 16,731 thousand**

Their value was positively influenced by the gross profit generated by the Company in the amount of PLN 55,991 thousand. Negatively, however, due to adjustments made in the amount of PLN 63,121 thousand and the income tax paid (PLN 9,601 thousand).

▪ **positive cash flows on investing activities in the amount of PLN 31,173 thousand**

Data in PLN thousand

The Company received PLN 45,630 thousand in dividends from subsidiaries, while it spent PLN 11,894 thousand. These were primarily production and logistic investments.

▪ **negative cash flows on financing activities in the amount of PLN 12,901 thousand**

The greatest positive impact on this item had proceeds from existing credit lines and loans, totalling PLN 237,522 thousand. The greatest negative impact had: partial repayment of loans and borrowings (PLN 200,729 thousand), interest repayment (PLN 24,190 thousand) and dividend payment (PLN 25,236 thousand).

1.6 Financial ratios

1.6.1 The Śnieżka Group

Group's profitability ratios

During the first six months of 2023, the Śnieżka Group achieved significantly higher margins than in the corresponding period of the previous year. The level of gross margin, which increased by 3.5% y/y, to the value of 42.8%, was affected by the margin increase by over 17% and the sales increase by merely 8%.

During the reporting period, an increase in the return on assets (ROA) by 1.3% y/y was recorded mainly due to the profit increase by 25%, while a slight decrease in the level of assets (-0.5%) had a minor positive impact on the improvement of the ROA indicator. The ROE indicator (due to higher net profit and a slight increase in equity) also went up by 3.7%.

Table 11. The Group's profitability ratios

	the period of 6 months ended as at 30 June 2023	the period of 6 months ended as at 30 June 2022
EBIT margin in % (EBIT / Sales revenues) x 100%	13.9%	10.5%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	18.4%	15.0%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	42.8%	39.3%
Net profit (loss) in % (Net profit / Sales revenues) x 100%	9.5%	5.7%
Return on Assets (ROA) * (Net Profit / Total Assets *) x 100%	7.0%	5.6%
Return on equity (ROE) ** (Net profit / equity - attributable to the shareholders of the parent company) x 100%	18.1%	14.4%

* 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.

Data in PLN thousand

** 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.

Group's liquidity and debt ratios

As at June 30, 2023, the general debt ratio of the Śnieżka Group, as a result of reducing bank liabilities, decreased by 5.4% y/y. At the same time, owing to the decline in the value of fixed assets, the equity coverage ratio for fixed assets increased (by 4.8% y/y). The Group's liquidity ratios analysed through the prism of the cash conversion cycle were at a lower level compared to the previous year (55 days, i.e. an improvement by 7 days).

The Group's current liquidity ratio was 0.3% higher than a year earlier, primarily owing to a significant decline in the level of short-term liabilities. The accelerated liquidity ratio maintained a similar dynamics of changes as the general liquidity ratio, while the cash liquidity ratio was higher (y/y), as a result of a significant increase in cash holdings.

At the end of the first half of 2023, the Group's net debt/EBITDA ratio was 2.35 (compared to 3.14 a year earlier). EBITDA for this indicator is adopted for the last 4 quarters. The Śnieżka Group manages its interest-bearing debt in a conservative manner, assuming the optimal debt level at the level of 1x EBITDA in the long term.

In 2023, the total value of capital expenditures in the Group is to be significantly lower than in the previous year and may amount to approximately PLN 35 million. In order to ensure financing at the optimal level, the Company prolongs credit agreements accordingly.

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

	30.06.2023	30.06.2022
Current liquidity ratio (Current assets / Short-term liabilities)	1.3	1.0
Quick liquidity ratio (Current assets - inventories)/Short-term liabilities	0.7	0.5
Cash liquidity ratio (Cash and cash equivalents / Short-term liabilities)	0.11	0.08
Total debt ratio (Total liabilities / Total assets) x 100%	59.3%	64.6%
Fixed-assets-to-equity ratio (Equity/Fixed assets) x 100%	60.1%	55.3%

Group's rotation ratios

In H1 of 2023, the cash conversion cycle in the Group was slightly over 55 days. This means it is shorter by over 7 days compared to the same period last year. This result was positively influenced by faster collection of sales receivables (by approximately 12 days) and the inventory turnover cycle (by 29 days), while a negative impact was caused by the shortening of the liabilities turnover cycle by approximately 34 days.

Data in PLN thousand

Table 13. The Śnieżka Group's rotation ratios

	the period of 6 months ended as at 30 June 2023	the period of 6 months ended as at 30 June 2022
Inventory cycle (Inventory level x 180 /Cost of sales) in days	90.9	120.4
Receivables cycle (Trade and other receivables x 180 / Sales revenues) in days	43.6	55.5
Current liabilities cycle (Trade and other liabilities x 180 / Cost of sales) in days	79.0	113.3
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	55.4	62.6

1.6.2 FFIL Śnieżka SA

Company's profitability ratios

Since the change of the operating model at the beginning of 2021, FFIL Śnieżka SA has been selling products and goods to Śnieżka ToC on the basis of agreed transfer prices - i.e. without the commercial margin it achieved by selling its products directly. This affected the level of gross margin on sales compared to previous years. Concurrently, in the reporting period, the Company achieved a sales margin of 27.9%, i.e. by over 6% higher than the year before. This is the aftermath of higher revenues (+10.2%), which significantly outpaced the growth of own costs (+1.4%).

At the same time, in the first half of 2023, FFIL Śnieżka SA achieved higher margins than a year earlier at the level of: operating profit EBIT (+10.2%), EBITDA (+10.7%) and net profit (+8.6%). This is the result of a boost in operating costs (cost of sales, selling costs and general administrative costs) and higher dividend income from subsidiaries than a year earlier.

The Śnieżka Group – Management's report on the activities for H1 of 2023

Data in PLN thousand

Table 14. FFIL ŚNIEŻKA SA's profitability ratios

	the period of 6 months ended as at 30 June 2023	the period of 6 months ended as at 30 June 2022
EBIT margin in % (EBIT / Sales revenues) x 100%	26.2%	16.0%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	30.5%	19.8%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	27.9%	21.7%
Net profit (loss) in % (Net profit / Sales revenues) x 100%	18.9%	10.4%
Return on Assets (ROA) * (Net Profit / Total Assets *) x 100%	5.8%	5.5%
Return on equity (ROE) (Net profit / equity**) x 100%	22.1%	21.3%

* Total net profit for the last 4 quarters divided by the average value of total assets as at the end of the last 5 quarters.

** Total net profit for the last 4 quarters divided by the average value of equity at the end of the last 5 quarters.

Company's liquidity and debt ratios

As at June 30, 2023, the general debt ratio of the Company decreased by 3% and the equity coverage ratio for fixed assets increased by 3.6%. This stems primarily from the increase in the level of equity capital (+10.5%) with an almost simultaneous constant level of fixed assets.

The Company's current liquidity ratio improved by 0.5 compared to the previous year, which results from a decrease in the value of short-term liabilities (by 31%), while the decrease in the level of current assets (by 4%) did not significantly affect the final value of the liquidity ratio.

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

	30.06.2023	30.06.2022
Current liquidity ratio (Current assets / Short-term liabilities)	1.8	1.3
Quick liquidity ratio (Current assets - inventories)/Short-term liabilities	1.2	0.7
Cash liquidity ratio (Cash and cash equivalents / Short-term liabilities)	0.02	0.01
Total debt ratio (Total liabilities / Total assets) x 100%	72.4%	75.4%
Fixed-assets-to-equity ratio (Equity/Fixed assets) x 100%	38.1%	34.5%

Data in PLN thousand

Rotation ratios

In H1 of 2023, the Company's cash conversion cycle was 107 days, which means its extension by over 5 days compared to the previous year. This is mainly the result of the Company taking advantage of trade credit to manage liquidity to a lesser extent than a year earlier. This shortened the current liabilities cycle by over 28 days.

The inventory turnover cycle was shortened by over 26 days, and the receivables cycle increased by 4 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. Therefore, the extended payment deadline from the subsidiary should not be considered a risk to the Company's liquidity.

Table 16. FFiL ŚNIEŻKA SA's rotation ratios

	the period of 6 months ended as at 30 June 2023	the period of 6 months ended as at 30 June 2022
Inventory cycle (Inventory level x 180 /Cost of sales) in days	76.1	102.6
Receivables cycle (Trade and other receivables x 180 / Sales revenues) in days	93.1	89.4
Current liabilities cycle (Trade and other liabilities x 180 / Cost of sales) in days	62.2	90.6
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	107.0	101.5

1.7 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. 60-65% of its annual sales revenues.

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).

Data in PLN thousand

1.8 Other information

1.8.1 Investments

In the first half of 2023, the Śnieżka Group carried out investments at a level ensuring the continuation of effective operating activities. Total capital expenditures (CAPEX) in this period amounted to PLN 7.4 million and were by 74.2% lower than in the same period last year.

The largest share in this amount were the expenditures of FFiL Śnieżka SA related to the purchase of picking trolleys and fork lifts with long forks for the Logistics Centre in Zawada and the implementation of an investment for Śnieżka-Ukraina involving the automation of palletizing putty bags. In the first six months of 2023, investments were also carried out in the following areas: fleet, IT and production. The investment was made in line with the approved budget plan, with modifications adapting the material and financial plan to the current needs of the Group's companies or to the dynamically volatile conditions of the external environment, which are particularly related to military operations in the territory of Ukraine.

The source of financing for investments by the Group and the Company were primarily own funds and bank loans.

1.8.2 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, styrene-acrylic dispersions, thickeners, solvents, pigments and fillers, resins and plastic, metal and paper packaging.

The Group purchases strategic raw materials from suppliers with significant production capacities - while maintaining the optimal level of diversification.

The Group has signed purchase agreements with all key suppliers. It is constantly looking for new suppliers (domestic and foreign) in order to optimize and diversify the supply chain (including supply sources), reduce costs and shorten delivery times, as well as to increase the innovation of the formulations applied. In each case, the Group conducts detailed analysis of offers to ensure the best possible conditions for the purchase of raw materials, technical materials, equipment and services.

Since 2022, cooperation with suppliers has also been based on sustainable development guidelines, which is confirmed, among others, by: introduced *the Śnieżka Group's Supplier Code*, which covers suppliers of goods and services, sellers, contractors, subcontractors, intermediaries, as well as consultants and agents.

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.

Data in PLN thousand

1.8.1 Factors that may affect the Group's performance in the following quarters

The performance of the Śnieżka Group in the second half of this year will be primarily influenced by the performance of FFIL Śnieżka SA (parent company) and Śnieżka Trade of Colours Sp. z o. o. Additionally, due to their significant share in the Group's consolidated revenues and profits, the performance of selected foreign subsidiaries will be essential: 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 second half of the year 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, Hungary and Ukraine).

Future demand may be influenced by negative consumers' sentiment and lower purchasing power, as well as a greater tendency to save on expenses or temporary withholding expenses, including the Group's products. This may relate to, *inter alia*: the high level of interest rates.

In turn, according to the Central Statistical Office, consumer sentiment in Poland - based on the current consumer confidence indicator (BWUK)³⁸ in June this year - has improved insignificantly. The BWUK indicator was -28.2 (+1.7% compared to May this year). The Leading Indicator of Consumer Confidence (WWUK), describing the trends in individual consumption expected in the next 12 months, also boosted. In June it was at the level of -14.8 (+0.5% compared to May this year)³⁹.

In the reporting period, the Group observed a decrease in demand in terms of volume 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 recorded a decrease as a consequence of weaker macroeconomic indicators. On the contrary, the lower demand in volume terms on the Ukrainian market is the aftermath of the on-going armed conflict – although the scale of this decline is lower than anticipated.

The Group analyses how global factors (e.g. the effects of the war in Ukraine) and local factors (e.g. raising interest rates) 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.

³⁸ Source: 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.

³⁹ Source: CSO, Consumer economic situation - June 2023.

Data in PLN thousand

2. Consequences of the armed conflict on the territory of Ukraine

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

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 troops on destroying the infrastructure e.g. periodic disruptions in the energy supply, which may also affect the efficiency of the production plant's operations in the future. It may also have a negative impact on the demand for products related to renovation or finishing works of new apartments and houses, and thus the demand for the Group's products.

According to the information available to the Company at the time of publication of the Report, the assets of Śnieżka-Ukraina are still not at risk (its production facility is located in Yavoriv in the Lviv Oblast, i.e. in the western part of Ukraine). It cannot be ruled out, however, that the on-going hostilities in Ukraine may have a significant impact on the future performance of Śnieżka-Ukraina and, as a result, of the entire Group. Having analysed the situation of the entire first half of the year, it should be noted that the final sales results of Śnieżka-Ukraina in the reporting period appeared to have been better than anticipated. At the same time, the Company's Management Board is currently unable to estimate the impact of the war's effects on the Group's future performance on the market in question.

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 June 30, 2023 is as follows (data in PLN thousand):

Table 17. Śnieżka Group's assets in Ukraine

	as at 30 June 2023
Tangible fixed assets	22 937
Inventory	8 764
Short-term receivables	4 821
Cash	12 945
Other assets	599
Total assets	50 066
Net assets (Equity)	44 572

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

The reading from the Goods Trade Barometer of the World Trade Organization (WTO) at the end of May 2023 was 95.6 points (an increase compared to the reading of 92.2 points from March last year). The reading below 100 indicates a low level of trade in Q1 of this year, but in their comments the

Data in PLN thousand

experts from this institution also signalled the possibility of improvement in Q2. The result of the indicator shows a trend consistent with the latest WTO forecasts - according to which the increase in trade in goods in 2023 is to amount to 1.7%⁴⁰.

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 decorative paints and construction chemicals industry is correlated with the level and dynamics of GDP and the level of consumption of renovation and construction products. This is particularly essential for 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 prolonged conflict in Ukraine, which may affect the sales dynamics in the industry both directly (due to the Group's presence on the Ukrainian market) and indirectly (by affecting the consumer's sentiment).

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 the Central and Eastern Europe region and in the world, including the pending war in Ukraine, in the second half of 2023, as for some raw materials and packaging, there may be another increase in their prices. Determining the future price level of key raw materials used by the Group may be subject to 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 agents for wood protection.

The Company also monitors the changes to the European Union regulations on an on-going basis, described 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 greatest current currency risk for the Śnieżka Group is related to the potential strengthening of the EUR/PLN exchange rate, which may affect the change in the cost of purchasing raw materials used for production.

6. Increase in energy prices affecting production costs

In the current macroeconomic and geopolitical environment, energy prices have stabilized, which translate into the final cost of production. The Group conducts analyses aimed at implementing

⁴⁰ Source: WTO, Goods barometer stabilizes, indicating possible turning point for trade, May 2023.

Data in PLN thousand

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, which relate to decorative paints and construction chemicals 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 high quality of the offered products.

8. Actions to prevent climate change

In the following years, the situation on the market of decorative paints and construction chemicals, 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 production of decorative paints and wood protection preparations is low-energy at levels 1 and 2 (scope 1 and 2). Thus, the Group does not conduct direct high-emission activities. However, in the entire value chain (scope 3), a certain part is constituted by high-emission activities (e.g. production of packaging based on petroleum products and extraction or production of certain raw materials used by the Group). It cannot be ruled out that future regulations regarding limiting the emission and energy consumption of production plants located in the European Union will affect the business model and performance of the Group.

The Company has also developed the *2023+ Sustainable Development Strategy*, in which an essential part is the action to prevent climate change. Since 2022 the carbon footprint for the Śnieżka Group has been calculated in the scope of 1, 2 and 3.

Data in PLN thousand

1.8.2 Other

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

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 situation related to the armed conflict in Ukraine, which commenced in February 2022. 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.

The Group continues to apply the principles adopted last year regarding the translation of financial statements of the company operating in Ukraine, for which the functional currency is the Ukrainian hryvnia (UAH). The details regarding the rules for translating the statements and the exchange rates used are described in item 2.5.9 Translation of items expressed in foreign currencies in the interim condensed consolidated financial statements for the period of 6 months ended June 30, 2023.

Polish companies belonging to the Śnieżka Group concluded an agreement on the establishment of a Tax Capital Group (TCG) from 1 January 2023 between the companies FFIL Śnieżka SA, Śnieżka Trade of Colours Sp. z o.o. and Rafil S.A. The establishment of the TCG enables the companies included in it to jointly settle corporate income tax, as well as simplify its settlement, which allows for the effective use of resources in the Group.

No other factors or events occurred in H1 of 2023 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.

Granted sureties and guarantees

As at 30 June 2023 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.

Based on the decision, 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

Data in PLN thousand

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. On January 23, the Company's attorney filed a complaint to the Provincial Administrative Court in Rzeszów.

By judgment of April 25, 2023, the Provincial Administrative Court in Rzeszów revoked the Decision of the Head of the Sub-Carpathian Customs and Tax Office in Przemyśl. The Customs and Tax Office in Przemyśl filed a cassation appeal against this judgment to the Supreme Administrative Court. Śnieżka responded to the cassation appeal, emphasizing the correctness of the decision of the Provincial Administrative Court in Rzeszów. 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.

In June 2023, Śnieżka's representative collected the result of the customs and tax inspection conducted by the Head of the Sub-Carpathian Customs and Tax Office in Przemyśl. The Customs and Tax Office decided that in the audited period, the Company overestimated the tax-deductible costs by PLN 12 million in connection with the expenses incurred for the acquisition of rights to use intangible assets and indicated a tax arrears of PLN 2.27 million. As at the date of the report, the amount of interest amounted to PLN 1.26 million. The Customs and Tax Office's view is consistent with the one expressed regarding the tax liability for 2016.

The Management Board of Śnieżka, in accordance with the recommendation of the Company's advisors, decided not to correct the tax return for 2017, considering that the settlement of corporate income tax for the period covered by the audit was correct. In July 2023, Śnieżka's representative received a decision to transform the completed customs and tax inspection into tax proceedings.

In H1 of 2023 there were no significant proceedings, apart from the above-mentioned one, pending before a court, arbitration body or public administration body regarding liabilities and receivables of the Company or its subsidiaries.

Transactions with related entities

All transactions with related entities are described in note 2.19 in the interim condensed consolidated financial statements for the 6-month period ended June 30, 2023.

Other information relevant to the assessment of the personnel, property and financial situation, the profit of the Company and their changes and information relevant to the assessment of the Company's ability to fulfil its obligations

Other information that, in the Company's opinion, is important for assessing its personnel, property, financial situation, profit and their changes in the first half of 2023, as well as information that is important for assessing the Company's ability to fulfil its obligations, is included in this Report and in the interim condensed consolidated financial statements for the first half of 2023.

Data in PLN thousand

2. OPERATIONS OF THE ŚNIEŻKA GROUP

2.1 About the 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 market of decorative paints in Poland⁴¹, one of the largest players of decorative paints in Hungary as well as one of the leaders in the segment of paints and putties in Ukraine⁴². 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.

In H1 of 2023, the Śnieżka Group, as in the previous year, was active in Poland and on several foreign markets, including: Moldova, Slovakia, Romania, Kazakhstan, Armenia, Lithuania, Georgia, the Czech Republic, Kyrgyzstan, Serbia.

At the end of the first half of 2023, the Śnieżka Group employed 1,125 staff.

The Group entities are related by shares, have roles defined within the structure of competence centres and build the Group's production value chain. 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 Sp. z o.o., as the parent company, FFIL Śnieżka SA 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. Both companies coordinate the activities of individual Group companies in the areas of their 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

⁴¹ Source: Polish Association of Paint and Adhesive Producers, 2023

⁴² Source: Estimated data (due to the war in Ukraine, access to research reports is limited).

Data in PLN thousand

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.

Figure 1. The Śnieżka Group's structure (as at 30.06.2023)

Group structure and organization



In H1 of 2023, no changes in the structure of the Capital Group occurred.

FFIL Śnieżka SA's Subsidiaries (i.e. Poli-Farbe Vegyipari Kft., Śnieżka-Ukraina Sp. z o.o., Śnieżka-BelPol Sp. z o.o., Śnieżka Trade of Colours Sp. z o.o. and Radomska Fabryka Farb i Lakierów SA) are consolidated using the full method.

The cooperation of the Group with entities related by capital also applies to Plastbud Sp. z o. o. (consolidated using the equity method), 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.

2.2 Operations of FFIL ŚNIEŻKA SA and other Group companies

2.2.1 FFIL ŚNIEŻKA SA's operations

Fabryka Farb i Lakierów Śnieżka SA is one of the leaders on the Polish market of decorative paints and construction chemicals in the sector of decorative products.

Data in PLN thousand

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 taking advantage of its own professional research facilities located in the Research & Development Centre. 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 and the subsidiary Śnieżka Trade of Colours Sp. z o.o. is responsible for sales processes.

Products are distributed both on the independent market (cooperation with wholesalers, showrooms and company stores) and 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.dekoratorium.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.

On June 30, 2023, the Company employed 599 employees (636 at the end of 2022), which accounted for nearly 53.2% of the entire Group's team.

Data in PLN thousand

2.2.1 Activities of other Group companies

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

Śnieżka ToC, similarly to the parent company FFIL Śnieżka SA, is one of the two competence centres of the Śnieżka Group.

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.

At the end of the first half of 2023, the company employed 115 employees (128 at the end of June 2022).

Poli-Farbe Vegyipari Kft.

Poli-Farbe Vegyipari Kft. 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 manufacturer of enamels and agents for wood protection. 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.

As at June 30, 2023, Poli-Farbe Vegyipari Kft. employed 179 employees (222 at the end of June 2022).

The Śnieżka Group – Management's report on the activities for H1 of 2023

Data in PLN thousand

Śnieżka-Ukraina Sp. z o.o.

Śnieżka-Ukraina is a manufacturer of paints and putties, one of the leaders in the manufacture of paints in Ukraine⁴³. 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).

As at June 30, 2023, the company employed 170 employees (189 a year earlier).

Śnieżka-BelPol Sp. z o.o.

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.

At the end of the first half of 2023, the company employed 16 employees (23 at the end of June 2022).

Radomska Fabryka Farb i Lakierów SA

Radomska Fabryka Farb i Lakierów SA („Rafil”) is a company that specializes in the production of anticorrosive undercoats and topcoats for heavy-duty anticorrosion application in the heavy industry. It also produces alkyd, polyvinyl, polyurethane, 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.

As at June 30, 2023, the company employed 46 employees (50 a year earlier).

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.

⁴³ Source: Estimated data (due to the war in Ukraine, access to research reports is limited).

Data in PLN thousand

2.2.2 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). In the first months of 2023, the *Otto Farbe* brand was introduced to the offer, which includes products for the protection and decoration of various surfaces.
- **Vidaron** - 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.

Data in PLN thousand

Figure 2. Consumer brands on the markets where the companies of the Śnieżka Group operate

Brands structure



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 R&D Centre 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. The knowledge obtained in this way allows to develop and implement necessary modifications in certain products.

In the reporting period, the team's work focused on completing recipes for new products launched on the market.

Data in PLN thousand

In the first half of 2023, the product portfolio for the Polish market was enriched by premium emulsion paints: *Magnat Be Eko*, *Magnat #KolorLove White*, *Magnat Ceramic Kuchnia i Łazienka* in 8 colours, and the Magnat Ceramic paint colour collection has gained 3 new ones.

Magnat Be Eko is a paint that combines features such as minimal impact on the environment and high performance parameters. 30% of the ingredients contained in the paint come from natural origins, it has a very low content of volatile organic compounds (VOCs), it is allergy-friendly, and its packaging contains recycled plastic. The product features also stain-resistance, high covering power and resistance to scrubbing.

As a result of the work carried out, the offer has also included a special *Rafil Prosto na Rdze* enamel and *Supermal* acrylic enamel as a more environmentally friendly product intended for many substrates. The acrylic enamel is water-soluble, has a mild scent and is recommended, among others, for painting toys.

The offer addressed to the Hungarian market has been expanded by a collection of stain-resistant *Platinum Foltallo* paints and *Platinum Hofeher* white paint.

The Research and Development Team focuses on finding environmentally friendly solutions, starting from raw materials, through production technology, to packaging. *Impregnat Powłokotwórczy* is an example, whose recipe modification allowed for reducing the impact on human health by minimizing the toxicity of the product. Thanks to this, the product has also been exempted from marking with the H304 pictogram, defining an environmental hazard.

As part of the work performed on the implementation of the objectives of *2023+ Sustainable Development Strategy*, the interdisciplinary team dealt with scenarios for reducing water consumption and disposal of washings. Works are to be continued.

In the first half of 2023, optimization work was also carried out in the field of packaging. The adopted assumption in the area of plastic packaging is to obtain a minimum 10% share of recycled raw material in 50% of the packaging. The *Magnat Be Eko 2.5 l* product, launched in 2023, features a packaging with a 40% recycled content, similar to the packaging of *Magnat Love* or *Manat Passion* paints.

The research and development activities of the Śnieżka Group cover a wide range of activities, including the development of team competences. Numerous meetings with industry experts and participation in trade fairs allow for acquiring the latest knowledge and thus support the search for innovative technological solutions.

2.4 Employment

At the end of the reporting period, employment in the entire Śnieżka Group amounted to 1,125 people, i.e. 123 people less than on June 30, 2022.

In the first six months of 2023, the Śnieżka Group took on 1,124 staff on average per month, which is approximately 13% less than in the same period of 2022, when the average monthly employment was 1,290 people. The change in employment is a consequence of the socio-economic crisis and decisions

Data in PLN thousand

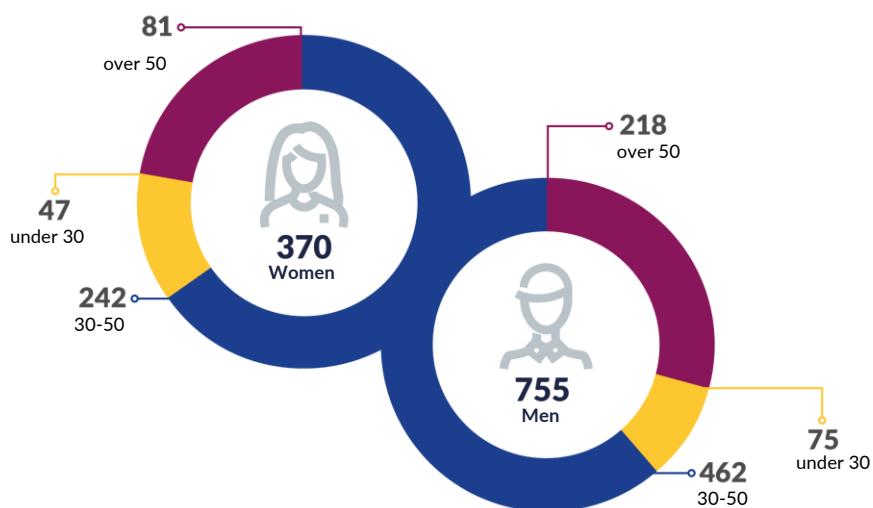
made on this basis in 2022. Some personnel decisions were made on the basis of periodic employee evaluations, while others were made upon an employee's initiative and as the result of planned retirement.

Most of the employees of the Śnieżka Group were men. At the end of June 2023, their number was 755 (compared to 844 at the end of June last year) and they accounted for 67.1% of the total number of employees (67.7% a year earlier). The share of men in the employment structure of the Group decreased over the course of the year by 0.6%. The number of women employed in the Group's companies decreased from 404 at the end of June 2022 to 370 at the end of June 2023, yet the percentage of women among the Group's employees increased to 32.9% (0.6% higher than a year earlier).

Figure 9. The Śnieżka Group's employees broken down by age

Employees of the Śnieżka Capital Group

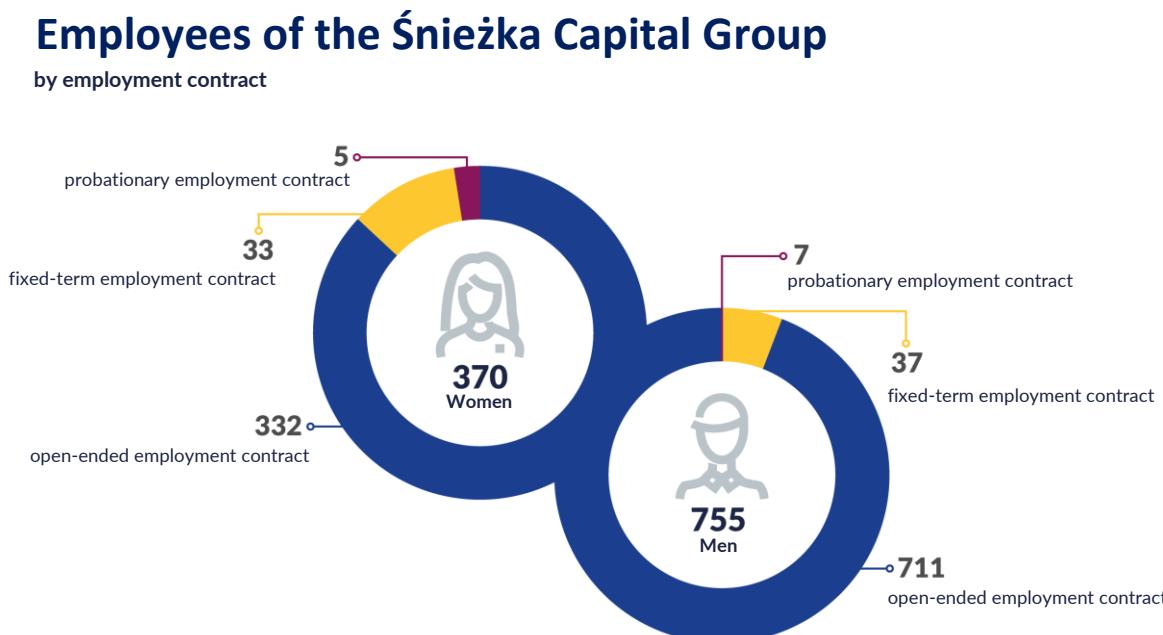
by age



As at June 30, 2023, the majority of the Group's employees (62.6%) were aged 30-50 - that is 0.4% higher than a year earlier. Persons within this age group constituted 65.4% of all women hired in the Group (an increase of 1.3% y/y) and 61.2% of all men employed (a decrease of 0.1% y/y). The share of staff employed in the Group under 30 was 10.8%, and over 50 years of age - 26.6%. With regard to women, the shares in these age groups were respectively: 12.7% (under 30 years) and 21.9% (over 50 years), and for men – 9.9% (under 30 years) and 28.9% (over 50 years).

Data in PLN thousand

Figure 10. The Śnieżka Group's employees by employment contract



On June 30, 2023, the vast majority of the Group's employees had employment contracts for an indefinite period of time - 92.7% (including 89.7% of employed women and 94.2% of employed men).

The managerial positions were held by 210 persons, which accounted for 18.6% of all employed within the Group. The management staff consisted of 70 women (33.3%).

2.5 Impact of operations on the environment and climate

As part of its activities for sustainable development, the Group analyses its impact on the surroundings, natural environment and climate on a day-to-day basis. The Group maintains 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.

Activities related to environmental protection in the Group are carried out in accordance with 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 on their basis the environmental analyses are performed. Monitoring and measurement data are used for:

Data in PLN thousand

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

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

- reduction the amount of waste,
- sustainable water management,
- increasing energy efficiency,
- transformation towards the use of green energy in business activities,
- 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.

Additional information related to environmental and climate protection in the Company and the Group can be found in item 3.5 of the Report ("Risk related to a potentially negative impact on the environment and climate, as well as the impact of climate change on the Group").

2.6 Material agreements and events

2.6.1 The most important agreements and events in the first half of 2023

The most important agreements and events in the reporting period are as follows:

- resignation of a member of the Supervisory Board - on March 31, 2023, the Management Board of Śnieżka received information that Ewa Hałucha had submitted a declaration of resignation from the position of the member of the Supervisory Board of Śnieżka (current report no. 5/2023);
- adoption of resolutions by the Company's shareholders at the Ordinary General Meeting of FFIL Śnieżka SA, which was held on April 27, 2023 (current report no. 10/2023). Company's shareholders:
 - approved the Management Board's report on the activities and financial statements of the Śnieżka Group and FFIL Śnieżka SA for 2022,

Data in PLN thousand

- divided the net profit for 2022 in the amount of PLN 23,608 thousand, establishing a dividend of PLN 2.00 per share, i.e. in the total amount of PLN 25,236 thousand. The dividend was paid from the net profit for 2022 and from the supplementary capital created from profits from previous years,
- approved the Annual Report of the Supervisory Board for 2022,
- granted a vote of acceptance to the members of the Company's bodies for performing their duties in 2022;
- provided a positive feedback on the *Report on the remuneration of members of the Management Board and Supervisory Board of FFIL Śnieżka SA* for 2022, adopted by the Company's Supervisory Board,
- appointed Anna Sobocka as a Member of the Supervisory Board;

- appointment of Members of the Management Board for a new term of office - on April 27, 2023, the Supervisory Board appointed the President and Members of the Management Board of FFIL Śnieżka SA for the next, ninth term. All newly appointed Members of the Management Board of the ninth term were also the members of the Management Board of the previous term. On the very same day, the President of the Management Board Piotr Mikrut appointed all other Members of the Management Board, i.e. Zdzisław Czerwiel, Witold Waśko and Joanna Wróbel-Lipa to act as Vice-Presidents of the Management Board (current report no. 12/2023).

2.6.2 Material agreements and 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.

2.7 Awards and distinctions

The most important awards and distinctions awarded to companies of the Śnieżka Group in the first half of this year:

- „European Coatings” ranking

For the sixth year in a row the Śnieżka Group was included in the ranking of the "European Coatings" magazine. The performance in 2022 allowed it to take 25nd place among the largest manufacturers of paints and varnishes in Europe. Śnieżka achieved its place in the ranking thanks to the Group's revenues from the sale of products included in the ranking. Śnieżka has been present in the "European Coatings" ranking since 2018 and since then it has maintained its position among the 25 largest European manufacturers of paints and varnishes. It is the only Polish company in the ranking, and also the only representative of industry companies from the region of Central and Eastern Europe.

Data in PLN thousand

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.

▪ **Ranking of the 100 largest manufacturers by the "Builder" monthly**

According to the ranking of "Builder" magazine presenting a list of the 100 largest manufacturers of building and finishing materials in Poland, the Śnieżka Group ranks highest among paint manufacturers in terms of revenues generated in 2021. In turn, in the general ranking of the largest domestic manufacturers of building and finishing materials, Śnieżka came 37th. 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.

▪ **Responsible Companies Ranking**

Śnieżka came 17th in the general classification and 5th in the industry classification in the 17th Responsible Companies Ranking. This year's ranking included a total of 65 companies. The organizers of this year's edition took advantage of a survey based on the EU project of new sustainable development indicators (ESRS). The survey included issues related to selected environmental disclosures (including climate, pollutant emissions and use of raw materials), social disclosures (data regarding the company's employees, employees in the value chain, the local community, as well as customers and users) and corporate governance (internal policies, training, ratings and audits).

The Responsible Companies Ranking, first published in 2007, is the only one listing the largest companies in Poland assessed in terms of the quality of responsible management in accordance with ESG guidelines. The partner of RCR 2023 is the Responsible Business Forum.

▪ **"Responsible Business in Poland. Good practices"**

In the 21st edition of the report "Responsible Business in Poland. "Good Practices" prepared by the Responsible Business Forum included four Śnieżka initiatives which came into being in 2022. The projects such as "World in Colours" and "Koloratorium" once again were distinguished, and the latest projects included the "Don't Mix" educational campaign promoting waste segregation and the update of the Book of Organizational Values.

The report "Responsible Business in Poland. Good Practices" annually summarizes activities in the field of corporate social responsibility (CSR) and sustainable development. This year's ranking describes a total of 1,705 good practices reported by 272 companies.

Data in PLN thousand

- **"Forbes Diamonds" for the Śnieżka Group companies**

Śnieżka Trade of Colours was ranked 17th in this year's ranking of "Forbes Diamonds" from the Mazowieckie Province in the category of large enterprises - with revenues over PLN 250 million. In 2021, the company took over activities in the Group in the areas of e.g. sales and marketing, coordinating them at the level of all Group companies. The ranking was based on data from 2021. Śnieżka SA was also found among this year's "Diamonds", coming 244th in the ranking - also in the category of companies with revenues over PLN 250 million from the Mazowieckie Province.

"Forbes Diamonds" is a ranking developed by the editorial staff of "Forbes" together with Dun & Bradstreet, published for the 15th time in 2023. The ranking includes companies with the highest development dynamics, with the highest average annual value growth by region.

Data in PLN thousand

3. RISK MANAGEMENT

This chapter presents significant risk factors and threats to the activities of the Śnieżka Group, including those related to the remaining months of the 2023 financial year.

Due to the pending war in the territory of Ukraine and limited access to reliable and complete information and data on its long-term global effects and on the markets of the Group's operations, as of the date of preparation of the Group's report for the first half of 2023 - as in the case of all entities conducting business in Poland and worldwide - in the opinion of the Company's Management Board, it is not feasible to present all possible significant risk factors and threats to the Group's operations caused by them. It is also impossible to reliably assess any potential lasting changes in consumer behaviour or the financial situation of the Group's subcontractors (suppliers and recipients).

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.

3.1 Risk associated with macroeconomic situation

The activities of the Śnieżka Group are significantly influenced by the macroeconomic situation. Changes in the economic, social and political environment - in Poland and on selected foreign markets where individual Group companies operate (mainly Hungary and Ukraine) - may adversely affect the Group's operations and its business and financial performance.

The risk related to the macroeconomic situation concerns the following aspects:

- **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:

- a) depreciation of the złoty 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, weakening of the purchasing power of individual customers;
- b) an increase in inflation and return to the cycle of rising interest rates and the resulting boost in the costs of financing loan, factoring and financial leasing liabilities with a variable interest rate, as well as weakening the purchasing power of individual customers;

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- c) the Group's property insurance contracts contain standard clauses excluding the insurer's liability in the event of war;
- d) difficult collection of the Group's receivables;
- e) further disturbances in the supply chains of imported raw materials, components and fuels, as well as temporarily constricted access to some of them;
- f) an increase in fuel, natural gas and electricity costs;
- g) 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;
- h) extension of communication routes to selected countries and the resulting increase in transport costs;
- i) 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.
- j) 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.

- **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 society and customer purchasing decisions in the second half of 2023 and subsequent years may be influenced by: inflation and its effects (including an increase in consumer spending related to goods other than the Group's products - e.g. expenses for electricity, gas, fuels and food), population decline related to demographic trends and possible new fees and taxes. In the long run, the effects of the Russian Federation's aggression against Ukraine, e.g. the increase in raw material prices, may also contribute to a decline in purchasing power.

The Śnieżka Group 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 decline in consumption and deterioration of the mood in society may lead to a reduction in demand for apartments on both the primary and secondary markets, as well as to reduced expenditure on renovation and modernization. This, in turn, may affect the demand for the Group's products.

- **Deterioration of the construction industry's condition**

The general economic climate in the construction industry has remained negative since March 2020, but at the same time, positive readings of some indicators ought to be noted. According to the Central

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Statistical Office's data, the economic indicator in June this year was -9.7%, which is the highest result for over a year and a half. There is slightly greater optimism in the industry regarding the current general economic situation of the company compared to last year (in June this year, this indicator was estimated at -11.5; in June last year, at -12.5) and the expected general economic situation of the company (in June this year, this indicator was estimated at -7.9; in June last year, it was estimated at -18.4). Concerns are still largely focused on the current financial situation of enterprises, production on the domestic market and order portfolios. The industry continues to anticipate price increases and employment cuts. Despite the above, the indicators were the highest since the beginning of the war in Ukraine.

Entrepreneurs most often point to the following as the main barriers to running a business in the construction industry: difficulties related to employment costs (71.6% in June this year, 71.4% in the same month last year), material costs (65.6% in June this year, 77.3% a year ago), uncertainty regarding the general economic situation (59.5% in June this year, 70.0% in the same month last year) and high burdens on the budget (56.6% in June this year, 58.9% a year ago)⁴⁴. Utilization of production capacity in construction in August this year is rated at 81.7% (1.0% lower than last year).

Between January and June 2023, 34.7% fewer permits for the construction of apartments were issued or applications were submitted with a construction project. Also, fewer housing constructions were commenced by 28.5% than in the same period last year⁴⁵.

According to the Group's estimates, the condition of the construction industry may be affected by the potential 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, worsening public sentiment and rising prices of housing units combined with stricter criteria for granting mortgages may lead to a reduction in demand for housing - both on the primary and secondary markets. It may also result in a reduction of expenses on renovations and modernization of apartments, which mainly determine the demand for decorative paints. On the other hand, slowing down the growth of inflation may partially neutralize negative trends.

■ The condition and credit policy of banks

In the first half of 2023, the NBP reference rate remained unchanged from September 2022, which allowed the banking sector to maintain high profitability. Concurrently, the WIBOR interest rate, dependent on the reference rate, remained unchanged, which resulted in high costs of servicing current financing and reduced the potential creditworthiness of borrowers. Consequently, this resulted in limited availability of financing sources for both individuals and legal entities. In the near

⁴⁴ Source: CSO, Economic situation in industrial processing, construction, trade and services, June 2023.

⁴⁵ Source: CSO, Housing construction between January and June 2023, July 2023.

Data in PLN thousand

future, this may still affect the demand for apartments on both the primary and secondary markets, as well as the scale of renovation and construction investments.

- **The effects of the fight against the COVID-19 pandemic**

On May 5 this year The World Health Organization (WHO) announced the end of the COVID-19 pandemic. On July 1, 2023, the state of epidemic threat caused by SARS-CoV-2 virus infections was lifted in Poland. Therefore, the Śnieżka Group is no longer monitoring the situation related to the COVID-19 pandemic. However, it remains on standby if changes occur in this area.

3.2 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 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);
- inappropriate assessment of future competitive phenomena (consolidation processes, new companies appearing on the market), which may exclude the Group as a leader on particular markets.

3.3 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 H1 of 2023, 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:

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- **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).

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.

Data in PLN thousand

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 in Zawada, 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 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. The system is inspected and maintained regularly once a year by a specialized external technical service.

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, which effectively protects the facilities against cooling down in the event of a lack of natural gas supply used for heating.

An exception is the office part of the Logistics Centre in Zawada 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. In the event of this type of failure, the Company is able to maintain the heat level using heaters and electric radiators.

Data in PLN thousand

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.

The heating devices located in the Logistics Centre in Zawada are monitored by the building management system (BMS). In the future, it is also planned to remotely monitor the operating status of heating devices in other locations.

- **The risk associated with the availability of raw materials and packaging for production and the increase in their prices**

The current market and geopolitical environment, as well as the situation of prices of raw materials and packaging for the production of paints and varnishes, seem to be stable compared to the previous year. Nevertheless, the purchasing departments of individual Group companies constantly keep an eye on the situation and at the same time maintain constant contact with suppliers.

The markets for individual raw material groups, including: white, acrylic/styrene-acrylic dispersions, alkyd resins, acrylic and cellulose thickeners, pigments, as well as raw materials for the production of packaging (both metal, paper and plastic) seem to be unwavering. However, this does not change the fact that the Group is still indirectly exposed to unforeseen events, such as increases in the prices of raw materials that are indirectly related to the price of crude oil.

In the reporting period, no significant increases in raw material prices occurred, which would significantly affect the entire value chain of the Group.

In addition, the Śnieżka Group meticulously monitors and regularly analyses all market information and strategic moves of suppliers in order to adapt business operations to expectations regarding supply and demand for raw materials. The Group also focuses on increasing the supply chain efficiency and sustainable diversification of raw materials.

- **The risk associated with supply**

The current market and geopolitical environment does not show any negative signals regarding the availability of raw materials and packaging for the production of decorative paints and construction chemicals. The actions taken by the purchasing departments of individual Group companies ensure uninterrupted supply of raw materials for production.

At the same time, the availability of raw materials, logistics, exchange rates, as well as inventory rotation are constantly subject to monitoring.

The main risk for the Śnieżka Group in the area of supply is still mainly related to: the increase in raw material prices, also dependent on the increase in crude oil prices, the increase in transport costs, temporary or long-term limitation of access to raw materials and changes in exchange rates currencies.

Data in PLN thousand

Also, the challenge of consolidation (both horizontal and vertical) of suppliers, customers and competitors can lead to weakening of the negotiation position of the Śnieżka Group. To minimize the risks in question, the Group regularly analyses information on strategic stakeholders' actions in terms of adjusting purchasing forecasts to the current and forecast price situation. Regular negotiations are conducted with suppliers, regarding smooth adjustment of the Śnieżka Group's demand and vendors' supply.

In addition, the Group estimates that 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.

The war in Ukraine affects the availability of the Group's products on eastern markets and necessitates the introduction of new logistics solutions in connection with the organization of deliveries to Eastern European countries. The on-going hostilities on the territory of Ukraine also translate into rising logistics costs in this region.

- **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. Changes in the offer and the share of individual segments remain under regular control to maintain optimal inventory levels.

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 (including high inflation).

As far as strategic raw materials are concerned, there is a continuous risk related to potential changes in their prices, resulting from the global demand/supply relationship, as well as from changes in the availability of individual raw materials.

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.

Data in PLN thousand

▪ The risk associated with infrastructural constraints

The Logistics Center in Zawada, commissioned at the beginning of 2022, minimizes the risk related to the lack of space for storing finished products and the risk of logistic difficulties. The existing warehouse spaces in Brzeźnica, Pustków and Lubzina are currently used as raw material warehouses, thanks to which the risk related to the lack of space for storing raw materials has been reduced to a minimum.

In order to maintain production capacity and capabilities at an appropriately high level, in the first half of 2023, investments were made in the development and optimization of production lines at the facilities in Pustków and Lubzina. Such actions prevent potential infrastructural limitations related to, for example, intensive development and lack of sufficient production capacity.

3.4 The risk associated with competition

Individual companies comprising the Śnieżka 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 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 available to the Group, in the first half of 2023, no significant changes in the balance of power among paint and varnish producers on the Polish market occurred.

The Group constantly undertakes activities aimed at monitoring the activities of other entities on 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 further building of shares and increasing brand recognition.

3.5 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 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 identification of the impact of climate change on the Group were the starting point for work on the *Climate Policy of the Śnieżka Group* and the provisions of the *Śnieżka 2023+ Sustainable Development Strategy*. For this purpose, the recommendations issued in 2017 by the TCFD group (Task Force on Climate-related

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Financial Disclosures⁴⁶⁾ were used, which were fully included by the European Commission in 2019 in the *Guidelines on the disclosure of climate-related information* and emissions analysis in scopes 1 and 2 developed based on the GHG Protocol. 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/transformation 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.
- 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 related to the production of decorative paints and construction chemicals - regarding the collection and processing of raw materials, production, storage (of chemicals and ready-made products) and logistics - may have a negative impact on the environment. This may apply in particular to the Group's value chain (scope 3), including carbon footprint related to the extraction or production of raw materials and packaging by the Group's suppliers.

⁴⁶⁾ Source: The expert group established by the Financial Stability Board - a group created at the G20 meeting, affiliate several dozen central banks, ministries of finance, as well as international organizations and groups developing standards in the area of financial stability.

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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 does not meet the nature of environmentally sustainable activities.

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 Group has in place: *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*);
- 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;
- verification of existing product recipes in the context of the possibility of using alternative, more environmentally friendly raw materials;
- controlling and testing finished products: used internally (their emissivity, impact on the environment and health are tested) and externally (additional aspects such as the release of biocides into the soil under the influence of atmospheric precipitation are tested);
- 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;

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- preventing the impact of possible failures in their 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 state-of-the-art Śnieżka Group Logistics Centre, in which energy-saving technologies were used. It allows 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 above-mentioned documents existing in the Group provide protection against the materialization of risks that may occur in the field of environmental protection and 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 the first half of 2023, the Śnieżka Group:

- was subject to verification of greenhouse gas emissions in scope 1, 2 and 3,
- carried out work on quarterly monitoring of greenhouse gas emissions,
- worked on defining reduction goals for carbon footprint in scope 1 or 2 for FFiL Śnieżka SA.

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.

3.6 Financial risk

There is a risk of a further increase in costs and, consequently, a decrease in profitability as a result of the prolonged strengthening of foreign currencies, and at the same time no possibility to pass on the

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resulting increase in costs 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 H1 of 2023, 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 may 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 companies in Hungary and Ukraine. Currency exposure in HUF resulting from the above is greater than that of export flows.

The currency risk related to credit exposure in this currency is mitigated thanks to effective management of cash surpluses within the Group. In turn, 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 this report, 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 this report, the risk in question disappeared.

High volatility on the currency market in the first half of 2023 had a positive impact on the performance, especially the strengthening of PLN and HUF currencies. It should be noted, however, that currency risk is highly volatile and is to certainly take place in subsequent periods.

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Derivatives

In H1 of 2023, due to market uncertainty related to the conflict in Ukraine and the unexpected strengthening of PLN against EUR, the Group applied hedging in the form of forward contracts in order to minimize the risk of changes in the EUR exchange rate against PLN.

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 June 30, 2023, the Group's total liabilities on loans and borrowings and financial leasing amounted to PLN 319,609 thousand.

In the first half of this year interest rates in Poland remained high, which translates into the level of financing costs in PLN. During the same period, an increase in the base rate for the Hungarian forint occurred, which leads to a rise in financing costs in HUF. 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

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. 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 H1 of 2023, the Group applied 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-Ukraina's

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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 Śnieżka 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, leasing, trade credits). The threat to the Group may be the tightening of credit policies by banks, limiting the possibility of obtaining external financing.

As at June 30, 2023, the Group settled its liabilities in a timely manner, which is confirmed by the liquidity ratios presented in the Report.

Information about the loans incurred and the loan agreements terminated

On June 15, 2023, FFiL Śnieżka SA concluded a multi-purpose credit limit agreement with PKO Bank Polski Spółka Akcyjna.

3.7 IT risk

Failures of key IT systems, the effects of recent ransomware attacks or unauthorized access by cybercriminals to key systems through other activities or events 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 backups key data, and also has extensive protection against unauthorized access, detecting unnatural traffic in the network. It also takes advantage of anti-virus and anti-spam protection against phishing emails.

Additionally, as part of increasing the level of security, the internal "Cybersecurity" program has been systematically run since 2018, aimed at building employee awareness and knowledge, creating preventive measures, detecting cyber threats and responding to them. The Company has established a SOC (Security Operation Centre), where, in cooperation with an external supplier, IT security is monitored on an on-going basis 24/7, in particular the degree of up-to-date security and non-standard activities in the key IT systems of the Group companies in Poland.

In the reporting period, the implementation of a new system for detailed production planning and scheduling was carried out, which is still in progress as at the date of the Report. In the first half of this

Data in PLN thousand

year a detailed audit of the safety level in individual companies of the Group was conducted. As a result, vulnerabilities in the IT solutions used were identified and then removed. As part of this project, the following activities were also initiated: IT security management in cooperation with Śnieżka's suppliers, vulnerability management and business continuity.

The Śnieżka Group's *Digital Security Policy* applies in the Group, as part of IT risk mitigation. A roadmap is also in place for the development of maturity of IT security systems and activities have been implemented to raise cybersecurity awareness among employees. The *Change IT* program is dedicated to digital transformation.

3.8 The risk related to the loss and the inability to obtain qualified staff

An important risk factor that may directly translate into the Group's activities 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 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.

In the Śnieżka Group, the risk related to the loss and inability to recruit qualified staff is considered in the context of:

- the influence of managerial and leadership competences of persons managing teams on the level of rotation,
- facing the management staff with challenges in teams related to changes on the labour market,
- 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;
- 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. The employment of new candidates in some areas of the organization is associated with a time-consuming recruitment process and a relatively long adaptation process, and the departure of qualified employees additionally makes it difficult to conduct 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.

Data in PLN thousand

The *Śnieżka Group's personnel policy* existing in the Group companies contains assumptions that support minimizing the risk of loss and inability to recruit qualified staff tailored to the company's goals and organizational culture.

In the reporting period, the Group companies focused on further unification of human resources management processes, increasing their flexibility and digitization. Following the changing labour market and the resulting smaller number of candidates, companies are expanding the processes of searching and developing talents within the organization.

3.9 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.

Data in PLN thousand

3.10 Risks characteristic to the major foreign markets on which the Group operates

Hungary

The lowest readings of consumer sentiment indicators in Hungary in over a decade were observed at the turn of 2022 and 2023⁴⁷. Currently, their level is influenced, among other factors, by the armed conflict in Ukraine. There is still a risk of a decline in the level of consumption and household spending due to the forecasted decrease in the economic growth rate. Following the European Commission's forecasts, it will be driven - in addition to the above-mentioned factors – by reducing investments caused by fiscal consolidation and difficult financing conditions.

The uncertainty regarding the macroeconomic situation in Hungary is related to the size of the budget deficit, the relatively low level of investments, the fiscal and monetary policy currently pursued in Hungary (expressed in growing budget expenditure for social purposes and the too slow process of increasing interest rates in relation to the inflation increase), as well as the situation on the labour market connected with the aging society and a significant boost in wages. Further development of the situation on the Hungarian market relies heavily on the situation related to the war in Ukraine⁴⁸.

Ukraine

The major risks related to the Ukrainian market stem from military operations conducted in Ukraine. In response to the invasion of Russian Federation troops into Ukrainian territory, 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 activities of the subsidiary Śnieżka-Ukraina and other Group companies. 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 market of decorative paints and construction chemicals 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 Company estimates that currently there are no indications that would indicate a permanent loss of the possibility of continuing business activities in Ukraine. The exposure to risk of assets held in Ukraine as at June 30, 2023 is presented in section 1.8.1 of the Report.

The Management Board of the Parent Company constantly monitors the situation related to the war in Ukraine and adapts the activities of the subsidiary Śnieżka-Ukraina accordingly. Owing to the

⁴⁷ Source: GKI Economic Research, GKI Economic Sentiment Index, June 2023.

⁴⁸ Source: The European Commission, European Economic Forecast - Spring 2023, May 2023.

Data in PLN thousand

pending military operations in Ukraine, the following risks can be identified that have or may affect the industry and operations of Śnieżka-Ukraina in the near future:

- **A decline of the purchasing power as a result of slowing economic growth or recession**

The purchasing power of consumers has a decisive influence on intentions about the renovation and refurbishment of tumbledown apartments, which in turn translates into the purchase of paints, putties and products for wood decoration and protection.

- **Deterioration of the situation in the construction industry**

The situation on the market of decorative paints and construction chemicals in Ukraine may be impacted by further escalation of the armed conflict and developments on the front, as well as the economic circumstances in the country. A potential drop in consumption, worsening consumer sentiment and rising prices on the real estate market may lead to a decline in demand for apartments. This may also contribute to a fall in the level of investment in the renovation and refurbishment of residential premises, which are the core factors driving demand for decorative paints.

- **Operational risk**

The Śnieżka-Ukraina's operations may be affected by the slowdown in the distribution of products on the market. Interruptions and downtime on production lines may be triggered by restrictions in the supply of electricity in the following quarters, as well as limitations in the availability of raw materials and packaging. Concurrently, scarcity in the supply of raw materials and packaging and their cost increase may be rooted in logistic processes as a result of on-going hostilities.

- **Increase in fuel and electricity prices**

- **Lack of access to qualified staff**

Difficulties in the operation of Śnieżka-Ukraina may be the result of the call-up of current employees for military service and the lack of recruitment opportunities due to limited access to qualified staff.

Data in PLN thousand

4. CORPORATE INFORMATION

4.1 Shares and shareholding structure

As at June 30, 2023, FFIL ŚNIEŻKA SA's share capital was comprised of 12,617,778 shares of nominal value of PLN 1.00 each.

In H1 of 2023 the Company's share capital was not subject to change.

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.

As at the Report publication date, the holders of series A and B shares were as follows:

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

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Data in PLN thousand

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.

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 H1 of 2023.

Company's shares held by managing and supervising persons

As at the Report publication date 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 2023), i.e. on May 16, 2023, 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:

The Śnieżka Group – Management's report on the activities for H1 of 2023

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
Powszechnie Towarzystwo Emerytalne Allianz Polska***	1,816,307	14.39	1,816,307	12.43
Powszechnie 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. (PPHU 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).

*** Powszechnie Towarzystwo Emerytalne Allianz Polska informed the Company on May 15, 2023 that following the liquidation of the Second Allianz Polska Open Pension Fund (hereinafter: the Second Allianz OFE) by transferring its assets to the Allianz Polska Open Pension Fund (hereinafter: Allianz OFE), the share of Allianz OFE in the Company's share capital reached 14.39%, and the number of Company shares recorded in the Allianz OFE account amounted to 1,816,307. This gives Allianz OFE the right to exercise 1,816,307 votes from shares at the Company's general meeting, which constitutes 12.43% of the total number of votes at the general meeting. Prior to the liquidation of the Second Allianz OFE, the total balance on the accounts of Allianz OFE and the Second Allianz OFE was 1,816,307 shares of the Company, which constituted a total of 14.39% of the share capital of the Company and gave the right to exercise 1,816,307 votes at the general meeting of the Company, constituting 12.43% of the total number of votes at the general meeting. The Company informed about it in the current report no. 13/2023.

In the period from the date of publication of the last periodic report - i.e. the report for Q1 of 2023 on May 16, 2023 - based on information available to the Company, no changes in the significant block of shares issued by the Company occurred.

The Śnieżka Group – Management's report on the activities for H1 of 2023

Data in PLN thousand

Figure 11. Shareholding structure at FFIL ŚNIEŻKA SA – share in the share capital (as at 19.09.2023, data in %)

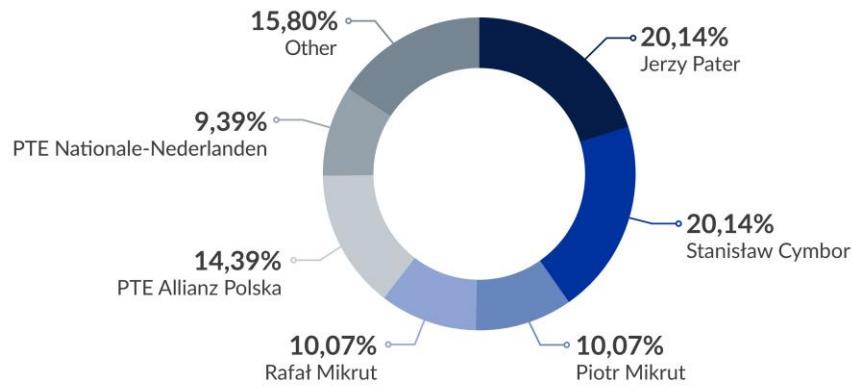
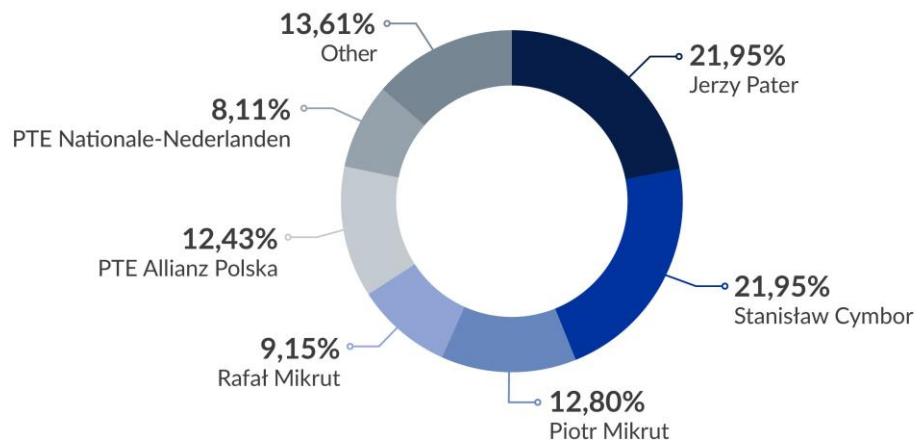


Figure 12. Shareholding structure at FFIL ŚNIEŻKA SA – share in the total number of votes (as at 19.09.2023, data in %)



Data in PLN thousand

4.2 Management Board and Supervisory Board

4.2.1 Management Board

In the first half of 2023, until April 27, the Management Board of the eighth term of FFiL Śnieżka SA consisted of:

- Piotr Mikrut - President of the Management Board,
- Zdzisław Czerwiel - Vice President of the Management Board
- Witold Waśko - Vice President of the Management Board
- Joanna Wróbel-Lipa - Vice President of the Management Board

On April 27, 2023, the Management Board of the ninth term was appointed by the Supervisory Board with the same composition:

- Piotr Mikrut - President of the Management Board,
- Zdzisław Czerwiel - Vice President of the Management Board
- Witold Waśko - Vice President of the Management Board
- Joanna Wróbel-Lipa - Vice President of the Management Board

4.2.2 Supervisory Board

Until April 27, 2023 the Supervisory Board of FFiL Śnieżka SA was composed of the following members:

- 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.

On March 31, 2023, Ewa Hałucha submitted a statement of resignation from the function of a Member of the Supervisory Board of Śnieżka, effective as of the closing of the Supervisory Board meeting, the agenda of which will include the assessment of the Management Board's reports on the Company's

Data in PLN thousand

activities in 2022 and the Company's financial statements for 2022, i.e. as at April 27, 2023. The Company informed about it in the current report no. 5/2023.

On April 27, 2023, the General Meeting of the Company appointed Anna Sobocka to the Supervisory Board for the ninth term of office. The Company informed about it in the current report no. 11/2023.

As at the Report publication date, the Supervisory Board of FFiL Śnieżka SA was composed of:

- Jerzy Pater - Chairman of the Supervisory Board,
- Stanisław Cymbor Vice-Chairman of the Supervisory Board
- Rafał Mikrut - Secretary 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,
- Anna Sobocka - Member of the Supervisory Board,

4.3 FFiL Śnieżka SA at WSE

4.3.1 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).

At the end of June 2023, the Company's shares were included in the following stock exchange indices: WIG140, sWIG80TR, WIGdiv, WIG-Poland, WIG-BUDOWNICTWO, sWIG80 and WIG.

Throughout the year, i.e. from June 30, 2022 to June 30, 2023, the price of FFiL Śnieżka SA shares decreased by 3.2%. For comparison, in the same period the sub-index for the construction sector (WIG-BUDOWNICTWO) gained 43.0% and the WIG index fell by 25.59%.

Consequently, at the end of the reporting period, the capitalization (market value) of FFiL Śnieżka SA went down to PLN 0.92 billion (compared to PLN 0.95 billion at the end of June 2022).

As at June 30, 2023, the P/B ratio (share price/book value per share attributable to the parent company's shareholders) was 2.93 (-0.28 y/y), and the P/E ratio (price/earnings per one ordinary share attributable to shareholders of the parent company) amounted to 16.6 (-5.27 y/y).

Data in PLN thousand

Figure 13. FFIL ŚNIEŻKA SA's listings at WSE (30.06.2023 = 100%)



Source: [Investing.com](#)

4.3.2 Dividend

On April 27, 2023, the Ordinary General Meeting of FFIL Śnieżka SA adopted a resolution on the payment of dividend from net profit for 2022 and supplementary capital, created from profits from previous years, in the amount of PLN 2.00 (two zlotys zero grosz) per share, i.e. the total amount of PLN 25,235,556. The dividend date was established to May 16, 2023, and the dividend payment was carried out on May 31, 2023. The number of shares covered by the dividend amounted to 12,617,778.

In the coming years, the Management Board intends to recommend to Śnieżka's shareholders a dividend payment of 50% of the consolidated net profit of the Śnieżka Group attributable to the shareholders of the parent company (FFIL Śnieżka SA) until the net debt ratio is reduced to the level of one-times consolidated EBITDA.

4.3.3 Auditing firm

On May 9, 2023, the Supervisory Board of FFIL Śnieżka SA selected an entity PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. with its seat in Warsaw 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 2023, 2024 and 2025.

PricewaterhouseCoopers sp. z o.o. Audyt sp.k. was entered by the National Council of Statutory Auditors on the list of auditing companies under no. 144.

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Data in PLN thousand

The Company has already taken advantage of the PricewaterhouseCoopers sp. z o.o. Audyt sp.k.s' services regarding audit and review of financial statements for 2016 - 2022.

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MANAGEMENT BOARD'S STATEMENT

The Management Board's statement regarding financial statements and reports on operations

(pursuant to the requirements of § 69 section 1 item 4 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 H1 of 2023 and the condensed financial statements of FFIL Śnieżka SA for H1 of 2023, 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 performance of the Company and the Group. In addition, the semi-annual report on the activities of the Śnieżka Group, including the semi-annual report on the activities of FFIL Śnieżka SA, contains a true picture of the development, achievements and situation of the Group and the Company, including a description of the basic risks and threats.

The Śnieżka Group – Management's report on the activities for H1 of 2023

Data in PLN thousand

Signatures of the Management Board of FFIL ŚNIEŻKA SA

Piotr Mikrut President of the Management Board

Zdzisław Czerwiel Vice President of the Management Board

Joanna Wróbel-Lipa Vice President of the Management Board

Witold Waśko Vice President of the Management Board

Warsaw, 19 September 2023