

# **Management Board report on the Śnieżka Group's activities in 2019**

includes the Management Board report on the FFIL Śnieżka SA's activities in 2019



**Warsaw, 27 March 2020**

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## the Śnieżka Group – Management’s report on the activities for 2019

Data in PLN thousand



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## LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Sirs,

The year 2019 was very intensive for us. In February, we signed the largest agreement in the history of Śnieżka to acquire 80% of shares in Poli-Farbe Vegyipari Kft. - a company which is one of the market leaders in the sector of decorative paints in Hungary. Since May last year, that market has become the most important one for the Group following Poland. The first effects of integration - such as, for example, gaining access to less expensive raw materials by a Hungarian company - are already noticeable. Other synergies are to be achieved gradually within the next few years.

In the reporting period, we proceeded with the largest investment cycle in Śnieżka's history. The Group's expenditures for this purpose amounted to PLN 196.4 million in 2019. In addition to financing the purchase of shares in Poli-Farbe, a large portion of this amount was earmarked to modernize the machinery and update IT solutions. Last year we worked, inter alia on modernization (including automation) and extension of a production line for the production of colour paints at the facility in Lubzina and white paints in Pustków. The key implementation stages planned as part of the digital transformation have also been completed. The new software provides us with further competitive advantages in the field of up-to-date sales management methods and customer relations.

The accumulation of investments in 2019 contributed to increasing Śnieżka's liabilities, which is the result of raising bank loans for the implementation of the most capital intensive projects. The increase in external financing affected slightly the costs incurred by Śnieżka presented in the financial statements - and, consequently, on profits and profitability ratios, which are lower than in the record-breaking year 2018.

The 2019 bottom line was lower owing to costs incurred, including the transaction with Poli-Farbe and investment in digital transformation. Outlays on marketing communications were higher, which translated into an increase in our market share.

Simultaneously, it is worth noting that - despite the consolidation of Poli-Farbe - the Group's liquidity is currently stable and its profitability remains high compared to foreign competitors. Furthermore, after completing the investment cycle initiated some years ago, we are to reduce Śnieżka's debt to a conservative level of 1x EBITDA.

The year 2019 also focused on further development of collaboration with partners on the independent market and DIY stores. As part of our activities, we concentrated on supporting the development of our business partners by sharing knowledge. In February 2019 we launched a Leader program - dedicated to owners, managers and sales teams of DIY stores, which liaise with Śnieżka. We also took care of providing the owners and managers of independent paint stores with knowledge and inspirations. We had an opportunity to meet up with them at the "All about business" conferences hosted by us, during which we presented a new partner program called *Business Partner*.

The publication of our annual report falls on the period when all of us - including our shareholders and other stakeholders - are focused primarily on current events related to the on-going COVID-19 disease pandemic. Since the beginning of the global struggle with this disease, we have been painstakingly monitoring the situation and implementing solutions protecting our employees and our business against the potential effects of the pandemic.

## **the Śnieżka Group – Management's report on the activities for 2019**

Data in PLN thousand



Although the previous year required a lot of commitment and hard work, we commenced 2020 with motivation to further strengthen our position in Poland and beyond. At the same time, we are aware that perturbations in the currency and financial market as well as uncertainty in the global economy may also affect the Group. We will respond appropriately to all challenges related to this. As at the date of the report, our Group does not experience significant, negative, direct effects of the virus spread - except for necessity to temporarily reduce production at Śnieżka-Ukraina Sp. z o.o, about which we immediately informed our stakeholders in the current report.

An exceptional year ahead of us - but I believe that the preparations and organizational changes that we undertook immediately in our Group companies in connection with the COVID-19 disease pandemic will allow us to smoothly go through this difficult period for all of us in Poland and in the world.

I want to thank all of those who have been accompanying us for over 35 years in building a modern and invariably value-based organization, which is Śnieżka today.

**Piotr Mikrut**

**President of the Management  
Board**

## SELECTED FINANCIAL INFORMATION

### The Śnieżka Group – consolidated data

	in PLN '000		in EUR '000	
	as at / for the period of 12 months ended as at 31 December 2019	as at / for the period of 12 months ended as at 31 December 2018	as at / for the period of 12 months ended as at 31 December 2019	as at / for the period of 12 months ended as at 31 December 2018
<b>I. Net revenues from sale of products, goods and materials</b>	<b>717 082</b>	<b>586 777</b>	<b>166 693</b>	<b>137 518</b>
II. Profit from operating activities	78 970	79 647	18 357	18 666
III. Gross profit	78 952	78 441	18 353	18 384
<b>IV. Net profit</b>	<b>62 647</b>	<b>63 389</b>	<b>14 563</b>	<b>14 856</b>
- Net profit attributable to shareholders of the parent company	59 504	61 632	13 832	14 444
- Net profit attributable to non-controlling interests	3 143	1 757	731	412
V. Comprehensive income for the period	68 287	67 304	15 874	15 774
- Comprehensive income for the period attributable to shareholders of the parent company	64 255	65 171	14 937	15 274
- Comprehensive income for the period attributable to non-controlling interests	4 032	2 133	937	500
VI. Net cash flows from operating activities	99 157	80 715	23 050	18 917
VII. Net cash flows from investing activities	(175 605)	(56 346)	(40 821)	(13 205)
VIII. Net cash flows from financing activities	105 730	(40 322)	24 578	(9 450)
IX. Total net cash flows	29 282	(15 953)	6 807	(3 739)
<b>X. Total assets</b>	<b>661 448</b>	<b>404 481</b>	<b>155 324</b>	<b>94 065</b>
XI. Liabilities and provisions	363 081	135 569	85 260	31 528
XII. Long-term liabilities	158 798	5 159	37 290	1 200
XIII. Short-term liabilities	204 283	130 410	47 971	30 328
<b>XIV. Equity</b>	<b>298 367</b>	<b>268 912</b>	<b>70 064</b>	<b>62 538</b>
- Equity attributable to the shareholders of the parent company	265 426	262 484	62 329	61 043
- Equities attributable to non-controlling interests	32 941	6 428	7 735	1 495
XV. Share capital	12 618	12 618	2 963	2 934
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	4.96	5.02	1.15	1.18
- Earnings per share attributable to shareholders of the Parent Company	4.72	4.88	1.10	1.14
XVIII. Diluted earnings per ordinary share in PLN/EUR	4.96	5.02	1.15	1.18
- Diluted earnings per ordinary share attributable to shareholders of the Parent Company	4.72	4.88	1.10	1.14
XIX. Carrying amount per share in PLN/EUR	23.65	21.31	5.55	4.96
XX. Diluted carrying amount per share in PLN/EUR	23.65	21.31	5.55	4.96
XXI. Declared or paid dividend per share attributable to shareholders of the Parent Company (in PLN/EUR)	2.60	2.20	0.61	0.51

## the Śnieżka Group – Management's report on the activities for 2019

Data in PLN thousand

### FFIL ŚNIEŻKA SA - standalone data

	in PLN '000		in EUR '000	
	as at / for the period of 12 months ended as at 31 December 2019	as at / for the period of 12 months ended as at 31 December 2018	as at / for the period of 12 months ended as at 31 December 2019	as at / for the period of 12 months ended as at 31 December 2018
<b>I. Net revenues from sale of products, goods and materials</b>	<b>543 891</b>	<b>522 271</b>	<b>126 433</b>	<b>122 401</b>
II. Profit from operating activities	43 647	53 737	10 146	12 594
III. Gross profit	60 625	73 509	14 093	17 228
<b>IV. Net profit</b>	<b>49 209</b>	<b>60 588</b>	<b>11 439</b>	<b>14 200</b>
V. Comprehensive income for the period	48 740	61 984	11 330	14 527
VI. Net cash flows from operating activities	38 746	57 015	9 007	13 362
VII. Net cash flows from investing activities	(165 108)	(30 880)	(38 381)	(7 237)
VIII. Net cash flows from financing activities	128 943	(42 987)	29 974	(10 074)
IX. Total net cash flows	2 581	(16 852)	600	(3 949)
<b>X. Total assets</b>	<b>577 552</b>	<b>379 797</b>	<b>135 623</b>	<b>88 325</b>
XI. Liabilities and provisions	385 739	203 888	90 581	47 416
XII. Long-term liabilities	204 829	79 766	48 099	18 550
XIII. Short-term liabilities	180 910	124 122	42 482	28 866
<b>XIV. Equity</b>	<b>191 813</b>	<b>175 909</b>	<b>45 042</b>	<b>40 909</b>
XV. Share capital	12 618	12 618	2 963	2 934
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	3.90	4.80	0.91	1.13
XVIII. Diluted earnings per ordinary share in PLN/EUR	3.90	4.80	0.91	1.13
XIX. Carrying amount per share in PLN/EUR	15.20	13.94	3.57	3.24
XX. Diluted carrying amount per share in PLN/EUR	15.20	13.94	3.57	3.24
XXI. Declared or paid dividend per share attributable to shareholders of the Parent Company (in PLN/EUR)	2.60	2.20	0.61	0.51

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

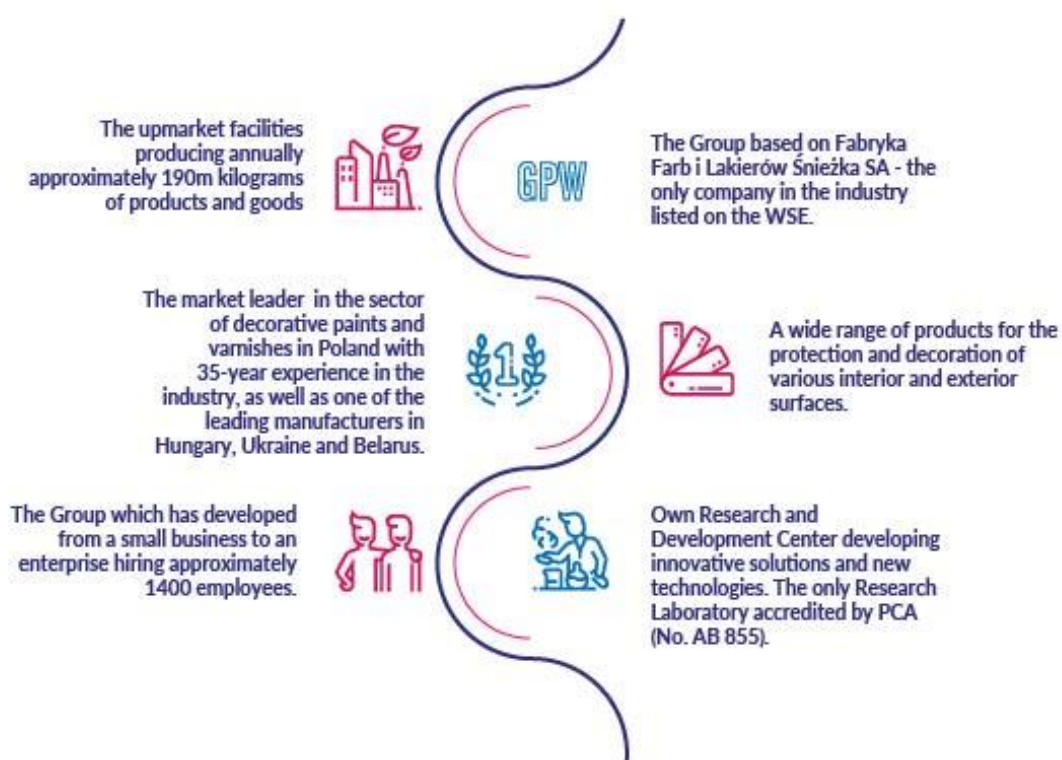
	Average exchange rate in 2019	Average exchange rate in 2018
Particular items of the condensed statement of comprehensive income were translated at the average EURO exchange rate in the period	4.3018	4.2669
	as at 31 December 2019	as at 31 December 2018
Particular items of the financial position statement were translated at the EURO exchange rate at the end of the period	4.2585	4.3000



## CONCISE DESCRIPTION OF THE ŚNIEŻKA GROUP



### What distinguishes us

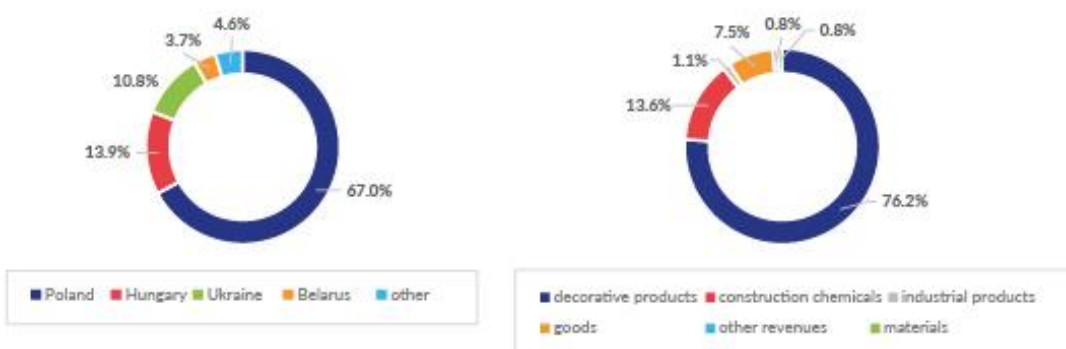




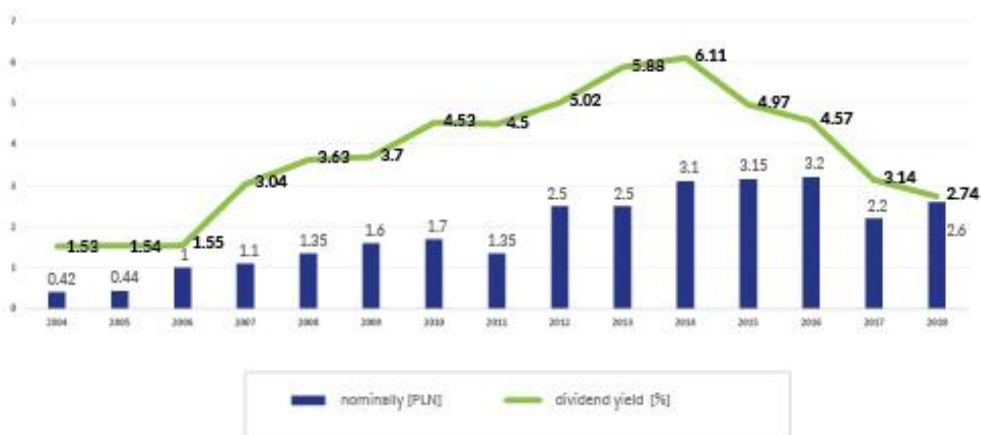
**Shareholding structure of FFIL Śnieżka SA \***  
 (share in the share capital)



**Sales structure of the Group in 2019**  
 by countries and product categories



**Dividends paid by FFIL Śnieżka SA over 15 years (per year)**





 Production facilities of the Group



**Poland**

Brzeźnica, Lubzina, Pustków, Radom



**Hungary**

Bőcsé



**Ukraine**

Jaworów



**Belarus**

Žodino k. Miriska



**15**

foreign markets we  
actively operate on

**Foreign markets we  
actively operate on**

- Hungary
- Ukraine
- Belarus
- Moldova
- Russia
- Lithuania
- Kazakhstan
- Czech Republic
- Slovakia
- Romania
- Georgia
- Armenia
- Great Britain
- Croatia
- Serbia

## 1. Comment to performance in 2019

### 1.1 Macroeconomic situation

#### 1.1.1 Economic situation

In 2019, the Polish economy slowed down slightly, but preliminary estimates provided by the Central Statistical Office show that GDP growth was higher by 4.0% compared to the previous year (compared to 5.1% a year earlier).

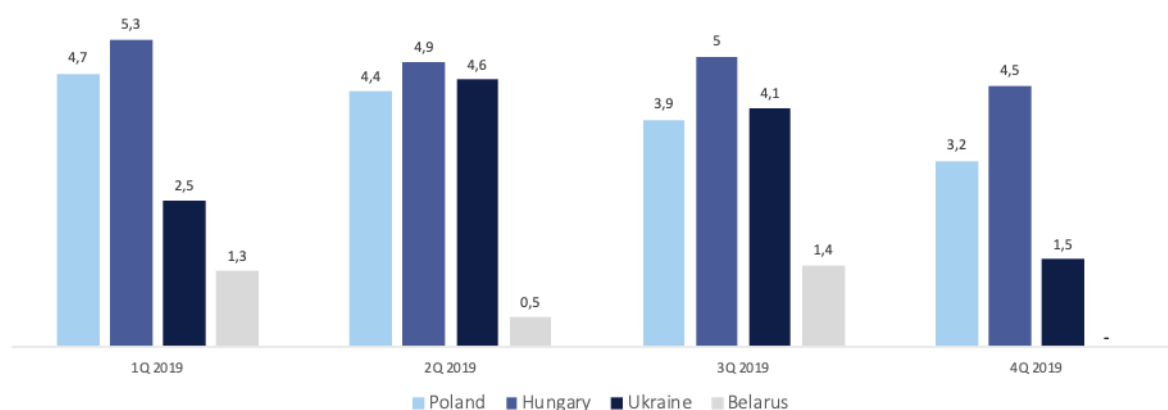
The main driving force of the Polish economy development was private consumption, which was boosted by rising wages. In 2019, the average wages in the national economy amounted to PLN 4,918.17 and increased by 7.3% compared to 2018. In turn, the average wages in the fourth quarter of 2019 reached PLN 5,198.58.

The economic growth in Poland was also affected by the gradual decline in the unemployment rate - to 5.2% in December 2019, compared to 5.8% a year earlier - and higher social transfers. The above factors contributed to the fact that in December 2019 retail sales increased by 5.7% compared to the same period of the preceding year.

At the same time, inflation remained moderate. In 2019, the average annual consumer price index (CPI) amounted to 102.3, which means a 2.3% increase in prices compared to 2018.

Construction-assembly output, including investment and renovation works, carried out nationally by construction companies employing more than 9 employees, increased by 2.6% in 2019 compared to the same period of the previous year. The economic situation in residential and commercial construction sector also improved. In 2019, 207.2 thousand new apartments were commissioned, i.e. 12% higher than in 2018.

Figure 1. Gross Domestic Product Growth in 2019 on an annual basis (in %)



Source: GUS, KSH, State Statistics Service of Ukraine, National Statistical Committee of the Republic of Belarus.

In other countries, constituting the main markets for the products of the Śnieżka Group, the economic situation was as follows:

#### Hungary

Despite earlier forecasts of a slowdown in the economic growth rate in Hungary in the second half of last year, in the fourth quarter of 2019 GDP increased by 4.5%. As a result, in 2019 the Hungarian economy recorded an increase of 4.9% compared to the previous year.

The main driving force behind the development of the Hungarian economy in 2019 was the increase in investment expenditure (+ 18% y/y) and the increase in consumer demand (+ 4.5% y/y). Private



consumption was stimulated by the increase in employment and wages. In 2019, the average wages in Hungary amounted to HUF 367 800 (equivalent to approximately PLN 4 739) and it increased by 11.4% compared to the previous year. Also, the unemployment rate in Hungary in the fourth quarter of 2019 remained at a record-low level of 3.3%.

Along with the increase in wages, although more slowly, consumer prices also increased, and inflation at the end of 2019 was at the level of 3.4%

The forecasts for 2020-2022 assume a slowdown of the economy mainly due to a lower level of transfers from the EU, a slowdown in the global economy and a gradual decline in the growth of household purchasing power. Hungarian Economic Research Institute GKI Economic Research Co. forecasts that GDP growth in the entire 2019 will amount to 4.9%, and in 2020 the Hungarian economy will grow at a rate of 3.2%

### **Ukraine**

The economic situation in Ukraine clearly improved in the first three quarters of 2019. In the second quarter of 2019, GDP growth amounted to 4.6% whereas in the third quarter - 4.1%. The acceleration in the Ukrainian economy at that time stemmed from several factors, including increasing export (including in agriculture) and improving the economic situation in industry. After a good period, however, the economy recorded a deterioration - in the fourth quarter of 2019, GDP amounted to only 1.5%.

In 2019, the average wages in Ukraine amounted to UAH 10,497 (equivalent of about PLN 1,681). It increased by 18.4 compare to the previous year.

Inflation in 2019 fell to 4.1% (from 9.8% in the previous year). After the expected decline in the interest rate, this provides an opportunity to a long-term reduction in interest rates on loans.

The construction sector, whose condition also has an impact on the consumption of paints and varnishes, in 2019 recorded an increase of 20% compared to the previous year, and the value of performed construction works increased in all segments (whereas an increase in residential construction amounted to 3%).

Despite the weak GDP data for the fourth quarter of 2019, the forecasts for further improvement of the economic situation in Ukraine remain optimistic. The forecasts of the Ukrainian government assume GDP growth for 2020 between 3.5 and 3.7%. On the contrary, forecasts regarding the development of the Ukrainian economy published by international financial institutions predict that GDP will amount to 3% (International Monetary Fund) and 3.6% (World Bank). Maintenance of positive trends in the economy will rely, however, on political stability and the implementation of structural reforms, as well as the scheduled privatization of enterprises.

### **Belarus**

Based on official data, it is estimated that the Belarusian economy GDP growth amounted to 1.2% at the end of 2019, and 3% at the end of 2018. The World Bank's forecasts indicate that in the upcoming years this indicator will be 1.2% y/y.

According to preliminary estimates of the National Statistical Committee of the Republic of Belarus, inflation in Belarus at the end of 2019 reached 5.6%. As a reminder, at the end of 2018 it amounted to 4.9%. In this period, the total debt of enterprises also reached the level of annual GDP, of which the greater part of the amount of debt falls on the repayment of loans and borrowings.

The activities of the National Bank of the Republic of Belarus have been positively influencing the macroeconomic situation of Belarus for several years, which allows inflation to remain relatively low, although higher than at the end of 2018. In 2019, the average salary was BYN 1,090.9 (equivalent to approx. PLN 1,964) and was 7.3% higher than in the previous year.



In Belarus a noticeable difference in the standard of living between large cities (mainly Minsk) and the province occurs. Local enterprises struggle with issues, which contributes to workforce migration (abroad emigration), and consequently a decrease in internal consumption and further deterioration of the condition of local enterprises.

In the future, the Belarusian economy will be affected by decisions regarding the further form of cooperation with Russia, mainly in the field of energy supplies.

### 1.1.2 Raw materials and currencies

The prices of titanium white - which is one of the basic raw materials in the production of paints - as well as the prices of other raw materials used by the Group companies for production in 2019 remained stable. In 2019, no problems occurred on the market with the availability of raw materials and packaging. Also, no events or threats in the purchasing area affecting the proper functioning of individual companies included in the Śnieżka Group occurred.

On the currency market, 2019 brought a slight strengthening of the zloty against the euro and a slight weakening against the dollar. The factors that influenced the trend of major currencies include a central bank policy. The US Federal Reserve reduced interest rates three times in 2019, and the European Central Bank cut the deposit rate by 10 basis points and resumed its bond purchase program. In Poland, the Monetary Policy Council did not follow in the European central banks’ footsteps and kept interest rates unchanged. One of the key issues for the currency market were also the trade war on the US-China line and the UK’s exit from the EU postponed twice.

At the end of 2019, in Poland the Euro cost 1% less and the dollar 1% more compared to the end of 2018.

*Figure 2. Exchange rate of PLN against EUR an USD*



Source: NBP.

The dovish rhetoric of the National Bank of Hungary and political tensions in Europe translated into a situation of the Hungarian currency, which did not do well last year. In 2019, the Hungarian forint weakened to the zloty from 1.3353 to 1.2885 PLN (for 100 HUF).



Figure 3. Exchange rate of PLN against HUF



Source: NBP.

In 2019, the macroeconomic situation in Ukraine improved, which translated into a positive value of the Ukrainian currency - the hryvnia strengthened against the zloty from PLN 0.1358 to PLN 0.1602.

Figure 4. Exchange rate of PLN against UAH



Source: NBP.

## 1.2 Condition of the sector

The main markets the Śnieżka Group operated on in 2019 were as follows: Poland, Hungary, Ukraine and Belarus. In 2019, the Group's revenues generated on these four markets accounted for 95.4% of consolidated sales revenues.

In the reporting period Poland, Ukraine and Hungary observed a higher demand for products of medium and high price range while the segment of cheaper products shrank. As regards Belarus, an increased demand for low-price products sustained, which mainly resulted from low purchasing power of local consumers.

### Poland

In the reporting period, compared to previous years, a stabilization of the market volume was observed on the Polish market of paints and preservatives for wood protection and decoration and its value increased. According to the data of the Federation of Polish Paints and Adhesives Industry ("PZPFiK"), the market value in 2019 increased by 4.3% compared to the previous year.



In the Company's opinion, the trend for Polish consumers to select better and more expensive products was still strong, while the segment of the cheapest paints shrank.

This is, inter alia, the effect of growing consumer awareness and purchasing power, thus the belief that purchasing more expensive products is a more effective solution in the long run - 45% of consumers declare that they only acquire products that live up to their expectations at the level of functionality, quality and image, and 52% put quality above price.

Last year, the Company observed that more and more people pay attention not only to the aesthetics or durability of paints and varnishes, but also to whether they do not contain health harmful substances, are eco-friendly and what actions are taken by the manufacturer to offset their impact on environment. Ecology is also playing an increasingly important role during renovation work. Customers are eager to pay more for greener products since the well-being and the environment in which they live is crucial to them. 41% of respondents, when making decisions about renovations, pay attention to ecological solutions during renovations.

As in previous years, decorative paints were used primarily for renovations. It is estimated that about 80% of all products sold on the Polish market are intended for this purpose. The remaining part goes to the primary market and is used when finishing new buildings. In the reported period, 49% of Poles carried out renovation, and the most common work was painting walls and ceilings (85%). Polish consumers still paint on their own - nearly 80% of them do not take advantage of contractors' services.

The year 2019 did not bring significant changes among major players operating on the Polish market. The key entities operating in Poland are as follows: FFIL Śnieżka SA, PPG Deco Polska, AkzoNobel Polska oraz Tikkurila Polska. According to the Company's estimates, the share of the four largest players in total sales in Poland reached over 70%.

### **Hungary**

In the reported period, the Hungarian paint market developed along with the upward trend in the construction industry in Hungary, which has been going on continuously since 2017. The value of production in the construction sector at the end of 2019 increased by over 24% y/y. This translated into a greater demand for white interior dispersion paints and insulation systems.

Similarly to Poland, customers in Hungary increasingly opt for premium segment products, including interior paints in ready-to-use colours and preservatives for wood protection. Wealthy customers paid more attention to health-friendly products, and people with an average level of wages select products with good value for money.

The year 2019 did not bring significant changes among major players operating on the Hungarian market. The largest entities operating in Hungary are as follows: Poli-Farbe, PPG Trilak and Akzo Nobel Coatings, with total market shares estimated at around 75%. The smaller manufacturers, with a several percent of market share, included: Tikkurila, JUB, Helios, Meffert and Caparol.

### **Ukraine**

According to the calculations of the Chem-Courier information and analytical agency, in 2019 the consumption of paints and varnishes in Ukraine remained at the same level compared to the previous year. Water-borne paints (by 1.1%) and alkyd paints (by 0.7%) recorded a slight increase in production. Further emigration of qualified staff, a slight increase in housing construction, as well as the political changes that occurred in the second and third quarters of 2019 had a direct impact on the paint and varnish industry in Ukraine.

However, the first part of 2019, similarly to the same period the year before, was challenging for paint and varnish manufacturers operating on the Ukrainian market due to adverse weather conditions. After

a successful commencement of the renovation season in April 2019, the demand for paints decreased in late spring, which translated into lower sales at retail outlets. The manufacturers hoped that the beginning of summer would be better, however, rainfall in the first half of June and heat in its second half had a negative impact on consumer activity. Therefore, there were obstacles in carrying out facade works this month. In the second part of 2019, an increased activity of Ukrainian consumers was observed, which contributed to a longer construction and renovation season.

FFiL Śnieżka SA estimates that the trend for Ukrainian consumers to select better and more expensive products is to be sustained. Simultaneously, the level of paint consumption in Ukraine is still low compared to European Union countries. Successful implementation of the reforms announced by the Ukrainian government may result in improving the situation of households, and consequently increasing operations in the paint and varnish industry.

In 2019, the biggest players in the production of decorative paints on the Ukrainian market were as follows: Śnieżka-Ukraina, Meffert Hansa Farben, Henkel, ZIP, Caparol, Eskaro, Feidal, Polisan, Olejnikov.

In the long-term perspective Ukraine is crucial and up-and-coming market for the Group as the paint consumption in the said market is still significantly lower than in the countries of the European Union.

### **Belarus**

In 2019 the purchasing power of Belarusian consumers remained low, which caused that the market was dominated by demand for lower and middle price products. The main sales channels of the Group's products were independent paint and varnish stores as well as strengthening DIY stores.

In 2019, the leading players on the Belarusian market of paints and varnishes were as follows: DAW, Eskaro, Akzo Nobel, Tikkurila, MAW, Tajfun, Ilmax, Ceresit and Knauf. At the same time, Russian manufacturers are more and more visible in Belarus, including: ABC Farben, Bergauf and Volma.

In 2019, export of some of the Group's products was deteriorated as a result of actions aimed at protecting the domestic market (such as certification requirements and customs regulations), as well as the privileged position of producers from the Eurasian Customs Union's countries (resulting in increased competition from cheaper products of Russian manufacturers).

The Group analyses the situation in the paint and varnish sector on the Belarusian market on an on-going basis in order to respond appropriately to changes in the economic situation and consumer attitudes and to adapt its offer to volatile conditions.

Additional information on the markets where the Group operates and the competitive environment on major markets has been presented in a report on non-financial information, in point [3.1.6 of this Management's Report](#) on the activities (hereinafter referred to as the "Report").

## **1.3 The most important events**

The most important events and agreements concluded in 2019 are as follows:

- February 11, 2019 - end of negotiations and conclusion of an agreement for the acquisition of 80% of shares in the Hungarian company Poli-Farbe Vegyipari Kft.,
- February 28, 2019 - signing an annex to the loan agreement with Bank Handlowy S.A.,
- April 18, 2019 - signing an annex to the loan agreement with ING Bank Śląski S.A.,
- April 25, 2019 - signing an investment loan agreement with Powszechna Kasa Oszczędności Bank Polski S.A.,

- April 26, 2019 - an Ordinary General Meeting was held, which:
  - approved the Management' report on the activities and the financial statements for 2018;
  - divided the net profit for 2018 in the amount of PLN 60,588 thousand by establishing dividend in the amount of PLN 2.60 per share, i.e. in the total amount of PLN 32,807 thousand. The remaining part of the profit in the amount of PLN 27,782 thousand was decided to allocate to supplementary capital;
  - approved the Management' report on the activities of the Group and the financial statements of the Group for 2018;
  - granted a vote of acceptance to the members of the Company's bodies for performing their duties in 2018;
  - amendments to the Company's Articles of Association were adopted,
- April 26, 2019 – the Supervisory Board Company appointed the Management Board of the Company for the new VIII term,
- May 15, 2019 - the Company closed the acquisition of 80% shares in the Hungarian company Poli-Farbe Vegyipari Kft.,
- May 29, 2019 - the Company together with a minority shareholder adopted a resolution on the payment of extraordinary dividend in the subsidiary Poli-Farbe Vegyipari Kft. (Detailed information on this matter is presented in note 14 to the consolidated financial statements),
- June 12, 2019 - the Company obtained a decision to register amendments to the Company's Articles of Association adopted by the Ordinary General Meeting,
- September 19, 2019 - signing an agreement for implementation of the first stage of construction of the Logistics Centre,
- December 12, 2019 - the Company determined the final total acquisition price of 80% shares in the Hungarian company Poli-Farbe Vegyipari Kft. (Detailed information on this matter is presented in note 14 to the consolidated financial statements).

The most important agreements concluded by the Company in 2019 are described in item 1.7.2.

#### **The most important events after the balance sheet date**

- Temporary reduction of production in Śnieżka-Ukraina Sp. zoo.

On March 23, 2020 the Management Board of the Company obtained information about the temporary reduction of part of the production in the subsidiary - Śnieżka-Ukraina Sp. z.o.o

This decision was made as a consequence of the epidemiological activities of the Ukrainian authorities, taken against the COVID-19 disease pandemic. As a result of adopting the Resolution of the Cabinet of Ministers of Ukraine "On the prevention of the coronavirus COVID-19 spread on the territory of Ukraine" - which introduced quarantine throughout the country for a period of 3 weeks, until April 3, 2020 - all paint and varnish points of sale were shut down, including Śnieżka-Ukraine products.

Consequently, the General Director of Śnieżka-Ukraine made the above mentioned decision to temporarily reduce production in this company from March 24 to April 3, 2020 by temporarily suspending work on the second shift. The Śnieżka-Ukraine authorities estimated that as a result of the above constraints, the production level in the above mentioned period will drop to around 50% of the current production level.





The Company informed about it in report no. 2/2020 of March 23, 2020.

As at the date of publication of the financial statements, the Management Board of FFIL Śnieżka SA is not able to estimate the effects that the above restrictions regarding the production of Śnieżka-Ukraine will have on the financial results of Śnieżka-Ukraine and the entire Śnieżka Group.

## **1.4 Sales volumes**

### **Changes in operating segments**

As a result of acquisition of the Hungarian company Poli-Farbe Vegyipari Kft. (along with its subsidiaries), the Company's Management Board, following the materiality principle - beginning from the interim condensed consolidated financial statements for the period of 6 months ended on 30 June 2019 - decided to change the presentation of existing operating segments:

- the current revenues generated on the Hungarian market (before the acquisition of Poli-Farbe recognized in the "Other" segment) were increased by the revenues of Poli-Farbe and became a new reporting operating segment of the Group (segment name: "Hungary");
- due to a significant decrease in materiality, the previous "Moldova" and "Russia" segments were moved to the "Other" segment.

After introducing of the above changes the Group is divided into operating segments based on the following geographical sales markets: 'Poland', 'Hungary', 'Ukraine', 'Belarus' and 'Other'.

#### **1.4.1 The Śnieżka Group**

In 2019 the Śnieżka Group generated consolidated sales revenues in the amount of PLN 717,082 thousand, i.e. 22.2% higher than in 2018.

The Hungarian company - Poli-Farbe Vegyipari Kft. and its subsidiaries, which joined the Group in 2019, had a significant impact on increasing sales in the reporting period. After completing the transaction of acquiring shares in the said company in May 2019, Hungary has become the Group's second market after Poland in terms of sales volumes and generated revenues. Due to the acquisition, the consolidated financial statements for 2019 include the bottom line of Poli-Farbe from May 15, 2019 to December 31, 2019.

The dominant share in the total sales revenues of the Group (67%) in 2019 was on the Polish market, which in comparison to the previous year increased by 5.4%, to PLN 480,484 thousand. The increase in the value of sales in Poland resulted from the progressive migration of customers towards premium products, which are characterized by a higher quality (better components, parameters and properties) and products of medium price range.

In Hungary - as a result of consolidation of the Poli-Farbe results - the sales revenues generated by the Group in 2019 amounted to PLN 99,429 thousand and were higher by PLN 96,164 thousand compared to the previous year. Consequently, the Hungarian market share in the total revenues of the Group increased to 13.9%. FFIL Śnieżka SA's revenues generated in Hungary accounted for less than 5% of the Group's consolidated revenues generated on this market. Consumption trends of paints and varnishes on the Hungarian market, similarly to Poland, show a progressive migration of customers towards more expensive, better quality products.

In Ukraine (10.8% share in consolidated sales revenues) in 2019, the Group generated revenues of PLN 77,415 thousand. The 5.4% increase of revenues from this market compared to the previous year is primarily the result of a successful optimization of the product portfolio - both FFIL Śnieżka SA and its subsidiary Śnieżka-Ukraine - and the demand for higher quality paints and varnishes also recorded among Ukrainian consumers.

## the Śnieżka Group – Management's report on the activities for 2019

Data in PLN thousand

In Belarus (3.7% share in consolidated sales revenues), the Group generated revenues of PLN 26,397 thousand. i.e. 7.0% lower than a year earlier. Such a result of the Group on the Belarusian market is the result of the low purchasing power of local consumers, while at the same time increasing competition of manufacturers offering products featuring lower quality, but also low price.

In the other markets where the Group's products are sold, sales revenues of PLN 33,357 thousand were generated i.e. 28.9% higher than in 2018. This increase is due to the consolidation of bottom line generated by subsidiaries Poli-Farbe Vegyipari Kft. The Group's sales results achieved in the "Other" segment, however, are still strongly dependent on the results of export sales achieved on these markets by the parent company - FFIL Śnieżka SA. The Group's total revenues generated on foreign markets in 2019 accounted for nearly 33.0% of its total revenues.

*Table 1 Sales revenues of the Śnieżka Group by countries*

	Year 2019	Structure	Year 2018 converted data*	Change (y/y)
Poland	480 484	67.0%	455 797	5.4%
Hungary	99 429	13.9%	3 265	2945.3%
Ukraine	77 415	10.8%	73 453	5.4%
Belarus	26 397	3.7%	28 374	-7.0%
Other	33 357	4.6%	25 888	28.9%
<b>Total sales</b>	<b>717 082</b>	<b>100.0%</b>	<b>586 777</b>	<b>22.2%</b>

\*Information on converted data has been provided in the consolidated financial statements in note 10.

In terms of value, the sales structure of the Group was dominated by decorative products, whose share in the consolidated sales revenues amounted to 76.2%. In 2019, the Group generated PLN 545,964 thousand from the sales of decorative products- i.e. PLN 89,374 thousand and 19.6% more than in 2018. This is an effect of a strong position of the largest companies comprising the Group in the segment of decorative paints - FFIL Śnieżka SA on the Polish market and Poli-Farbe Vegyipari Kft. on the Hungarian one.

The second highest share in the Group's sales structure, at the level of 13.6%, was construction chemicals. The Group's sales revenues from this segment (including putties and plasters) amounted to PLN 97,582 thousand and were 37.6% higher than a year earlier. It is primarily a derivative of the Poli-Farbe sales structure, in which construction chemicals have a higher share than other Group companies. In 2019, the sales of goods also went up. The Group's revenues generated in this segment increased by 28.2% to PLN 53,881 thousand.

*Table 2 Sales revenues of the Śnieżka Group by product categories*

	Year 2019	Structure	Year 2018 converted data	Change (y/y)
Decorative products	545 964	76.2%	456 590	19.6%
Construction chemicals	97 582	13.6%	70 936	37.6%
Industrial products	8 124	1.1%	6 646	22.2%
Goods	53 881	7.5%	42 032	28.2%
Other revenues	5 805	0.8%	5 111	13.6%
Materials	5 726	0.8%	5 462	4.8%
<b>Total sales</b>	<b>717 082</b>	<b>100.0%</b>	<b>586 777</b>	<b>22.2%</b>

## the Śnieżka Group – Management's report on the activities for 2019

Data in PLN thousand

In terms of volume, the sales of the Company's products amounted to 147.8 million l/kg and was higher by 21.9% compared to 2018. A larger number of products sold, combined with the growing share in the sales structure of products from higher price segments (including premium) had a positive impact on the Group's revenues.

In 2019, the Group sold 82.6 million l/kg of decorative goods (+28.7% y/y), 63.7 million l/kg of construction chemicals (+12.6% y/y) and 1.5 million l/kg of other industrial products (+207% y/y). The sales of goods, materials and services in terms of volume are not provided due to the variety of units of measurement applied (tonnes, litres, items) and it is not the main subject of the Group's activities.

### 1.4.2 FFIL ŚNIEŻKA SA

In 2019 FFIL ŚNIEŻKA SA generated sales revenues in the amount of PLN 543,891 thousand, i.e. 4.1% higher than in 2018.

The dominant share in the total sales revenues of the Company (87.4%) in 2019 was on the Polish market, which in comparison to the previous year increased by 5.7%, to PLN 474,834 thousand. The increase of sales value in Poland stemmed from the progressive migration of customers towards premium products (Magnat and Vidaron brands), and higher demand for products of medium price range (Śnieżka brand). It is also an effect of a proper pricing policy.

On the Hungarian market, the Company generated sales revenues in the amount of PLN 3,681 thousand, i.e. 12.7% higher than in 2018. They accounted for less than 1% of the Company's unconsolidated revenues. The intention of the Management Board of FFIL Śnieżka SA is to preserve the identity and achievements of Poli-Farbe - including the brands that are popular in Hungary and address well the local consumers' preferences. Currently, the Company has no strategic plans to launch further brands from its portfolio onto the Hungarian market and to conduct thorough sales and marketing activities in order to increase their sales in Hungary.

On the Ukrainian market, the Company generated sales revenues in the amount of PLN 20,379 thousand, i.e. 14.6% lower than in 2018. Lower export sales results on this market are in line with the Company's plans, and are primarily the effect of implementing in Ukraine a distribution model based on the Polish one. In 2019, a departure from accumulating large warehouse stocks was introduced (e.g. by local wholesalers) and replenishing only missing products on a regular basis.

On the Belarusian market, the Company generated sales revenues in the amount of PLN 19,218 thousand, i.e. 3.1% lower than in 2018. Such a result of the Company on the Belarusian market can be explained as the result of the entire Group - low purchasing power of local consumers and increased competition of manufacturers offering products featuring lower quality and at the same time low price.

The Company's export revenues accounted for 12.6% of its total revenues.

Table 3 Sales revenues of the FFIL ŚNIEŻKA SA by countries

	Year 2019	Structure	Year 2018 converted data*	Change (y/y)
Poland	474 834	87.4%	449 434	5.7%
Hungary	3 681	0.7%	3 265	12.7%
Ukraine	20 379	3.7%	23 855	-14.6%
Belarus	19 218	3.5%	19 829	-3.1%
Other	25 779	4.7%	25 888	-0.4%
<b>Total sales</b>	<b>543 891</b>	<b>100.0%</b>	<b>522 271</b>	<b>4.1%</b>

\*Information on converted data has been provided in the financial statements in note 11.

## the Śnieżka Group – Management's report on the activities for 2019

Data in PLN thousand

In terms of value, the sales structure of the Company - as the entire Group - was dominated by decorative products, whose share in the sales revenues amounted to 77.9%. In 2019, the Group generated PLN 423,558 thousand from the sales of decorative products- i.e. PLN 15,467 thousand and 3.8% more than in 2018. The second highest share in the Group's sales structure, at the level of 9.1%, were construction chemicals. The Group's sales revenues from this segment amounted to PLN 49,431 thousand and were 5.4% higher than a year earlier.

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

	Year 2019	Structure	Year 2018 converted data	Change (y/y)
Decorative products	423 558	77.9%	408 091	3.8%
Construction chemicals	49 431	9.1%	46 914	5.4%
Industrial products	850	0.2%	1 051	-19.1%
Goods	46 637	8.6%	44 350	5.2%
Other revenues	6 840	1.2%	5 736	19.2%
Materials	16 575	3.0%	16 129	2.8%
<b>Total sales</b>	<b>543 891</b>	<b>100.0%</b>	<b>522 271</b>	<b>4.1%</b>

In terms of volume, the sales of the Company's products amounted to 82 million l/kg and was lower by 2.5% compared to 2018. The lower number of products sold did not have a negative impact on the Company's revenues, as the sales structure was increased by the share of products of higher price ranges (including premium brands: Magnat and Vidaron).

In 2019, the Company sold 51.9 million l/kg of decorative goods (-2.2% y/y), 29.9 million l/kg of construction chemicals (-2.9% y/y) and 0.1 million l/kg of other industrial products (-26.1% y/y). The sales of goods, materials and services in terms of volume are not provided due to the variety of units of measurement applied (tonnes, litres, items) and it is not the main subject of the Group's activities.

### 1.5 Seasonality of sales

The Śnieżka Group's activities are 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 higher in spring and summer. The Group usually generates higher revenues in the second and third quarters of each financial year. Revenues in these quarters constitute approximately 65% of the Group's annual revenues. In the winter months, sales fall even to about 50% compared to summer months.

The occurring phenomenon of seasonality affects the change in the need for working capital, which is much higher in the second and third quarters of the financial year compared to the end of December of the previous year.

### 1.6 Financial results

#### 1.6.1 Major factors affecting the financial results

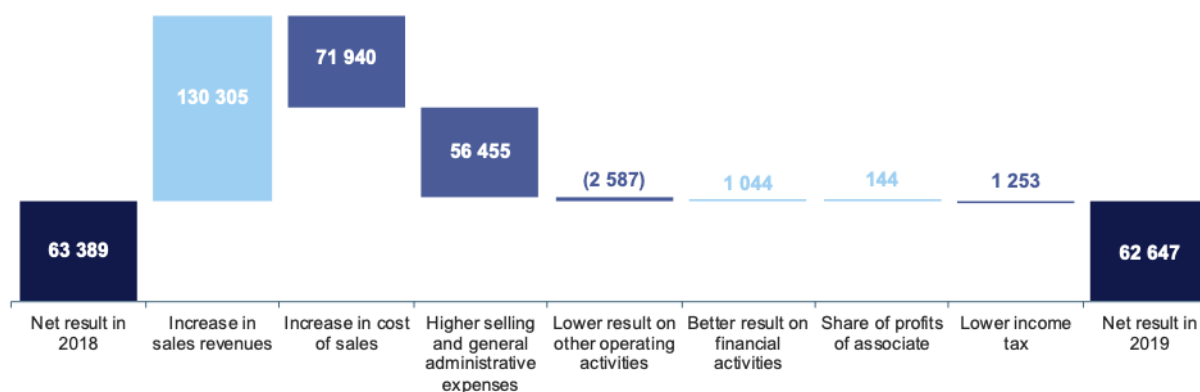
#### The Śnieżka Group

In 2019, the Śnieżka Group generated consolidated net profit of PLN 62,647 thousand. i.e. - 1.2% lower than in the previous year. Net profit attributable to the parent company's shareholders amounted to PLN 59,504 thousand (-3.5% y/y).

## the Śnieżka Group – Management’s report on the activities for 2019

Data in PLN thousand

Figure 5. The impact of individual items on the net results of the Śnieżka Group



The Group's bottom line in 2019 was affected by:

- increase in sales revenues by 22.2%, to the level of PLN 717,082 thousand - primarily due to the consolidation of the results of the Hungarian company Poli-Farbe Vegyipari Kft. and its subsidiaries, as well as better results achieved on the Polish and Ukrainian markets;
- sustained demand for premium brand products with a higher margin, as well as middle price products (mainstream segment) observed in Poland, Hungary and Ukraine;
- increase in prime cost of sales by 21.1% to PLN 412,999 thousand - caused by, inter alia, consolidation of production costs incurred by Poli-Farbe in the financial statements;
- increase in sales costs by 35.5%, to PLN 142,173 thousand - caused by, inter alia, consolidation of sales costs incurred by Poli-Farbe in the financial statements, higher expenses of FFiL Śnieżka SA on marketing, as well as depreciation costs from the intangible assets - trademarks and customer relations disclosed on the acquisition (acquisition of Poli-Farbe Vegyipari Kft);
- increase in general administrative expenses by 33.2%, to PLN 77,009 thousand - caused by, inter alia, the Group's expansion by Poli-Farbe and increase in the number of employees (261 staff at the end of 2019), higher costs incurred by the Company in connection with its development, as well as the acquisition of Poli-Farbe and the processes of integration of the Hungarian subsidiary with the Group;
- higher income tax resulting from the consolidation of Poli-Farbe.

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

	Year 2019	Year 2018	Change (y/y)
<b>Sales revenues</b>	<b>717 082</b>	<b>586 777</b>	<b>22.2%</b>
Prime cost of sales	412 999	341 059	21.1%
Cost of sales	142 173	104 928	35.5%
General administrative expenses	77 009	57 799	33.2%
Profit on other operating activities	(5 931)	(3 344)	-
Profit on financial activities	(388)	(1 432)	-
Share in associate's profit	370	226	63.7%



## the Śnieżka Group – Management’s report on the activities for 2019

Data in PLN thousand

Gross profit	78 952	78 441	0.7%
Profit on operating activities (EBIT)	78 970	79 647	-0.9%
Profit on operating activities + depreciation (EBITDA)	106 824	98 370	8.6%
Income tax	16 305	15 052	8.3%
<b>Net profit, including:</b>	<b>62 647</b>	<b>63 389</b>	<b>-1.2%</b>
<i>profit attributable to shareholders of the parent company</i>	59 504	61 632	-3.5%

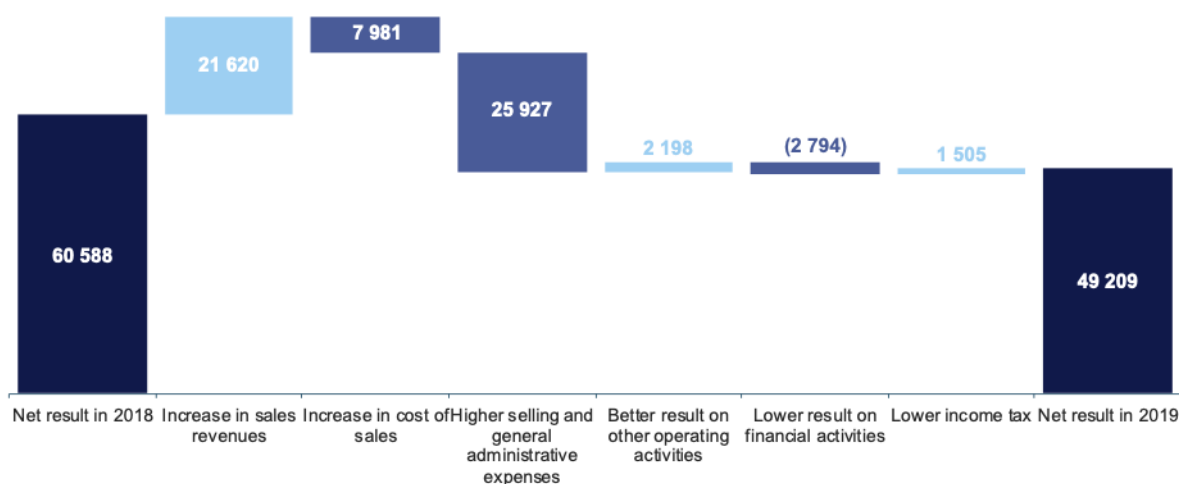
No other factors or events occurred in 2019 than those described in the financial statements, including those of unusual nature, having a significant impact on the consolidated financial statements.

The Management Board of FFIL Śnieżka SA did not publish forecasts of financial results for 2019, either on a consolidated or standalone basis.

### Fabryka Farb i Lakierów Śnieżka SA

In 2019 FFIL ŚNIEŻKA SA, the parent company within the Group, generated net profit in the amount of PLN 49,209 thousand, i.e. 18.8% lower than in 2018.

Figure 6. The impact of individual items on the net results of FFIL ŚNIEŻKA SA



The main factors forming the Company's bottom line in 2019 are as follows:

- increase in total sales revenues by 4.1% to PLN 543,891 thousand;
- sustained demand for premium brand products (Magnat and Vidaron) characterized by a higher margin, as well as middle price products (Śnieżka brand);
- increase in sales costs by 13.1%, to PLN 119,564 thousand - caused by, inter alia, increasing marketing expenditure (including high-budget advertising campaigns for Magnat and Vidaron products), and introducing scheduled pay rises.
- increase in general administrative expenses by 26.0%, to PLN 58,689 thousand - caused by, inter alia, consulting costs regarding the transaction of acquisition of shares in Poli-Farbe Vegyipari Kft. and related legal services, introduction of scheduled pay rises, as well as the development of the Company - increasing employment and incurring expenditure on implementing new IT software (as part of the “Change IT” digital transformation project);

## the Śnieżka Group – Management's report on the activities for 2019

Data in PLN thousand

- obtaining a dividend in the amount of PLN 17,127 thousand from subsidiaries: TM Investment and Śnieżka-Ukraina – whose total amount was lower than a year earlier;
- recognition of an extraordinary dividend paid to the Company by Poli-Farbe Vegyipari Kft. in the amount of 0.8 billion Hungarian Forints (PLN 10,531 thousand) in the Company's balance sheet under "Shares, stocks and other long-term assets" (the dividend was not recognized as income financial).

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

	Year 2019	Year 2018	Change (y/y)
<b>Sales revenues</b>	<b>543 891</b>	<b>522 271</b>	<b>4.1%</b>
Prime cost of sales	318 383	310 402	2.6%
Cost of sales	119 564	105 744	13.1%
General administrative expenses	58 689	46 582	26.0%
Profit on other operating activities	(3 608)	(5 806)	-
Profit on financial activities	16 978	19 772	-14.1%
Gross profit	60 625	73 509	-17.5%
Profit on operating activities (EBIT)	43 647	53 737	-18.8%
Profit on operating activities + depreciation (EBITDA)	63 282	70 625	-10.4%
Income tax	11 416	12 921	-11.6%
<b>Net profit</b>	<b>49 209</b>	<b>60 588</b>	<b>-18.8%</b>

No other factors or events occurred in 2019 than those described in the financial statements, including those of unusual nature, having a significant impact on the standalone financial statements.

### 1.6.2 Financial standing

#### The Śnieżka Group

The level of the Group's balance sheet volumes is affected by the seasonality phenomenon. It is described in detail in item 1.5. When analysing the Group's balance sheet at the end of 2019 (compared to the end of the previous year), it is necessary to take into account the Hungarian company Poli-Farbe Vegyipari Kft. and its subsidiaries, which joined the Group.

Table 7 The Group's assets

Group's assets	31.12.2019	31.12.2018	Change (y/y)
<b>Fixed assets, including:</b>	415 721	234 952	76.9%
- Tangible fixed assets	330 542	218 433	51.3%
- other fixed assets	85 179	16 519	415.6%
<b>Current assets, including:</b>	245 727	169 529	44.9%
- Inventory	108 481	84 129	28.9%
- Trade and other receivables	98 549	77 235	27.6%
- Cash and cash equivalents	36 337	5 563	553.2%
- other current assets	2 360	2 602	-9.3%
<b>Total</b>	<b>661 448</b>	<b>404 481</b>	<b>63.5%</b>

## the Śnieżka Group – Management's report on the activities for 2019

Data in PLN thousand

At the end of 2019, the Group's assets amounted to PLN 661,448 thousand, which accounts for 256,967 thousand (63.5%) increase compared to the end of the previous year.

The value of fixed assets of the Company (constituting 62.9% of its total assets) over the year increased by 76.9% to PLN 415,721 thousand, primarily as a result of inclusion in the Group of property, plant and equipment held by Poli-Farbe (e.g. real estate, equipment for production facilities) and the implementation of investments by FFiL Śnieżka SA in connection with its development plans.

In addition, in the annual consolidated financial statements, under the "Fixed assets" item, the Group recognized intangible assets in connection with the acquisition of 80% shares in Poli-Farbe Vegyipari Kft. (trademarks and customer relations). As a result, the Group's intangible assets as at December 31, 2019 increased compared to the previous year by 624.2%, to PLN 74,575 thousand. Consequently, in the Group's balance sheet the goodwill decreased due to acquisition of Poli-Farbe, which was initially recognized in the interim condensed consolidated financial statements for the period from January 1, 2019 to June 30, 2019, as a result of a provisional settlement of the acquisition transaction. In these annual statements, the Group made the final settlement of the share acquisition transaction and finally the goodwill amounted to PLN 4,626 thousand.

The value of the Group's current assets amounted to PLN 245,727 thousand, increasing by 44.9% compared to December 31, 2018. The main part of the Group's current assets were inventories valued at PLN 108,481 thousand, which in particular consisted of finished products and materials. The 28.9% higher inventory level compared to the end of the previous year is primarily the result of recognizing in the consolidated financial statements the inventories held by Poli-Farbe, but also FFiL Śnieżka SA's inventories higher than a year earlier.

At the end of 2019, the Group also held trade and other receivables in the amount of PLN 98,549 thousand, which increased by 27.6%, as a result of higher sales recorded by FFiL Śnieżka SA and consolidation in the financial statements of the Poli-Farbe Group.

The increase in cash and cash equivalents had a positive effect on the value of the Group's current assets. At the end of 2019, their value increased to PLN 36,337 thousand, due to positive cash flow from operating activities and including Poli-Farbe in the consolidation.

Table 8 The Group's liabilities

Group's liabilities	31.12.2019	31.12.2018	Change (y/y)
<b>Total equity, including:</b>	298 367	268 912	11.0%
- Equity (attributable to the shareholders of the parent company)	265 426	262 484	1.1%
- Equity of non-controlling interests	32 941	6 428	412.5%
Total liabilities	363 081	135 569	167.8%
<b>Long-term liabilities</b>	158 798	5 159	2978.1%
<b>Short-term liabilities, including:</b>	204 283	130 410	56.6%
- Trade and other liabilities	90 060	57 226	57.4%
- Short-term liabilities on loans and borrowings	106 541	65 492	62.7%
- Other short-term liabilities	7 682	7 692	-0.1%
<b>Total</b>	<b>661 448</b>	<b>404 481</b>	<b>63.5%</b>

At the end of 2019, Śnieżka Group financed its activities from own funds in 45.1%. The decreased indicator by 21.4% (compared to the end of 2018) results primarily from obtaining by FFiL Śnieżka SA

## **the Śnieżka Group – Management's report on the activities for 2019**

Data in PLN thousand

external financing for the acquisition of 80% shares in Poli-Farbe Vegyipari Kft. and raising loans for development investments.

The Group's equity at the end of the reporting period was PLN 298,367 thousand and was 11.0% higher than at the end of 2018. The value of equity attributable to shareholders of the parent company was primarily affected by the allocation of PLN 27,782 thousand from 2018 profit to supplementary capital. Whereas the value of this capital was adversely affected by recognizing in the balance sheet an option for the purchase of shares held by minorities (for the remaining 20% of shares in Poli-Farbe Vegyipari Kft.) in the amount of PLN 28,670 thousand. Liability under the put option in the amount of PLN 28,252 thousand PLN, recalculated at the final settlement of the transaction, was recognized in the Group's long-term liabilities (details in the consolidated financial statements, in note No. 14).

The value of the Group's equity (total) in 2019 was also positively affected by an increase in the capital of non-controlling shareholders (PLN +26,513 thousand). The majority of the minority capital is owned by Lampo Kft. controlled by Antal Szabó (CEO of Poli-Farbe) and Andrea Nagy György, who hold 20% of shares in Poli-Farbe Vegyipari Kft.

In the reporting period, the Group's long-term liabilities increased significantly. As at December 31, 2019, they amounted to PLN 158,798 thousand and constituted 24.0% of the balance sheet total. They were predominately composed of bank loans (PLN 112,822 thousand) - including loans raised by FFIL Śnieżka SA to finance the acquisition of 80% shares in Poli-Farbe Vegyipari Kft. and development investments. The Group also recognized in the long-term liabilities the abovementioned liabilities under the option to acquire the remaining shares of Poli-Farbe held by Lampo Kft. and the provision for deferred income tax created as a result of the final settlement of the acquisition of Poli-Farbe - in connection with depreciation costs from recognized intangible assets (PLN 6,085 thousand).

The Group's short-term liabilities amounted to PLN 204,283 thousand (+56.6% y/y) and constituted 30.9% of the Group's balance sheet total. The dominant part (PLN 106,541 thousand) was related to liabilities under loans raised to meet the current investment needs of the Group and FFIL Śnieżka SA - including expansion, modernization and automation of production lines.

In the reporting period, the Group's liabilities under deliveries and services as well as other liabilities, including short-term ones, increased - in total by PLN 32,824 thousand. The increase in these balance sheet items stems primarily from the consolidation of Poli-Farbe's balance sheet items and the higher costs of the Group's operations in the reporting period (sales and general administration).

### **Put and call options**

The essence of the above put option, recognized in the Group's balance sheet, is that Lampo Kft. has the option to sell (put option) and the Company is obliged to acquire the remaining 20% of shares in Poli-Farbe Vegyipari Kft. Whereas the call option entitles the Company, in special circumstances, to acquire the remaining 20% of shares. The option may be exercised if the conditions specified in the share purchase agreement occur, which has been described in item 1.7.2 herein. Details of the valuation and recognition of the put option are described in note 9.22 to the consolidated financial statements.

At the same time, the Management Board of FFIL Śnieżka SA assumes a long-term collaboration with Poli-Farbe based on the current model (developed in the course of talks with Antal Szabó, the founder and managing director of Poli-Farbe Vegyipari Kft.) and does not conduct any negotiations on the possible acquisition of the remaining 20% shares in the Hungarian company.

### **Fabryka Farb i Lakierów Śnieżka SA**

The size of the Company's balance sheet items - as well as the Group's - is affected by the of seasonality phenomenon. It is described in detail in item 1.5.

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Table 9 FFIL ŚNIEŻKA SA's assets

Company's assets	31.12.2019	31.12.2018	Change (y/y)
<b>Fixed assets, including:</b>	411 868	233 498	76.4%
- Tangible fixed assets	251 888	196 746	28.0%
- Shares and stocks in other entities	131 781	23 800	453.7%
- other fixed assets	28 199	12 952	117.7%
<b>Current assets, including:</b>	165 684	146 299	13.3%
- Inventory	75 935	67 932	11.8%
- Trade and other receivables	81 820	72 742	12.5%
- Cash and cash equivalents	6 458	3 877	66.6%
- other current assets	1 471	1 748	-15.8%
<b>Total</b>	<b>577 552</b>	<b>379 797</b>	<b>52.1%</b>

At the end of 2019, the Company's assets amounted to PLN 577,552 thousand, which accounts for 197,755 thousand (52.1%) increase compared to the end of the previous year. Such a significant increase in assets is primarily due to the acquisition of 80% of shares in Poli-Farbe Vegyipari Kft. These assets were recognized in the financial statements under "Shares, stocks and other long-term assets", whose total value at the end of December 2019 increased by 453.7%, to PLN 131,781 thousand.

The value of fixed assets of the Company (constituting 71.3% of its total assets) over the year increased by 76.4% to PLN 411,868 thousand, primarily as a result of the acquisition of the above shares in Poli-Farbe, as well as of incurring capital expenditure related to the Company's development plans.

The value of the Company's current assets amounted to PLN 165,684 thousand, increasing by 13.3% compared to December 31, 2018. The main asset was trade and other receivables in the amount of PLN 81,820 thousand, which as a result of successful sales results (including premium brand products) in 2019 were by 12.5% higher than a year earlier. The Company also held inventories valued at PLN 75,935 thousand. In 2019, the Company implemented inventory optimization processes - both at the level of accumulating raw materials for production and at the level of inventory and sales management.

Table 10. FFIL ŚNIEŻKA SA's liabilities

Company's liabilities	31.12.2019	31.12.2018	Change (y/y)
<b>Equity</b>	191 813	175 909	9.0%
Total liabilities	385 739	203 888	89.2%
<b>Long-term liabilities, including:</b>	204 829	79 766	156.8%
- Long-term interest-bearing loans and borrowings	196 472	75 170	161.4%
- Other long-term liabilities	8 357	4 596	81.8%
<b>Short-term liabilities, including:</b>	180 910	124 122	45.8%
- Trade and other liabilities	70 634	55 544	27.2%
- Current portion of interest-bearing loans and borrowings	104 805	62 628	67.3%
- Other short-term liabilities	5 471	5 950	-8.1%
<b>Total</b>	<b>577 552</b>	<b>379 797</b>	<b>52.1%</b>

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At the end of 2019, FFIL Śnieżka SA financed its activities from own funds in 33.2%. The decreased indicator by 13.1% (compared to the end of 2018) results primarily from obtaining external financing for the acquisition of shares in Poli-Farbe Vegyipari Kft. and the organic development of the Company. At the same time, the Company's equity at the end of the reporting period increased by 9.0%, to PLN 191,813 thousand - primarily as a result of allocating the profit of PLN 27,782 thousand on supplementary capital.

The Company's long-term liabilities accounted for PLN 204,829 thousand, increasing by 156.8% compared to the end of December 2018. The majority were liabilities under bank loans raised by the Company - in order to, inter alia, finance the acquisition of the above shares in Poli-Farbe, expansion, modernization and automation of production facilities (including a production line of water-borne paint at the factory in Lubzina and white paint in Pustków), as well as a loan from a subsidiary of PLN 83,650 thousand from TM Investment Sp. z o.o.

The Company's Management Board intends to allocate for the repayment of loans raised for the acquisition of shares in Poli-Farbe Vegyipari Kft. (settled in Hungarian forints) funds from future dividends, which will most likely be paid by this company. In addition, the Management Board plans to repay directly in Hungarian currency to avoid exchange rate risk.

The Company's short-term liabilities amounted to PLN 180,910 thousand (+45.8% y/y). The majority of them was related to liabilities under loans and borrowings, which amounted to PLN 104 805 thousand (67.3% y/y).

The Company's liabilities under deliveries and services as well as other liabilities related to its core activity also increased (to PLN 70,634 thousand).

### 1.6.3 Cash flows

#### The Śnieżka Group

In 2019, the Group generated positive cash flows of PLN 29,282 thousand. As a result, at the end of this period, the Group's cash amounted to PLN 36,337 thousand.

The Group's cash flows were composed of:

- **Positive cash flows on investing activities in the amount of PLN 99,157 thousand.**

Their level was positively influenced by the profit generated by the Group (after adjustments it amounted to PLN 109,011 thousand) and changes in the working capital of the Group (in total PLN 7,224 thousand), while income tax paid negatively (PLN 17 078 thousand).

- **Negative cash flows on investing activities in the amount of PLN 175,605 thousand.**

The largest investment in 2019 was the acquisition of shares in Poli-Farbe Vegyipari Kft. by FFIL Śnieżka SA. In addition, the Group companies incurred expenses for the purchase of property, plant and equipment and intangible assets (total negative impact of PLN 87,975 thousand). The largest part of this amount were expenses related to the expansion, modernization and automation of the Company's production lines, construction of the Logistics Centre in Zawada and new IT software in the Company (implementation as part of the Change IT digital transformation project). Cash flow from investment activities was positively affected by the repayment of loans granted (PLN 18,823 thousand).

- **Positive cash flows on financing activities in the amount of PLN 105,730 thousand.**

Apart from raising new loans and borrowings by the Group companies in the amount of PLN 187,340 thousand, resulting from investment needs as well as current operating activities, repayment of loans and borrowings in the amount of PLN 37,531 thousand and payment of dividends by the



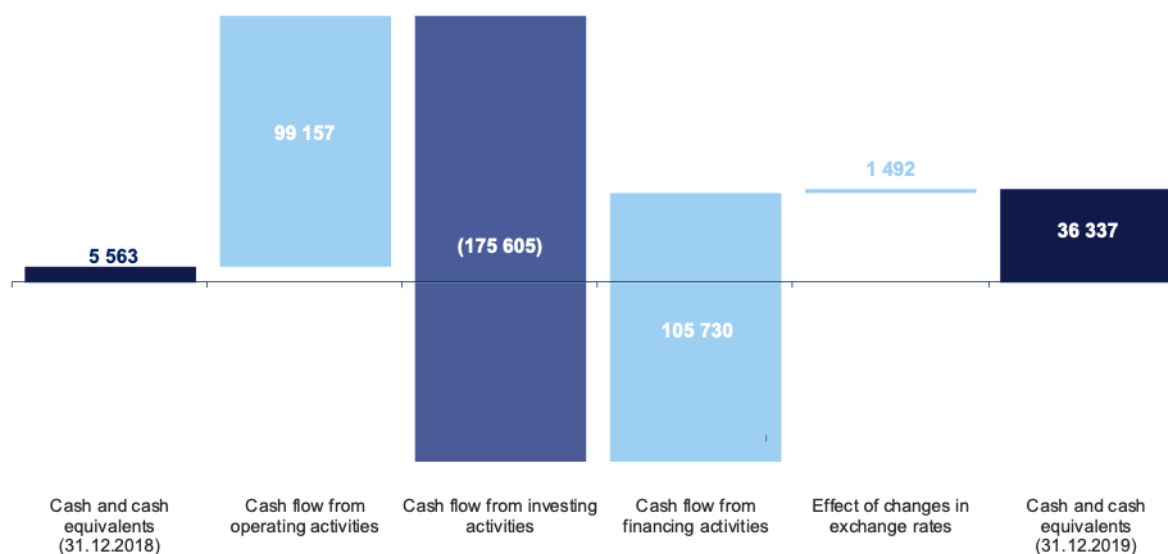
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Group companies (PLN 40,473 thousand) had an impact on these flows.

Figure 7. The Group's cash flows in 2019



### Fabryka Farb i Lakierów Śnieżka SA

In 2019, the Company generated positive cash flows of PLN 2,581 thousand. As a result, at the end of this period, the Company's cash amounted to PLN 6,458 thousand.

The Company's cash flows were composed of:

- **Positive cash flows on investing activities in the amount of PLN 38,746 thousand.**

Their level was positively influenced by the profit generated by the Company (after adjustments it amounted to PLN 64,159 thousand) while negatively the changes in the Group's working capital (in total PLN 12,732 thousand) and income tax paid (PLN 12 681 thousand).

- **Negative cash flows on investing activities in the amount of PLN 165,108 thousand.**

In the reported period, FFil Śnieżka SA acquired 80% shares in Poli-Farbe Vegyipari Kft (transaction settlement is described in note 14 to the consolidated financial statements). In addition, the Company incurred expenses for the purchase of property, plant and equipment and intangible assets (total negative impact of PLN 78,103 thousand). The expenses were related to the expansion, modernization and automation of the production lines, construction of the Logistics Centre in Zawada as well as incurring expenditure on new IT software in the Company (implementation as part of the Change IT digital transformation project). The Company received dividends from subsidiaries in the amount of PLN 17,127 thousand.

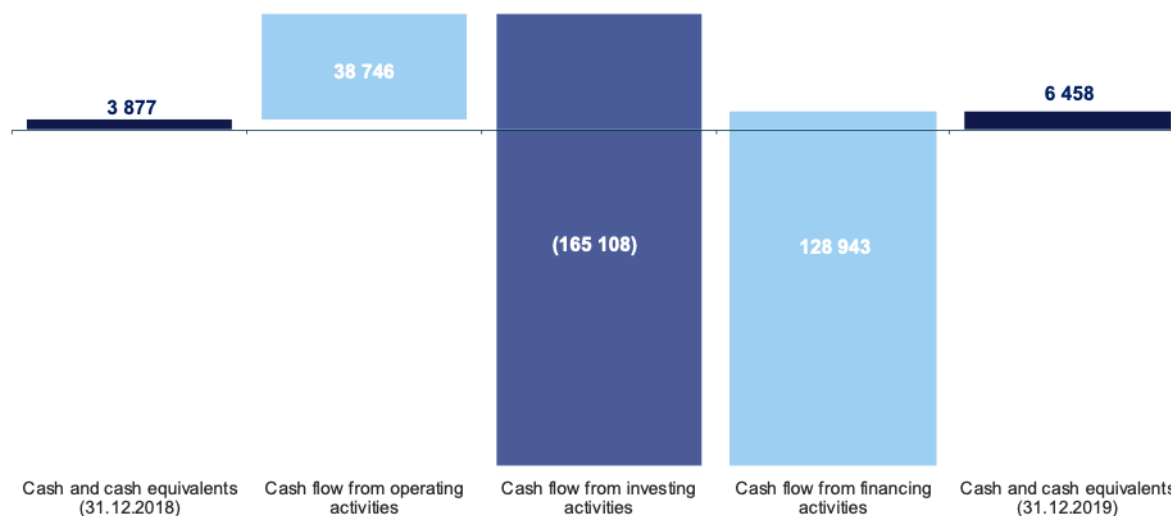
- **Positive cash flows on financing activities in the amount of PLN 128,943 thousand.**

Apart from raising new loans and borrowings in the amount of PLN 200,973 thousand, resulting from the Company's investment needs as well as current operating activities, repayment of loans and borrowings in the amount of PLN 33,978 thousand and payment of dividends for 2018 (PLN 32,807 thousand) had an impact on these flows.

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Figure 8. FFIL ŚNIEŻKA SA's cash flows in 2019



### 1.6.4 Financial ratios

#### The Śnieżka Group

In 2019, the Group generated a slightly higher (0.5%) gross margin than a year earlier. This is a result of sustained demand for paints and varnishes from the mainstream and premium price categories. The trend of selecting by consumers more expensive products with a higher margin was observed in Poland, Hungary and Ukraine. Other profitability ratios were lower than in the previous year. The level of the Group's profit (operating, EBITDA and net) was affected directly by the increase in selling costs and general and administrative expenses. Return on assets (ROA) decreased by 3.8 %, which is the result of a significant increase in assets due to the Group's expansion by Poli-Farbe and a slight decrease in consolidated net profit. On the other hand, the decrease of ROE is mainly the result of an increase in equity while a decrease in net profit.

Table 11. The Group's profitability ratios

	Year 2019	Year 2018
EBIT margin in % (EBIT / Sales revenues) x 100%	11.0%	13.6%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	14.9%	16.8%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	42.4%	41.9%
Net profit (loss) in % (Net profit / Sales revenues) x 100%	8.7%	10.8%
Return on assets (ROA) * (Net profit / Total assets *) x 100%	10.7%	14.5%
Return on equity (ROE) ** (Net profit / equity - attributable to the shareholders of the parent company) x 100%	22.5%	25.2%

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

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

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As at December 31, 2019, the Group's total debt increased by 21.4 % year on year, mainly as a result of raising bank loans to finance the acquisition of shares in Poli-Farbe Vegyipari Kft. by the Company and development investments. The increase in debt ratios was also caused by the form of records of an option to acquire the remaining 20% shares in Poli-Farbe held by Lampo Kft. On the one hand, the valued amount of the option increases the liabilities and, on the other hand, reduces the Group's equity.

In connection with the consolidation of Poli-Farbe, the Group's fixed assets presented in the balance sheets increased significantly. This contributed to a 42.7 % decrease in the fixed-assets-to-equity ratio compared to the end of December 2018.

The Group's current and quick liquidity ratios remained almost at the same level as year before, which means the Group is capable of paying its liabilities in a timely manner.

Table 12. The Group's liquidity and debt ratios

	31.12.2019	31.12.2018
Current liquidity ratio (Current assets / Short-term liabilities)	1.2	1.3
Quick liquidity ratio (Current assets - inventories)/Short-term liabilities	0.7	0.7
Cash liquidity ratio (Cash and cash equivalents / Short-term liabilities) x 100%	17.8%	4.3%
Total debt ratio (Total liabilities / Total assets) x 100%	54.9%	33.5%
Fixed-assets-to-equity ratio (Equity/Fixed assets) x 100%	71.8%	114.5%

In 2019, the Group's cash conversion cycle was less than 66 days, which accounts for an improvement of about 10 days compared to the previous year. It was primarily due to the extension of the liability cycle.

At the end of 2019, the net debt/EBITDA ratio was at 1.71 level.

Table 13. The Group's rotation ratios

	Year 2019	Year 2018
Inventory cycle (Inventory x 360 / Cost of sales) in days	94.6	88.8
Receivables cycle (Trade and other receivables x 360 / Sales revenues) in days	49.5	47.4
Current liabilities cycle (Trade and other liabilities x 360 / Cost of sales) in days	78.5	60.4
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	65.5	75.8

### **Fabryka Farb i Lakierów Śnieżka SA**

In 2019, the Company generated higher gross margin by 0.9% than in the previous year - mainly due to sustained demand for premium paints and varnishes (Magnat and Vidaron brands) and medium ones (Śnieżka brand), which feature a higher margin.

Other profitability ratios were lower than in the previous year. The level of the Company's profit (operating, EBITDA and net) was affected directly by the increase in selling costs and general and administrative expenses.

Return on assets (ROA) decreased by 5.1 %, which is the result of a significant increase in assets due to acquisition of Poli-Farbe and a 18.8% decrease in net profit compared to 2018. Lower net profit in the reporting period is primarily a derivative of the above-mentioned cost increase and lower dividend obtained from subsidiaries than a year earlier.

On the other hand, the decrease of ROE by 9.9% is mainly the result of lower net profit and an increase in Company's equity (allocation of part of 2018 on supplementary capital).

*Table 14. FFIL ŚNIEŻKA SA's profitability ratios*

	<b>Year 2019</b>	<b>Year 2018</b>
EBIT margin in % (EBIT / Sales revenues) x 100%	8.0%	10.3%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	11.6%	13.5%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	41.5%	40.6%
Net profit (loss) in % (Net profit / Sales revenues) x 100%	9.0%	11.6%
Return on assets (ROA) * (Net profit / Total assets *) x 100%	9.5%	14.6%
Return on equity (ROE) (Net profit / equity**) x 100%	26.6%	36.5%

\* the average value of total assets of the Company at the end of the last 5 quarters.

\*\* the average value of equity of the Company at the end of the last 5 quarters.

As at December 31, 2019, the Company's total debt increased by 13.1 % year on year, mainly as a result of raising bank loans to finance the acquisition of shares in Poli-Farbe Vegyipari Kft. In connection with this transaction, the Company's fixed assets presented in the balance sheets also increased significantly, which contributed to a 28.8 % decrease in the fixed-assets-to-equity ratio compared to the end of December 2018.

The current and quick liquidity ratios of the Company decreased compared to the previous year, which is the result of the accumulation of development investments carried out under the largest investment cycle in the history of FFIL Śnieżka SA scheduled for 2018-2022. Despite the higher debt, the Company did not have problems with liquidity and settlement of its liabilities in a timely manner.

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

	31.12.2019	31.12.2018
Current liquidity ratio (Current assets / Short-term liabilities)	0.9	1.2
Quick liquidity ratio (Current assets - inventories)/Short-term liabilities	0.5	0.6
Cash liquidity ratio (Cash and cash equivalents / Short-term liabilities)	3.6%	3.1%
Total debt ratio (Total liabilities / Total assets) x 100%	66.8%	53.7%
Fixed-assets-to-equity ratio (Equity/Fixed assets) x 100%	46.6%	75.3%

In 2019, the cash conversion cycle in the Company was shortened by almost 4 days compared to the previous year. It was primarily due to the extension of the liability cycle.

Table 16. FFIL ŚNIEŻKA SA's rotation ratio

	Year 2019	Year 2018
Inventory cycle (Inventory x 360 / Cost of sales) in days	85.9	78.8
Receivables cycle (Trade and other receivables x 360 / Sales revenues) in days	54.2	50.1
Current liabilities cycle (Trade and other liabilities x 360 / Cost of sales) in days	79.9	64.4
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	60.2	64.5

## 1.7 Other information

### 1.7.1 Investments

In 2019, the total capital expenditure in the Śnieżka Group amounted to PLN 196,358 thousand and were by 165.7% (PLN 122,469 thousand) higher than in the previous year. The expenditure level was in line with the estimates presented in the Management Board's report on operations for 2018. The Group used its own funds and loans to finance the investments.

The total expenditure on investments in FFIL Śnieżka SA amounted to PLN 186,793 thousand and were by 160.5% (PLN 113,248 thousand) higher than a year earlier. The largest item in this amount was the acquisition of 80% shares in Poli-Farbe Vegyipari Kft. (The settlement of the transaction was described in Note 14 to the consolidated financial statements). The value of the Company's investment in tangible and intangible assets amounted to PLN 78,103 thousand and was by 17.7% (PLN 11,767 thousand) higher than a year earlier. The Company used both its own funds as well as loans to finance its investments.

The investments performed by the Group in 2019 focused primarily on improving the quality of products, increasing production capacity (extension and automation of production lines) and optimizing the manufacturing costs. The Group also put a great emphasis on streamlining storage processes. The majority of the Group's investment expenditures were outlays on development purposes carried out by FFIL Śnieżka SA. In 2019 in the Company:

- a water-born production line was expanded,
- packaging processes of finished goods were improved,
- the R&D facility was modernized,
- tools with a very range of IT support possibilities within the processes of optimal company management were implemented,
- a fleet of means of transport was restored.

In addition, erection of the Logistics Centre in Zawada commenced.

The investment policy pursued in the Śnieżka Group in 2019 was a follow-up of the policy from previous years. The implementation of individual tasks was carried out in accordance with the approved schedule of works and expenditures, with some adjustments resulting from the Group's current needs or changing conditions of the external environment.

The Śnieżka Group does not anticipate problems with financing the investment plans for 2020. The Group's own funds and signed loan agreements with banks allow for secure financing of investment plans scheduled for 2020 - including erection of the first stage of the Logistics Centre in Zawada. The total value of investment expenditures in the Group for 2020 may amount to approx. PLN 95.5 million.

At the same time, as a result of the pandemic caused by the SARS-CoV-2 coronavirus, the Management Board does not rule out taking measures to strengthen its liquidity and reduce expenses not related directly to operating activities. The investment plan for 2020 will be implemented depending on the evolution of the situation in the upcoming months.

#### 1.7.2 The most important agreements concluded in 2019

##### **Conclusion of an agreement for the acquisition of 80% shares in the Hungarian company Poli-Farbe Vegyipari Kft.**

On 11 February 2019, the Company completed the negotiation process and concluded with Lampo Korlátolt Felelősségű Társaság ("Lampo") controlled by Mr. Antal Szabó and Ms. Andrea Nagy György ("the Seller"), (the Company and the Seller jointly as "the Parties"), the share acquisition agreement ("Transaction", "Agreement") in Poli-Farbe Vegyipari Korlátolt Felelősségű Társaság with its registered seat in Bócsa, Hungary ("Poli-Farbe"). The transaction was brought to a conclusion by the Parties on May 15, 2019.

#### 1) The agreement envisages two stages:

- a) During the I stage the Company acquired 80% of shares in Poli-Farbe.

After taking into account the subsidies (resulting from the settlement of subsidies obtained in the past and retained by Poli-Farbe), the final total acquisition price of 80% of shares in Poli-Farbe amounted to HUF 8.677 billion and by 31 December 2019 was paid in full. The final settlement of the transaction in question was described in Note 14 to the consolidated financial statements.

- b) during the second stage, the Seller has the option to sell (put option) and the Company has the right to acquire (call option) the remaining 20% of shares in Poli-Farbe.



Implementation of the above option will be feasible in the case of meeting the conditions set out in the Agreement, at a price equal to the higher of the following two values:

- 20% of the value of Poli-Farbe shares (the base value for the calculation will be 8 times the average of EBITDA operating profit from the last two years preceding the Transaction less the net financial standing - understood as the debt amount less the cash amount), or
  - HUF 2 billion, less the amount paid to the Seller by Poli-Farbe of an extraordinary dividend (in the amount not less than two hundred million HUF).
- 2) The Sellers are entitled to put option, under which, 2 years after the completion of the first stage of the Transaction, the Company will be obliged to acquire, at the Sellers' request, the remaining 20% of shares in Poli-Farbe in one or several transactions - under condition that the Sellers must present for sale at least 5% of shares.

The put option is unlimited in time. The Sellers are entitled to the put option at any time in the case of recalling the current Managing Director of Poli-Farbe Mr. Antala Szabó by the Issuer, or appointing the second Managing Director in Poli-Farbe. The put option for the Sellers will be suspended for a period of 12 months if one of the conditions activating the call option for the Company is fulfilled.

- 3) The Company is entitled to the call option, under which the Company has the right to demand the Sellers sell the remaining 20% of shares in Poli-Farbe, provided that:
- a change in the control of Lampo occurred without the prior written consent of the Company, except for taking the control by the closest relatives of the Sellers,
  - Lampo was subject to transformation without the prior written consent of the Company, unless the new entity holds the very same shareholding structure,
  - liquidation or bankruptcy proceedings are initiated toward Lampo, unless the Sellers provide the Company with written evidence that they have taken all legal actions in order to prevent liquidation or bankruptcy,
  - the general meeting of shareholders (or similar body) adopts a resolution on the liquidation of Lampo.
- 4) In the event of a significant change in the Company's business understood as: (i) takeover of control over the Issuer by entities outside the current main shareholders of the Company (excluding their relatives, family members and companies controlled by them), (ii) transfer of Śnieżka's core business (as a transfer shares or assets) to another entity, excluding related entities, (iii) transfer of Poli-Farbe's core business (as a transfer of shares or assets) to a third party, excluding the related entities - the Company is obliged to pay additional remuneration to the Sellers in the amount of:
- one billion eight hundred million HUF, if a significant change in the Company's business occurs within 4 years of signing the Agreement,
  - one billion four hundred million HUF, if a significant change in Śnieżka's business occurs within 8 years of signing the Agreement.

The limit of the Company's liability for any additional remuneration or similar payments in favour of the Sellers amounts in total one billion eight hundred million HUF.

Additional significant terms and conditions of the Transaction:

- 5) As regards the contractual obligations:

- The Company will maintain production in Poli-Farbe production facilities located in Bócsa, Hungary for at least eight years, at the volume corresponding to at least 95% of the total value of annual sales on the Hungarian market as at the date of signing the Agreement.

Should Śnieżka fail to comply with the obligation to maintain the said production volume, it will be obliged to pay to the Seller contractual penalties, the sum of which can not exceed one billion eight hundred million HUF.

- The Parties undertook to adopt a dividend policy in Poli-Farbe, under which the company will pay a dividend each year at a level of at least 50% of the profit available for distribution,
- until May 31, 2019, the Parties will adopt an extraordinary dividend resolution for 2018 in Poli-Farbe, amounting to at least one billion HUF, of which the Sellers will be entitled to at least two hundred million HUF.

6) In addition:

- The Parties agreed that the consent of all its shareholders is required for the possible increase in the share capital of Poli-Farbe, and the Sellers will have the priority of taking up the shares in the increased share capital,
- The Parties agreed that for the possible sale of Poli-Farbe's shares within two years after closing the first stage of the Transaction, the consent of all its shareholders will be required,
- The Company will not change the core business of Poli-Farbe,
- The Company will maintain the employment rate in Poli-Farbe until the end of the first half of 2023, at the level of at least 70% of employment as of the day of signing the Agreement,
- The Company will sell products under the brands belonging to Poli-Farbe for at least 10 years after closing the first stage of the Transaction.

The other terms and conditions of the Agreement do not deviate from commonly applicable ones for this type of agreements. Bank loans are the source of financing the first stage of the Transaction by FFIL Śnieżka SA.

The Company informed about the Transaction in the reports: No. 2/2019 of February 11, 2019, No. 12/2019 of April 30, 2019, No. 13/2019 of May 15, 2019, No. 23/2019 of December 12, 2019.

#### **An annex to the loan agreement with Bank Handlowy**

On 28 February 2019 FFIL Śnieżka SA concluded with Bank Handlowy Spółka Akcyjna with its registered seat in Warsaw, Annex no. 18 to the loan agreement no. KRA/KRB/0044/05 of 10 June 2005.

Under the Annex concluded the loan amount was increased from PLN 50 million to PLN 80 million, which can be used in PLN, EUR, USD and HUF. The Annex enabled to increase the loan in HUF to 5.346 mln (from previously available loan in HUF of 3.090 mln) calculated according to the exchange rate as of the day of loan availability.

The loan will be available for the period from its approval to December 10, 2021. The Bank charges interest on the amount used in the overdraft according to variable interest rate, calculated on the basis of the reference rate (WIBOR, EURIBOR / LIBOR / BUBOR 3M) and the Bank's margin. The loan collateral remained unchanged. The other terms and conditions of the Annex do not deviate from commonly applicable ones for this type of agreements.

The purpose of signing the abovementioned annex was to increase the possibility of using financing in Hungarian forints and to settle the transaction of acquiring shares of Poli-Farbe Kft. based in Bócsa, Hungary.



The Company informed about it in report no. 4/2019 of February 28, 2019.

#### **An annex to the loan agreement with ING Bank Śląski**

On December 18, 2019 FFIL Śnieżka SA concluded an annex no 17 to multiproduct agreement of April 27, 2009 with ING Bank Śląski Spółka Akcyjna.

Under the Annex concluded the loan amount was increased from PLN 30 million to PLN 50 million, which can be used in full in HUF.

The loan will be available for the period from its approval to December 30, 2021.

The repayment of PLN 30 million will be made by December 31, 2021, and as regards PLN 20 million, which the abovementioned annex refers to, will be repaid by March 31, 2024. The bank charges interest on the amount of overdraft used according to variable interest rate, calculated on the basis of the reference rate WIBOR 1M (for the loan in PLN) and BUBOR 3M (for the loan in HUF) and the bank's margin.

The loan collateral was based on: a contractual mortgage on Śnieżka's property located in Zawada, a registered pledge on inventories of finished goods along with the assignment of rights under the insurance policy, assignment of receivables and a blank promissory note. The other terms and conditions of the Annex do not deviate from commonly applicable ones for this type of agreements.

The purpose of signing Annex 17 was to raise some funds to finance the acquisition of 80% shares in Poli-Farbe Vegyipari Kft. with headquarters in Bócsa, Hungary.

The Company informed about it in report no. 6/2019 of April 18, 2019.

#### **Investment loan agreements with PKO BP**

On April 25, 2019 - FFIL Śnieżka SA signed an investment loan agreement with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

The subject of the agreement is to provide the Company with an investment loan by the bank in the amount of PLN 15 million for refinancing investment expenditure implemented in 2018.

The loan will be available for the period from its approval to October 31, 2019. The loan will be repaid by April 25, 2024. The bank charges interest on the amount used in the overdraft according to variable interest rate, calculated on the basis of the reference rate WIBOR 1M and the bank's margin.

The loan collateral was based on a registered pledge on fixed assets (machines and equipment) acquired by Śnieżka as part of the investments implemented in 2018 along with the assignment of rights under the insurance policy. The other terms and conditions of the agreement do not deviate from commonly applicable ones for this type of agreements.

The purpose of the agreement signed was to refinance investment expenditure implemented in 2018, i.e. the purchase and installation of fixed assets (machinery and equipment) related to the expansion of the water-based paint production line at the Śnieżka facility in Lubzina.

The Company informed about it in report no. 7/2019 of April 25, 2019.

#### **Insurance agreements**

In 2019, the Company signed the following insurance agreements significant for its operations:

- between the Company and Powszechny Zakład Ubezpieczeń Spółka Akcyjna, an agreement was signed, whose subject is property insurance (buildings, current assets, machinery and equipment) and loss of profit. The agreement was concluded for the period between November 1, 2019 and October 31, 2020.

- between the Company and Powszechny Zakład Ubezpieczeń Spółka Akcyjna, an agreement was signed, whose subject is property insurance in domestic and international transport. The agreement is valid for the period between November 1, 2019 and October 31, 2020.
- between the Company and Chubb European Group Limited a civil liability insurance agreement for business operations was signed. The agreement was concluded for the period between November 1, 2019 and October 31, 2020.
- between the Company and Chubb European Group Limited a civil liability insurance agreement for the Members of the Company's Authorities was signed. The agreement is valid for the period between October 1, 2019 and September 30, 2020.

Other Group companies also hold insurance agreements, the subject of which is property insurance: buildings, structures, technological lines as well as machinery and equipment.

### 1.7.3 Other

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

No other factors or events occurred in 2019 than those described in the financial statements, including those of unusual nature, having a significant impact on the statements of the Group and the Company.

#### **Loans and borrowings**

Information on significant agreements regarding loans and borrowings contracted and terminated in 2019 - i.e. with PKO BP, ING Bank Śląski and Bank Handlowy - is described in item 1.7.2 herein.

The handling costs of loans and borrowings in 2019 charged the financial result:

- in the amount of PLN 4,669 thousand in FFIL ŚNIEŻKA SA's statements,
- in the amount of PLN 2,783 thousand in the Group's statements.

As at 31 December 2019, FFIL ŚNIEŻKA SA had agreements concluded with the following banks: Pekao, PKO BP, Bank Handlowy, ING Bank Śląski.

As at 31 December 2019, Poli-Farbe had agreements concluded with the following banks: Raiffeisen, Commerzbank, K&H, OTP.

As at 31 December 2019, Śnieżka -BelPol had an agreement concluded with DABRABYT.

As at 31 December 2019, Śnieżka-Ukraina had agreements concluded with the following banks: Oszczadbank, Kredobank, Credit Agricole.

#### **Granted sureties**

As at 31 December 2019 neither the Company nor its subsidiaries granted any guarantees or sureties to a single entity.

#### **Significant proceedings**

In 2019 there were no significant proceedings pending before a court, arbitration body or public administration body regarding liabilities and receivables of the Company or its subsidiaries.

#### **Transactions with related entities**

In 2019 neither the Company nor its subsidiaries concluded any transactions with related entities other than arm's length transactions. All transactions with related entities are described in the consolidated financial statements for 2019, in note 36.

## 2. Prospects and development plans of the Group

### 2.1 Prospects and essential factors for Group's performance

As a result of the current pandemic of the COVID-19 disease (caused by the SARS-CoV-2 coronavirus), in the absence of available reliable and complete information and data on its effects, as at the date of preparing the annual report, the Śnieżka Group - similarly to all entities conducting business activity both in Poland and worldwide - is currently unable to forecast the consequences of the pandemic for the macroeconomic and market environment. Therefore, the possibility of assessing the Group's development prospects in the future is limited as at the date of preparing the annual report for 2019.

In the future, the Company's Management Board will monitor the potential impact of the COVID-19 pandemic and will take all possible steps to mitigate its possible negative effects on the Group, if any. However, due to the inability to obtain reliable assumptions as at the date of this report, all forecasts regarding the future contained in the Group's annual report for 2019 - especially the description of development perspectives of FFIL Śnieżka SA's activities (the issuer) at least in the next financial year - must be analysed taking into account the above said assumption.

Key factors relevant to the Group's prospects include:

- short and long term effects of the COVID-19 disease pandemic, caused by the SARS-CoV-2 coronavirus, in all aspects of the Group's business;
- increasing the Group's presence on the Hungarian market by developing the market offer - the Hungarian market is the second (after the Polish one) market of the Group;
- macroeconomic situation in the world, including the main markets (Poland, Hungary, Ukraine, Belarus) - including the economic situation in the construction sector;
- changes in demand for the Group's products and goods;
- changes in the prices of raw materials used for production;
- changes in exchange rates (including EUR / USD, EUR / PLN, USD / PLN, HUF / PLN, UAH / PLN, BYN / PLN) and possible devaluation or revaluation of individual currencies. Currently, the largest currency risk for the Śnieżka Group is the risk of exchanging the following rates: EUR toward PLN and EUR toward HUF (for more information, see Chapter 4, point 4.6. of "Financial risk" as well as consolidated financial statements in notes: 38.2 and 39.3.2);
- sales dynamics of all companies comprising the Group.

#### The market

In view of the pandemic of COVID-19 disease caused by the SARS-CoV-2 coronavirus, there are no reliable sources to predict the consumer behaviour, although this factor will most likely have an impact on customer behaviour in markets where the Group companies operate. In the years to come, however, climate change may affect the situation in the construction materials market, including paints and varnishes. Weather conditions, such as those currently observed, favour the extension of the season of construction and renovation works.

Individual companies of the Śnieżka Group continue to increase the numerical distribution of its products and carry out scheduled marketing and sales activities tailored to local markets to support the sales of products comprising the Group's brand portfolio. The Company constantly monitors the situation in the paints and varnishes sector on crucial markets, which provides the opportunity to anticipate changes in consumer attitudes and to adapt its offer to altering competitive conditions in individual countries.

The Company's Management Board takes into account possible decisions of public authorities in connection with the COVID-19 pandemic, as well as long-term trends regarding the use of raw materials, social changes or environmental regulations as well as their implications for the process of goods production and sales.

### **Raw materials**

In view of the pandemic of COVID-19 disease caused by the SARS-CoV-2 coronavirus, it is currently not possible to predict the prices of key raw materials used for production as well as oil and electricity.

## **2.2 Strategic objectives**

The Group consistently implements a long-term development strategy consisting in the concentration of its operations in selected countries of Central, Eastern and Western Europe and building the market leadership in the sector of decorative paints on its four key markets: Polish, Hungarian, Ukrainian and Belarusian.

The Company's Management Board stipulates that it cannot be ruled out that the COVID-19 disease pandemic, caused by the SARS-CoV-2 coronavirus, and its effects - unpredictable at the time of preparing the Group's annual report for 2019 - may in the future necessitate changes or total review of the strategy and strategic objectives of the Company and the Group.

The most important strategic objectives of the Group and FFIL ŚNIEŻKA SA for 2020 and subsequent years are as follows:

- **Strengthening the position in major markets and improving profitability**

The Group's strategy for the coming years assumes concentration on its four key markets (Poland, Hungary, Ukraine, Belarus). On the paints and varnishes market in Poland, FFIL Śnieżka SA remains one of the four largest players, and one of the strategic objectives for the upcoming years is to maintain its leadership position.

On other major foreign markets, the Group will work on maintaining or strengthening its market position. In Hungary, the Group will strive for improving the profitability of its subsidiary - Poli-Farbe Vegyipari Kft. In Ukraine and Belarus, the Group will carry out work on matching the portfolio and distribution of products - related to long-term political and macroeconomic uncertainty on both markets and competition from producers offering low-quality products in Belarus.

- **Integration of Poli-Farbe with the Group**

The integration process of Poli-Farbe with the Group has been implemented since May 2019. In the course of these works, synergies are planned to be achieved over the next few years: primarily in the area of raw materials purchase and R&D, marketing and sales as well as management controlling and accounting.

Poli-Farbe Vegyipari Kft., by joining the Group, has already gained access to the supply of raw materials for production at more attractive price terms and conditions than before. Currently, the Hungarian company, in cooperation with Śnieżka's research and development department, is working on optimizing the portfolio and applying new raw materials to previously used formulations (recipes). The Company's Management Board expects that for the most important products comprising the Poli-Farbe portfolio, this process is to be completed by the end of 2020.

Ultimately, synergies should positively affect the margins achieved by Poli-Farbe Vegyipari Kft. In the Management Board's opinion, the profitability of the Hungarian company should improve gradually from 2020. The Management Board does not identify any obstacles for Poli-Farbe's profitability to increase to the level achieved in the past by FFIL Śnieżka SA.





- **Erection of the Logistics Centre in Zawada**

The new Logistics Centre is being built on a 15-hectare plot in Zawada near Dębica. It will be a warehouse and office facility with an area of over 44 thousand m<sup>2</sup>, which will take over the function of Finished Goods Warehouses located in Brzeźnica, Lubzina and Pustków. The investment - whose aim is even more efficient and cheaper supply of the market with Śnieżka products - is to be put into use in the first quarter of 2022.

- **Completed modernization of production facilities**

Modernization (including automation) and expansion of production departments in Pustków and Lubzina will be completed in the second quarter of 2020.

- **Main implementations within the area of digital transformation**

At the beginning of 2020, the Company completed the main implementations planned as part of the Change IT digital transformation introduced in cooperation with SAP Polska. The new software is to provide Śnieżka with further competitive advantages in the field of modern sales management methods and customer relations.

## **2.3 Development plans of the Group**

The Company's Management Board stipulates that the COVID-19 disease pandemic, caused by the SARS-CoV-2 coronavirus, and its effects - unpredictable at the time of preparing the Group's annual report for 2019 - may in the future necessitate changes or total review of the strategic objectives of the Group.

### **Development plans of the Group in Poland**

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

- **on the independent market**, consisting mainly of trade and service companies basing their operations on handling contractors, investors and final consumers locally (approximately 65% of the market),
- **on the market of DIY stores** (approximately 35% of the market).

The Company's strategy on the independent market for 2019 assumed the sales development and increasing market shares. It was implemented primarily through activities focusing primarily on product categories:

- used for walls (due to their greatest weight in market shares);
- enamels for universal applications, with dedicated application on metal and for wood protection and care.

The sales development in 2019 in the independent market channel was preceded by extensive market research of individual distribution links. As a result of the research, the Company continued the cooperation model with distributors developed in 2018 (including a new incentive program). At the same time, 2019 was devoted to developing a new value offer, in the form of partnership programs, which were announced in January 2020.

The cooperation model of FFiL Śnieżka SA with distributors is aimed at building the availability of a wide range of the Company's products. Consequently, the availability built by so-called "distribution quality" is supposed to shorten efficiently the lead time of a wide range of products to retailers and as a result to build more favourable service for the end customer.

The process of changes adopted by the Company in 2018 was continued in 2019 and included the following elements:

- use of pricing tools and focus on consumers' needs,
- promotions, which were based primarily on stimulating the purchase of the end user by analysing its decision path,
- constant improvement of the level of business customer service through accuracy, lead time and consulting and business analytics.

The above-mentioned activities were positively reflected on the market power of FFIL Śnieżka SA.

The sales development strategy on the independent market in 2020 will be based on the continuation of the solutions implemented in 2019. The company will put emphasis on the systematic development of numerical distribution, i.e. an increase in the number of stores where ready-to-use paints can be purchased from the portfolio of FFIL Śnieżka SA (including new products). In addition, the Company will continue its cooperation with distributors and retailer. The Company intends, i.a. to further develop the network of "Company Stores" and "Company Showrooms" in partnership with business partners, based on a fixed business cooperation model.

The strategy will also include strengthening market shares in the segment of specialty metal products sold under the Rafil brand.

In the DIY channel an important factor of the Company's development in 2019 and subsequent years is the planned increase in the number of points of sale in the so-called Polish sales networks, e.g. PSB Mrówka (up to 450 stores in 2023) and Bricomarché network (this network intends to achieve the third position in the Home and Garden stores segment). In addition, the Company is to develop cooperation with Leroy Merlin, Castorama, Obi networks which, according to the previous assumptions, envisage an increase in the number of branches. These networks are copying solutions from Western Europe into the Polish soil in the form of stores, which are a bit smaller and at the same time are more focused on inspiring and comprehensive solutions for the final customer.

Additionally, each participant of the DIY market develops an e-commerce channel, often in the form of click&collect service, which may additionally translate into higher sales of paints and varnishes - including the Company's products.

Taking into account the plans related to the dynamic development of the DIY networks, the Company plans to continue its current activities with particular emphasis on the focus on the final customer service. At the same time, the Company's activities aimed at building a value offer for business partners in this channel will be continued. An example is a partnership program inaugurated in February 2019 called "Leader" - an innovative project dedicated to owners, managers and sales teams of DIY stores. Thanks to it, the Company offers the participants access to numerous benefits supporting their businesses' operations.

### **Development plans of the Group in Hungary, Ukraine and Belarus**

Bearing in mind the current condition of the Belarusian and Ukrainian market, as well as the results of the analysis, the Group will continue activities initiated in 2018 that will involve further development of numerical distribution in the retail sales network. Also, the aforementioned activities will be implemented on the Hungarian market.

The activities will be supported by:

- concentration of commercial forces in the field on introducing the existing and new products to retail outlets, which do not have them in stock;



- changes in the cooperation model with existing and new business partners operating on particular markets. The changes will mainly consist in building a wider range of products being in stock on a regular basis in particular points of sales. The activity will be consistent with the tasks that the Group will set out for the trading forces;
- shortening the delivery time within the entire distribution channel (producer-final customer).

The implemented changes should improve the level of customer service and availability of the product they are interested in. Additional activities that the Group intends to continue on the said market are as follows:

- concentration in activities on the final customer;
- supporting the omnichannel strategy;
- optimization of the product portfolio in individual product group ranges;
- launching innovative products in line with the trends of individual markets (on the Hungarian and Ukrainian markets a noticeable trend of shifting sales towards premium and specialty products);
- improvement of the level of business customer service through accuracy and delivery time;
- inventory optimization.

#### **Development plans of the Group on other export markets**

The Group's long-term strategy in the area of sales development on other, smaller foreign markets assumes optimization within brand and product management taking advantage of the Group's full production potential. One of the most important point is to adapt products to local requirements and to adjust marketing communication.

The markets such as Sweden, France, Ireland and Croatia, where the total share in consolidated revenues does not exceed 1%, the Group has so far cooperated with one company or sold small amounts of products on an irregular basis. At the same time, they are the markets where the Group looks for business partners and opportunities to increase sales.

The Group commenced to restructure the Export Department in order to make it more functional. New processes have been developed to improve the efficiency of operations. At the same time, the Group's strategy for the coming years assumes concentration on its four key markets, generating the majority of sales revenues (Poland, Hungary, Ukraine, Belarus). At that time, the most important task will be the further integration of Poli-Farbe Vegyipari Kft. with the Group.

The Group constantly monitors the situation in the paints and varnishes sector on crucial markets, which provides the opportunity to anticipate changes in consumer attitudes and to adapt its offer to altering competitive conditions in individual countries. Simultaneously, the Group is looking for new and stable markets that can ensure development opportunities.

The Group's strategy is described in item 3.1.8 herein.

### 3. Statement on non-financial information

The Company's Management Board stipulates that the COVID-19 disease pandemic, caused by the SARS-CoV-2 coronavirus, and its effects - unpredictable at the time of preparing the Statement on non-financial information of the Group for 2019 - may in the future necessitate changes or total review of the environment, regulations, activities and plans of the Group.

#### 3.1 Concise description of the Group's business model

##### 3.1.1 Basic information about the Śnieżka Group

The Śnieżka Group is made up of entities operating on the paints and varnishes market. In modern production facilities of the Group located in four countries - in Poland, Hungary, Ukraine and Belarus approximately 190 million kg (estimated value, taking into account the Group's expansion by Poli-Farbe) of various types of construction chemicals are manufactured both on the domestic and foreign markets. The Group's products are intended for decorating and protecting various types of substrates. At the end of 2019, the Group employed 1,377 employees - detailed information on this subject is presented in item 3.3.1 herein.

The Śnieżka Group is the leader on the paints and varnishes market in Poland in the segment of decorative products, one of the largest players of decorative paints in Hungary, one of the leaders in the segment of paints in Ukraine, as well as one of the leading manufacturers of putties in Belarus. 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

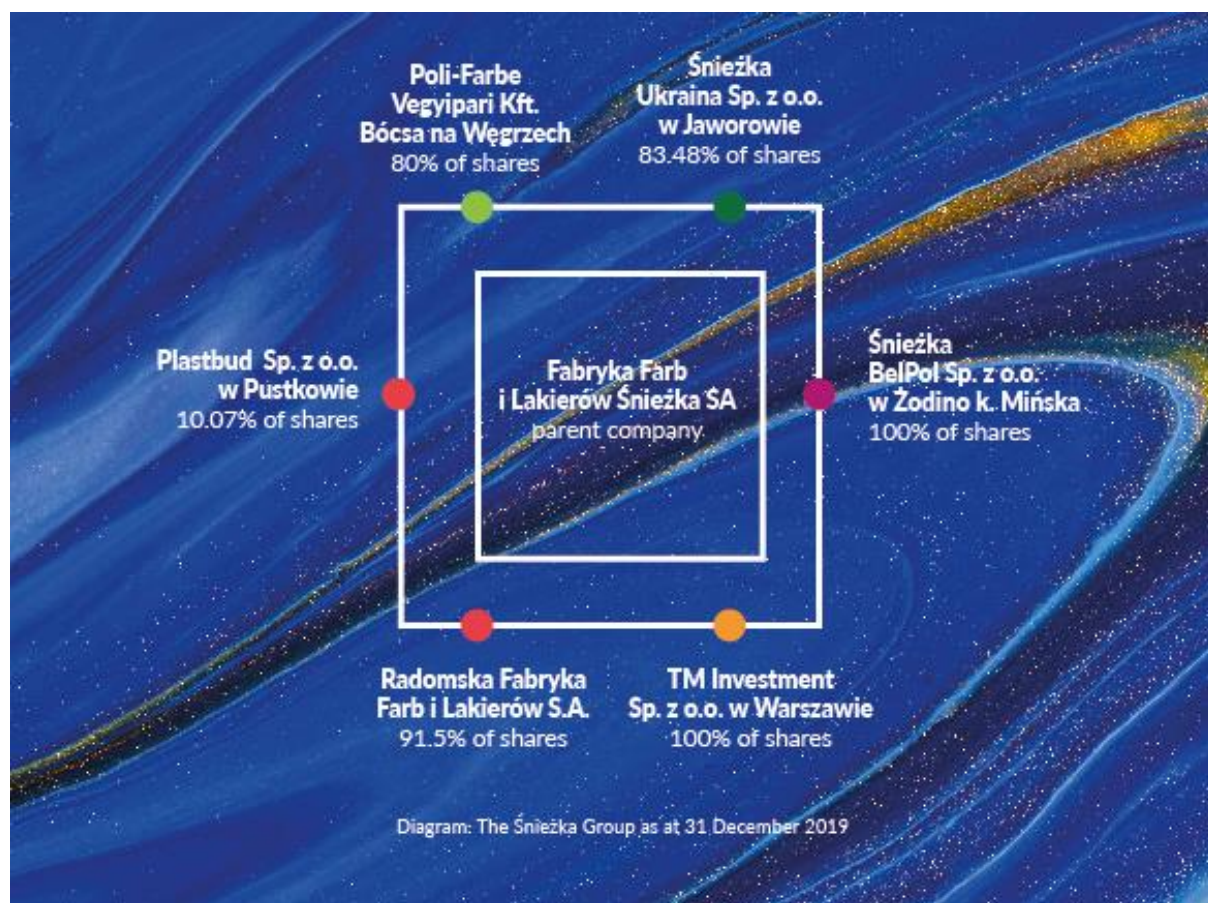
Through the work of highly-qualified employees and cooperation with reputable international raw material suppliers, the Group develops innovative solutions, guaranteeing the top quality of its products. By keeping track of global interior design trends and cooperating with recognized Polish designers and architects, the Group is able to offer top quality products with a broad choice of colours, providing inspiration for customers in a few dozen export countries. The Group consists of: Fabryka Farb i Lakierów Śnieżka SA (parent company) and its subsidiaries.

##### 3.1.2 Organization and structure of the Group

The Śnieżka Group is formed by companies operating in concert and connected by ownership and production links. Comprehensive organization and responsible management of resources and procurement translates into efficient operation of the Group and higher profits for Shareholders. The cooperation involves mutually complementary activities, exchange of know-how and synergistic benefits. Fabryka Farb i Lakierów Śnieżka SA plays a leading role in these processes.

FFIL ŚNIEŻKA SA, as the parent company, performs control functions in the supervisory bodies of the subsidiaries. In addition, it establishes a development strategy and coordinates the development of the entire Group in all aspects of its operations. Each member company enjoys decision-making autonomy, as long as the decisions are consistent with the Group's strategy and the subsidiaries' key functions cooperate closely with their counterparts in the Parent Company. All transactions with related entities made by the Company and its subsidiaries are performed at arm's length.

Figure 1. The Śnieżka Group's structure (as at 31 December 2019)



In addition, Poli-Farbe Vegyipari Kft. has two subsidiaries that conduct commercial activities: in Romania (POLI-FARBE RO s.r.l. in Odorheiul Secuiesc, Romania) and Slovakia (POLIFARBE SK spol. sr.o. in Kolárovo, Slovakia), in which it holds 100% of shares.

Fabryka Farb i Lakierów Śnieżka SA was entered into the National Court Register under number 0000060537 at the District Court in Rzeszów, XII Commercial Division of the National Court Register. The company was registered with the Central Statistical Office and received the following REGON number: 690527477 and tax identification number: 818-14-33-438.

The Company's seat is located in Warsaw:

- Warsaw– 00-854 Warsaw, Aleja Jana Pawła II 23, mazowieckie province
- Phone - headquarters: 14 681 11 11 or 22 221 93 19
- Fax: 14 682 22 22
- [www.sniezka.pl](http://www.sniezka.pl)

The Company's production facilities are located in:

- **Lubzina 34 a**, 39-102 Lubzina, Ropczyce and Sędziszów county, podkarpackie province;
- **Brzeźnica**, ul. Dębicka 44, 39-207 Brzeźnica, Dębica county, podkarpackie province;
- **Pustków 604**, 39-205 Pustków, Dębica county, podkarpackie province;



**the Śnieżka Group – Management’s report on the activities for 2019**

Data in PLN thousand

Table 17. A list of entities comprising the Group consolidated or valued using the equity method (as at 31.12.2019).

Name	Seat	Scope of activity	Consolidation (and % in the share capital)
Poli-Farbe Vegyipari Kft.	Hungary Bócsa III. kerület 2.	manufacture of paints, enamels, insulation systems, putties etc., wholesale and retail sales of construction materials	Full consolidation (80.00%)
Śnieżka-Ukraina Sp. z o.o.	Ukraine Yavoriv Prywokzalna 1A,	manufacture of paints, varnishes, solvents, mortars, putties etc., wholesale and retail sales of construction materials	Full consolidation (83.48%)
Śnieżka-BelPol Sp. z o.o.	Belarus Zhodino, Dorożnaja 3/1,	production of putties and preservatives	Full consolidation (100%)
TM Investment Sp. z o.o.	Warszawa Al. Jana Pawła II 23	management of trademarks	Full consolidation (100%)
Radomska Fabryka Farb i Lakierów SA	Radom ul. Czarna 29	manufacture and sales of anti-corrosive products	Full consolidation (91.50%)
Plastbud Sp. z o.o.	Pustków 164 b	manufacture of Colorex pigment pastes and dyestuffs for Śnieżka’s colour systems, a supplier of some materials and goods for the Group	Equity method (10.07%)

In 2019 the Śnieżka Group’s structure was affected by the following changes:

- **Acquisition of 80% shares in Poli-Farbe Vegyipari Kft.**

Information regarding this is presented in item 1.7.2 herein. \_Financial statements (essential agreements).

- **Acquisition of shares in Śnieżka-Ukraina Sp. z o.o.**

On February 15, 2019, the Company acquired 0.96% shares from a business partner Żanna S. Kardasz in Śnieżka-Ukraina Sp. z o.o. for a price negotiated on the basis of a carrying amount of USD 117,150. After acquisition of the shares, as at the date of publishing the Report, FFIL Śnieżka SA held 83.48% shares in Śnieżka-Ukraina Sp. z o.o.

- **Acquisition of shares in Śnieżka-Ukraina Sp. z o.o.**

On June 20, 2019, the Company acquired 1.00% shares from a business partner Anatolij M. Niewmierzycki in Śnieżka-BelPol Sp. z o.o for a price of USD 48,000. After acquisition of the shares, FFIL Śnieżka SA holds 100.00% shares in Śnieżka-BelPol Sp. z o.o is the sole shareholder. On July 1, 2019, the articles of association in new wording of Śnieżka-BelPol Sp. z o.o. was registered, taking into account the change in the ownership structure of the shares and the legal form of the company



resulting from the status of the Company as the sole shareholder. At the same time, the company altered its name from „Śnieżka-BelPol Wspólna Sp. z o.o.” to „Śnieżka-BelPol, Sp. z o.o.”.

- **Acquisition of shares in Radomska Fabryka Farb i Lakierów SA**

In 2019, FFIL ŚNIEŻKA SA acquired in total 17,930 shares in Radomska Fabryka Farb i Lakierów SA of A, B, C and D series with a nominal value of PLN 1.00 each (purchase price PLN 1.40 each, in total PLN 25,102). As at December 31, 2019 and at the day of publishing the financial statements, the shares owned by the Company accounted for 91.50% of share capital of Radomska Fabryka Farb i Lakierów SA and entitled to 90.20% of votes at the general meeting of this company.

### 3.1.3 FFIL ŚNIEŻKA SA's operations

Fabryka Farb i Lakierów Śnieżka SA is the market leader of paints and varnishes in Poland. The Company achieved such a high market position in over 35 years of its activity - the beginning dates back to 1984. The Company's roots are linked with the Podkarpacie region, where the Group's core production facilities and state-of-the-art Research and Development Center have been operating in years. Since 2003 the Company - as the only one in the industry - has been listed on the Warsaw Stock Exchange.

Fabryka Farb i Lakierów Śnieżka SA is a leading brand of paints and varnishes both in domestic and Central and Eastern Europe markets. The portfolio of the Company is comprised of products for protection and decoration of various substrates, both for internal and external applications. The offer includes, 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 Company conducts on-going research and development activities aimed at improving the market offer, which is possible, thanks to work of its own specialized research laboratories being a part of the Research and Development Centre in Brzeźnica. The Research Laboratory accredited by PCA, No. AB 855 is one of them, which obtained in 2007 the accreditation of the Polish Centre for Accreditation and became the only facility of this kind in the industry.

FFIL Śnieżka SA's products are available in many distribution channels. Apart from various distribution channels the dominant role is played by the independent one, under which a network of "Company Stores" and "Company Showrooms" has been operating for several years. These are retail outlets that live up to specific requirements, created in partnership with our business clients based on a ready-made business cooperation model. The company applied a similar model on the Ukrainian market where it established a chain of partner stores.

Also, the Company liaises with international and local DIY chains (DIY channel). Its products can be found in Leroy Merlin, OBI, Castorama, Jula, Bricomarché chain stores as well as in outlets of the PSB Group. Sales of the Company's products are also performed via the online store - [www.dekoratorium.pl](http://www.dekoratorium.pl). A multi-channel distribution is one of the assumptions of the Company's sales growth strategy, 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 Company's products is 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 "Your Opportunity" Śnieżka Foundation.

On December 31, 2019, the Company employed 793 employees (773 at the end of 2018), which accounted for nearly 57.58% of the entire Group's team.



### 3.1.4 Activities of other companies of the Group

#### **Poli-Farbe Vegyipari Kft.**

Śnieżka Ukraina Sp. z o.o. with its seat in Bocsá in Hungary was established in 1998.

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

Poli-Farbe Vegyipari Kft. is a company with an established position in the sector of decorative paints for internal purposes in Hungary, which has one of the most recognizable paint brands on the market in its portfolio. The company is also a producer of thermal insulating systems, enamels and wood preservatives. The Poli-Farbe product range includes: interior decorative water-borne paints, enamels, products for the protection, decoration and maintenance of wood, facade paints, primers, insulation systems, as well as putties.

The leading brands in the company's portfolio are: Poli-Farbe, Platinum, Intaller, Cellkolor and Boróka.

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

Poli-Farbe Vegyipari Kft. has two subsidiaries that conduct commercial activities in Romania and Slovakia. On December 31, 2019, Poli-Farbe Vegyipari Kft. employed 256 employees (261 including employees of its subsidiaries). June 30, 2019 (i.e. as at the date of publication of the first consolidated periodic report after the Hungarian company joined the Group, which was held in May 2019), Poli-Farbe employed respectively: 262 and 267 employees.

#### **Śnieżka-Ukraina Sp. z o.o.**

Śnieżka Ukraina Sp. z o.o. with its seat in Yavoriv was established in 1999.

On December 31, 2019, the Company's share capital amounted to UAH 415,7 thousand and was not subject to change compared to the end of 2018.

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

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

On December 31, 2019, the Company employed 208 employees (213 at the end of 2018).

#### **Śnieżka-BelPol Sp. z o.o.**

Śnieżka-BelPol Sp. z o.o. with its seat in Zhodino near Minsk was established in 2003. On December 31, 2019, the company's share capital amounted to BYN 293,9 thousand and was not subject to change compared to the end of 2018.

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

On December 31, 2019, the Company employed 46 employees (53 at the end of 2018).

#### **TM Investment Sp. z o.o.**

TM Investment Sp. z o.o. with its seat in Warsaw was established in 2010.

As at December 31, 2019 the company's share capital amounted to PLN 168,558 thousand.



The scope of activities of TM Investment Sp. z o.o. is:

- administration and management of trademarks,
- 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,
- market monitoring in order to prevent unauthorized use of trademarks registered by TM Investment Sp. z o.o.

At the end of 2019 the company employed 7 employees, the same number as year before.

### **Radomska Fabryka Farb i Lakierów SA**

Radomska Fabryka Farb i Lakierów SA was established in 1995.

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. Rich in colour, tailored to private recipients' needs, they are produced following the same standards and recipes as highly specialized industrial paints. The most recognized brands by sellers and customers are as follows: Radach, Betonmal, „Gruntoemalia na rdzę”. Rafil's products are sold through a distribution network consisting of wholesalers and contractors from all over the country.

In 2019, the restructuring activities were continued at Radomska Fabryka Farb i Lakierów SA aimed at optimizing costs (including purchase costs of raw materials and employee costs). The company is also working on changing the product portfolio and introducing automation and computerization of the processes.

As at December 31, 2019 the company's share capital amounted to PLN 4,104 thousand and consisted of 4,101,580 shares of a nominal value of PLN 1.00 each. On December 31, 2019, the company employed 62 employees (66 at the end of 2018).

### **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 supplier of some raw materials and goods.

#### 3.1.5 Commercial brands

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

- **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 smoothing walls). It is a comprehensive offer meeting customers' needs at every stage of a flat or house finishing or renovation.
- **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. MAGNAT stands also for textures, providing numerous decorative options, imitating various



surfaces: from “raw concrete”, “rubbed” plaster through to marble or pearl gloss. The brand portfolio is also complemented by painting tools that feature high quality and comfort of use.

- **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.
- **Foveo Tech** is a brand of professional thermal insulation systems based on excellent quality of decorative plasters and facade paints available in a rich palette of colours. They are widely used in both newly built and existing buildings. These are excellent materials for renovating buildings for thermal insulation, structural protection and exterior appearance.
- **Beston** - is an offer of products necessary at various stages of construction, renovation and finishing works, which can be used either by professionals or individuals. The brand portfolio includes various types of silicones, adhesives and foams.
- **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 environmentally friendly 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.
- **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 brands on that market: Platinum and Inntaler (including interior and facade emulsions), Cellkolor (paints for wood and metal) and Boróka (preservatives for wood protection and decoration).

### 3.1.6 Description of the Śnieżka Group's industry and markets

In 2019, the Śnieżka Group actively operated on several markets - in Poland and on 15 foreign markets.

The main markets the Śnieżka Group operates on are as follows: Poland, Hungary, Ukraine and Belarus. In 2019, the Group's revenues generated on these four markets accounted for 95.4% of consolidated sales revenues.

The leading sales market (for products and goods) of the Śnieżka Group in 2019 was the Polish market with a 67% share (by 10% less compared with 2018). The other essential countries, where the companies comprising the Group operate, are as follows: Hungary (13.9% share), Ukraine (10.8% share, -1.7% year on year) and Belarus (3.7% share, -1.1% year on year) After completing the transaction of acquiring shares in the said company in May 2019, Hungary became the Group's second market after Poland.

The largest share in the consolidated sales revenues of the Śnieżka Group was held by FFIL Śnieżka SA - a parent company in the Group, which also carries out export activities.

### **The market of paints and varnishes in Poland**

Approximately 70 companies operate on the Polish paints and varnishes market. FFIL Śnieżka remains one of the leaders. The four largest players on the domestic market are as follows: FFIL Śnieżka SA (brands: Śnieżka, Magnat, Vidaron, Foveo-Tech, Beston, Rafil), PPG Deco Polska (brands: Dekoral, Bondex, Sigma, Malfarb, Domalux and Drewnchron), AkzoNobel Polska (brands: Sadolin, Dulux, Nobiles, Sikkens, Hammerite) and Tikkurila Polska (brands: Tikkurila, Jedyńka, Beckers, Polifarb Dębica). These entities represent approximately 70% of total sales.

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

- around 100 1st degree warehouses (redistributing products purchased directly from the manufacturer);
- around 700 DIY stores;
- around 6000 speciality stores selling paints, including around 700 speciality stores, where the predominant range of products are decorative paints.

A relatively small portion of sales is carried out directly to construction companies.

In a broadly defined deko category, the main distribution channels are the independent channel (around 65%) and DIY stores (around 35%). These values, however, differ when selling different product groups.

### **The market of paints and varnishes in Hungary**

Approximately 50 companies operate on the Hungarian market of paints and varnishes. The Poli-Farbe Vegyipari Kft. company, which has belonged to the Śnieżka Capital Group since May 2019, remains one of the leaders of the local market. The largest entities operating in Hungary are as follows: Poli-Farbe (brands: Platinium, Intaller, Cellkolor i Boróka), PPG Trilak (brands: Héra, Trinát, Lazurán, Thermotek, Bondex i Dryvit) oraz Akzo Nobel Coatings (brands: Dulux, Sadolin, Hammerite, Tiltax i Supralux), with total market share estimated at around 75%. The smaller manufacturers, with a several percent of market share, included: Tikkurila, JUB, Helios, Meffert and Caparol.

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

- around 30 1st degree warehouses (redistributing products purchased directly from the manufacturer);
- around 850 building depots;
- around 750 specialist stores, where the predominant range of products are decorative paints;
- around 55 DIY stores;
- around 175 stores of mass merchandisers type, i.e. points of sales points with a wide range of products: food, household appliances, household chemicals, etc.

In a broadly defined deco category, the main distribution channels are the independent channel (around 65%) as well as DIY and mass merchandisers stores (around 30%). These values, however, differ when selling different product groups.

### **The market of paints and varnishes in Ukraine**

The Ukrainian market is operated by approximately 200 manufacturers of paints and varnishes, of which only about 30 are stable entities. On this market, the Group competes with both international and domestic producers. The biggest players in the production of decorative paints on the Ukrainian market are as follows: Śnieżka-Ukraina, Meffert Hansa Farben, Henkel, ZIP, Caparol, Eskaro, Feidal, Polisan, Olejnikov.

The Group's products are available throughout Ukraine, but the vast majority of revenues are generated in its western and central part.

According to the Company's data, sales on the Ukrainian market is carried out at the following distribution points of sale:

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Data in PLN thousand



- around 100 1st degree warehouses (redistributing products purchased directly from the manufacturer);
- around 6000 stores with a product portfolio comprising various paints and varnishes;
- around 75 DIY stores;

### The market of paints and varnishes in Belarus

The Śnieżka Group is one of the recognizable manufacturers of paints and varnishes on the Belarusian market - with a predominant position in the segment of putties and medium price products.

On this market, the Group competes with both international and domestic producers - also with Russian brands, which thanks to the free flow of goods under the Eurasian Economic Union (Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan) are becoming more and more competitive. The main competitors of the Group are: DAW (brands: Caparol/Alpina), Eskaro (Condor brand), AkzoNobel (brands: Dulux i Sadolin), Tikkurila, MAW, Tajfun, Ilmax, Ceresit i Knauf. At the same time, Russian manufacturers are more and more visible in Belarus, including: ABC Farben, Bergauf and Volma.

On the demanding Belarusian market, the Group is present both in the B2C channel (being the main player via the DIY network and retail outlets of the Group's distributors) as well as in the B2B channel (to a lesser extent). According to FFiL Śnieżka's estimates, the sales of decorative products on the Belarusian market is carried out at the following distribution points of sale:

- around 15-20 1st degree warehouses (redistributing products purchased directly from the manufacturer);
- DIY stores;
- independent retail stores offering paints.

### The remaining markets where the Group operates

The other markets where the Group conducted sales in 2019 include: Moldova (where the Company is one of the market leaders selling emulsion products), Russia, Lithuania, Kazakhstan, the Czech Republic, Slovakia, Romania and Latvia.

The Group still intends to sell its products on the abovementioned foreign markets (for this purpose, the structure of the Export Department is subject to transformation as regards functionality and new processes have been put in place to improve the efficiency of operations), while for business reasons the Company is to continue to limit its sales activity on the Russian market.

The Group's strategy for the coming years assumes concentration on its four key markets (Poland, Hungary, Ukraine, Belarus). At that time, the most important task will be the further integration of Poli-Farbe Vegyipari Kft. with the Group and work on achieving full synergies that should ultimately have a positive impact on the profitability (margins) of the Hungarian company. The Company's Management Board stipulates that it cannot be ruled out that the COVID-19 disease pandemic, caused by the SARS-CoV-2 coronavirus, and its effects - unpredictable at the time of preparing the Group's annual report for 2019 - may in the future necessitate changes or total review of the strategy and strategic objectives of the Company and the Group.





### 3.1.7 Key trends and factors affecting development of the industry and of the Group

#### **Macroeconomic factors**

As a result of the current pandemic of the COVID-19 disease (caused by the SARS-CoV-2 coronavirus), in the absence of available reliable and complete information and data on its effects, as at the date of preparing the annual report, the Śnieżka Group - similarly to all entities conducting business activity both in Poland and worldwide - is currently unable to forecast the consequences of the pandemic for the macroeconomic and market environment. Therefore, the possibility of assessing the Group's development prospects in the future is limited as at the date of preparing the annual report for 2019.

In the future, the Company's Management Board will monitor the potential impact of the COVID-19 pandemic and will take all possible steps to mitigate its possible negative effects on the Group, if any. However, due to the inability to obtain reliable assumptions as at the date of this report, all forecasts regarding the Group's development must be analysed taking into account the above said assumption.

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

However, the situation in the construction industry is also important for the Group to a lesser extent. The factors that reflect the economic situation in this area include construction and assembly production (i.e. investment and renovation works carried out domestically by construction companies employing more than 9 employees) and the level of new investments in the housing (the number of dwellings commissioned) and commercial segment.

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

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

In the reporting period the Śnieżka Group's products were sold also beyond Poland, and the Group intends further development abroad. Therefore, in the context of the Group's development and its future revenues, the macroeconomic situation will be vital (GDP, private consumption, wages, unemployment, boom in construction, etc.) including other major markets - in particular Hungary, Ukraine and Belarus.

The macroeconomic factor affecting the bottom line and pace of the Group's development will also be the trend in exchange rates (in particular EUR/USD, EUR/PLN, USD/PLN, HUF/PLN, UAH/PLN, BYN/PLN), including possible devaluation of the Hungarian forint, the Ukrainian hryvnia and the Belarusian ruble. For the Group's development and the entire industry, the prices of raw materials used for production will also be essential.

#### **Situation in the paint and varnish sector**

Changes in the demand for paints and varnishes will have a significant impact on the functioning and further development of the Śnieżka Group and the entire industry. Household purchasing power and consumer trends in interior design and decorating will also be critical factors.

Currently, customers on the Polish, Hungarian and Ukrainian markets opt for more expensive and higher quality products (value for money and premium segments). Increasing demand for greener products and those ensuring the health of users (e.g. paints that reduce formaldehyde levels in the air) also contributed significantly to the Group and the industry. As yet consumers paid attention not only to the aesthetics or durability of paints and varnishes, but also to whether they do not contain health harmful substances and are eco-friendly and what actions are taken by the manufacturer to offset their impact on the environment.

FFiL Śnieżka SA remains one of the four largest manufacturers in the industry in Poland, and one of the strategic objectives for the upcoming years is to maintain the leading position. Also, on major foreign markets, the Group will strive for maintaining or strengthening its market position.

The Company's Management Board does not anticipate other factors (apart from those mentioned earlier) that may affect the situation in the paints and varnishes sector. The Company's Management Board stipulates that the COVID-19 disease pandemic, caused by the SARS-CoV-2 coronavirus, and its effects - unpredictable at the time of preparing the Group's annual report for 2019 - may in the future necessitate changes or total review of the environment and a list of factors affecting the situation within the sector.

The Śnieżka Group constantly monitors the situation in the paints and varnishes sector on crucial markets, which provides the opportunity to anticipate changes in consumer attitudes and to adapt its offer to altering competitive conditions in individual countries. The Group also continues activities aimed at increasing the numerical distribution of its products in all areas of its operations.

### 3.1.8 Strategy, mission and values

The strategic goals of the Śnieżka Group are focused on expanding its operations to new European and non-European markets, while maintaining the leading position on the Eastern markets, with Poland being the key market. The Group intends to achieve this objective by focusing on selected countries of the Central and Eastern Europe and building a leading position in the sector of decorative paints on the four key markets: Polish, Hungarian, Ukrainian and Belarusian. For the Group, the assessment of the above mentioned markets as prospective is the basis for the development a long-term presence strategy for those regions.

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

- maintaining the image of an attractive and reliable partner for both suppliers and customers of the Group, competing through innovation and flexibility defined, inter alia, as development of R&D, building quality advantage and high embrace to changes;
- developing multi-channel sales, including focus on in-depth customer segmentation and on the development of a competitive value offering for the customers;
- competing through competence: promoting employee growth and building the high value of human capital.

The Group intends to improve its market potential by acquiring new sales markets and continuing to develop the portfolio of the following brands: Śnieżka, Magnat, Vidaron, Foveo-Tech, Beston and Rafil. In addition, following the expansion of the Group in May 2019, it is planned to develop the portfolio of brands comprising Poli-Farbe Vegyipari Kft. (Poli-Farbe, Platinum, Intaller, Cellkolor and Boróka),

Within the framework of its development strategy, the Group is interested in organic growth but also growth through equity investments. The Management Board of the parent company has set a goal to build strong and permanent relations both with its trading partners, employees, shareholders and

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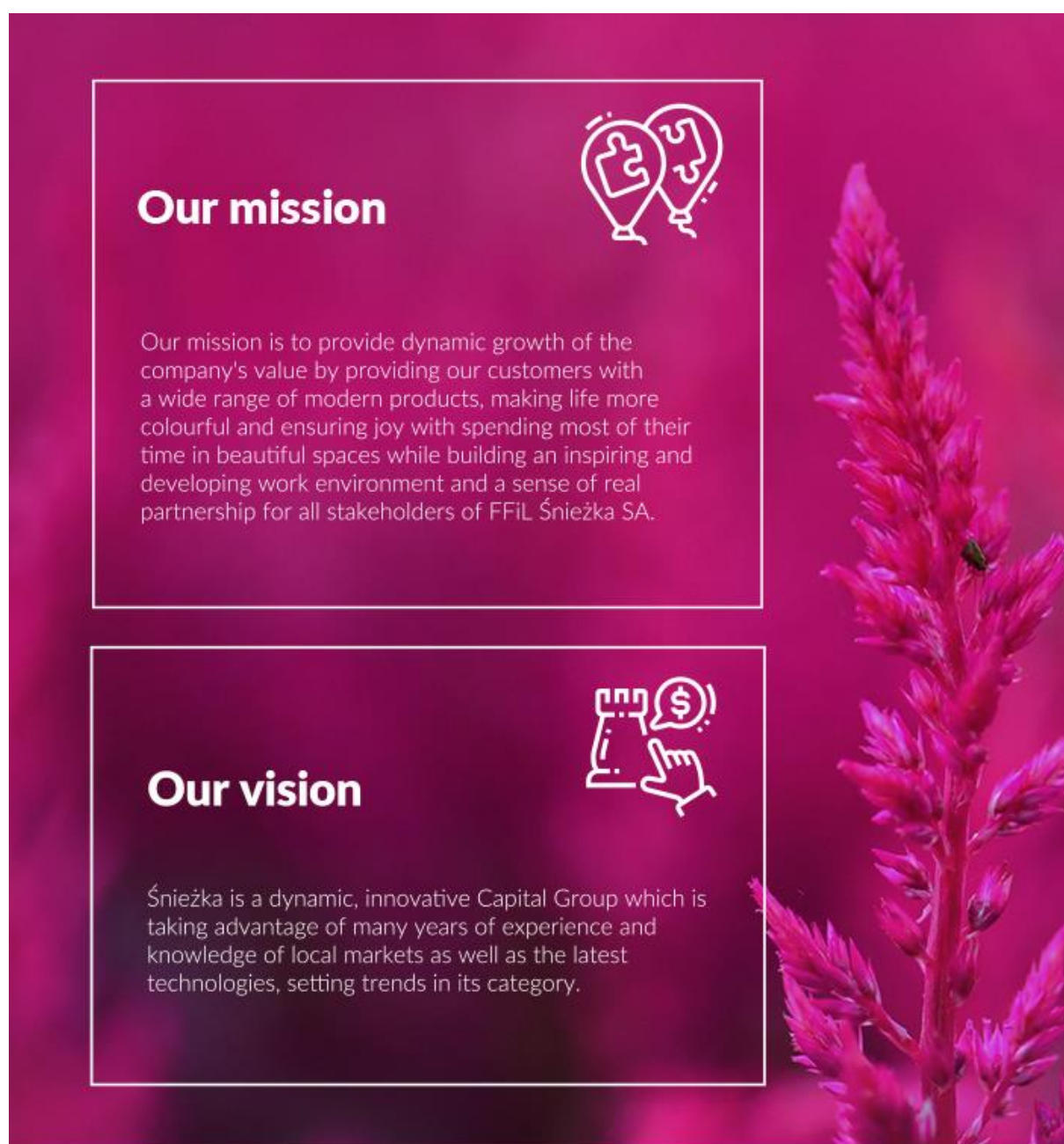
Data in PLN thousand

consumers. The Group will continue to support its trading partners, distributors and retailers in terms of information, marketing and training, by developing for them a competitive value offer.

Sustainable growth consistent with the adopted strategy ought to allow the Śnieżka Group to achieve the leading position on its key markets. The Company’s Management Board stipulates that it cannot be ruled out that the COVID-19 disease pandemic, caused by the SARS-CoV-2 coronavirus, and its effects - unpredictable at the time of preparing the Group’s annual report for 2019 - may in the future necessitate changes or total review of the strategy and strategic objectives of the Company and the Group.

The Group’s strategic goals for the coming years are described in item 2.2 herein.

Figure 2. Mission and vision of the Śnieżka Group





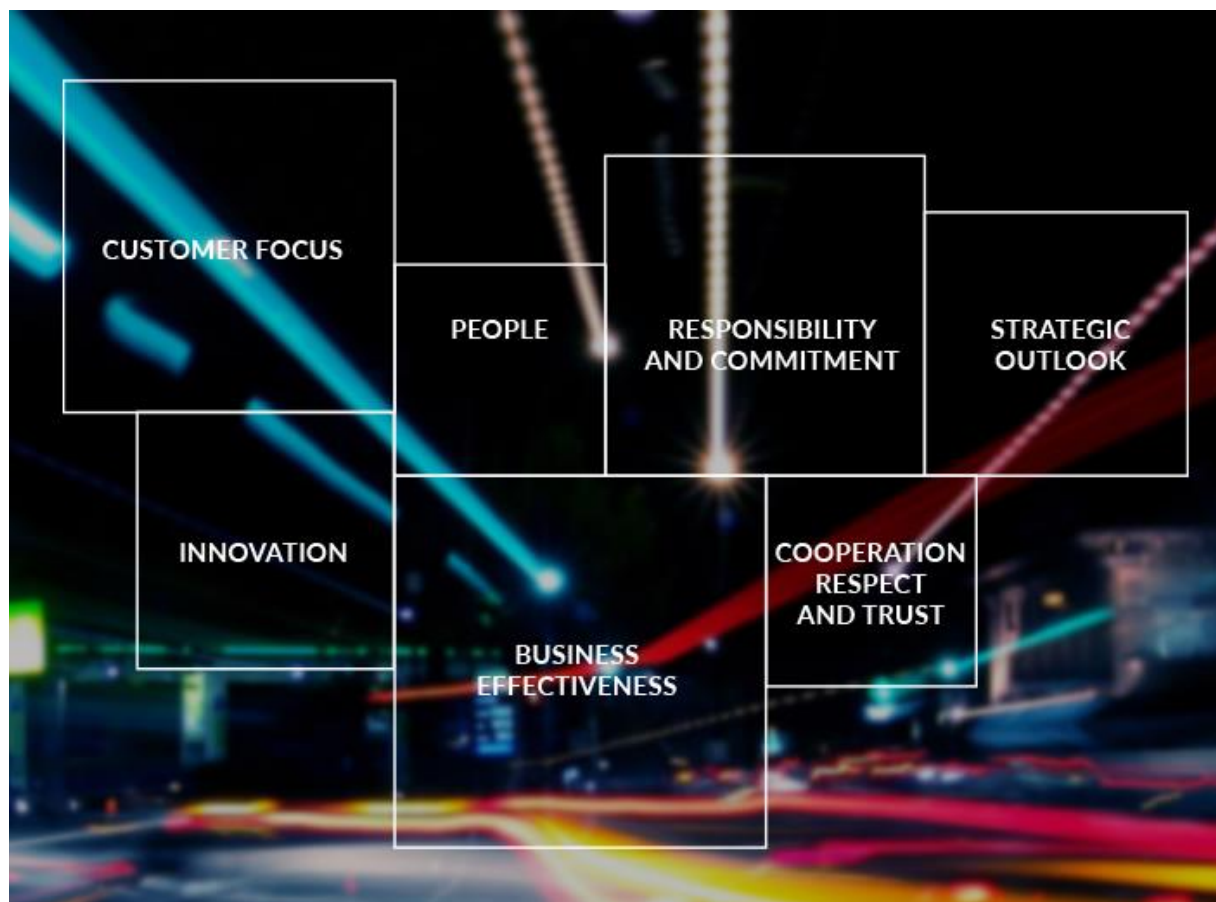
### 3.1.9 Organizational values

The Values are an inseparable element of developing the high engagement culture in the Company and an important tool supporting the effective attainment of its strategic objectives. The organizational values of FFIL Śnieżka SA constitute its DNA, - set the rules for its operations and the foundations for behaviour at all levels of the organization, while supporting the achievement of ambitious business goals. The organizational values are implemented at the Group companies.

Our organizational values:

- **Customer focus** – the customer and their satisfaction is the basis of our actions.
- **Strategic outlook** – we are building a long-term outlook to the company's development based on an ambitious strategy and risk taken wisely.
- **Innovation** – we continue to seek inspiration to enrich our portfolio of products and methods.
- **People** – we are deeply convinced that people are our most valuable resources.
- **Cooperation, respect and trust** – for us, cooperation, respect and trust form the basis of our synergies and operation of the company as a whole.
- **Responsibility and commitment** – as Employees, we take personal responsibility for our actions and how they are undertaken
- **Business efficiency** – is the overriding criterion for our activity.

Figure 3. Organizational values





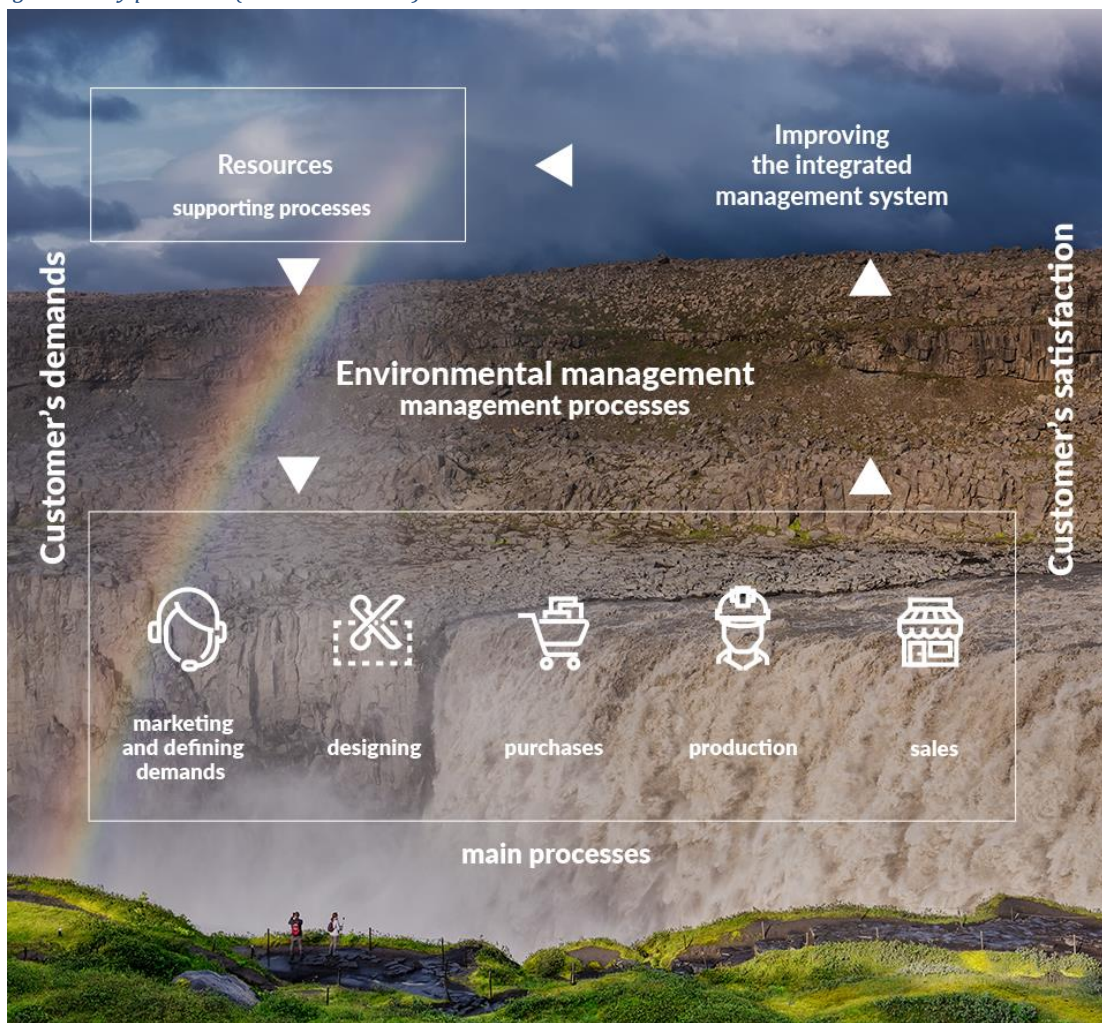
At the Company, the organizational values constitute a document which strictly set out the manner of task performance by all employees regardless of their position. The contents of the Book of Organizational Values, directly upon formulation, served as the basis of workshops conducted in all of the Company divisions. Specific conducts have been adopted, indicating in what way should the values be complied with at various units of the organization, at specific positions. Such guidance is also used as supporting documentation at the time of regular employee evaluation. The employee respect for the specific values, with reference to both internal and external stakeholders, is the core element of such assessment.

### 3.1.10 The value chain

The awareness of responsibility for quality, impact on the environment, knowledge of and compliance with the applicable provisions of the legal requirements, procedures, instructions and appropriate documents, all contribute to the Śnieżka Group’s “culture of quality”. This style of management is a response to the continuously growing market needs and customer expectations.

The processes relevant for the value chain generated by the Group have been identified at the Company level. They have a direct impact on implementation of strategic goals and are subject to an on-going monitoring. Their identification, and then indication of units responsible for the performance of specific tasks make it possible to precisely determine which divisions play the most significant role in the Group’s value chain. The most important role is played by striving for the highest quality of processes, derived from striving for the highest quality of manufactured products.

Figure 4. Key processes (“the value chain”)





The diagram presents also the areas (assigned to the specific divisions) which play a key role in the establishment of the Group's value chain and the links between these areas.

Scope of the processes:

- core processes: Marketing and definition of the customer expectations, Design work, Procurement, Production, Sales;
- management processes associated with improvement;
- supporting processes which include resources understood as human resources, infrastructure, and work environment.

The first step of the product quality assurance process is to understand the customer expectations and the market requirements identified through research (MARKETING). The technological (DESIGN WORK) and manufacturing (PRODUCTION) processes that follow are carried out using state-of-the-art formulas and technical solutions and based on the following assumptions:

- use of quality components (PROCUREMENT);
- strict control of processes at each stage;
- detailed tests of the final product;
- monitoring of the scope of use of the environmental resources and high occupational safety and health standards.

A product designed as presented above is launched on the market where it is further monitored to establish the customer satisfaction (internal and external research). The market assessment is the basis for improvement of the products already sold and an inspiration for searching for new solutions.

#### 3.1.11 Suppliers (sources of supply)

As part of its operations, the Śnieżka Group takes advantages of a variety of raw materials and technical materials, such as titanium white, solvents, pigments, fillers, and resins. The Group uses many sources of supply, cooperating with both Polish and foreign entities. 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. At the same time, it is constantly looking for new domestic and foreign suppliers in order to optimize sources of supply, reduce costs and shorten delivery times. In each case, the Group conducts detailed analysis of offers to ensure the best possible conditions for the purchase of raw materials, technical materials or equipment.

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.

#### **Human rights and diversity in cooperation with suppliers**

In 2018, the Śnieżka Group identified significant, from the point of view of applicable policies in the Group, clauses regarding the protection of human rights and diversity, which were included in agreements with suppliers. In the same year, a decision was made to gradually implement key provisions of the Group's policies in the abovementioned areas in agreements with suppliers.

In view of the above, in 2018 the document "*Terms and conditions of cooperation with suppliers based on the policies of the Śnieżka Group*" was implemented. The main assumption of the document, implemented as an integral part of agreement with regular suppliers, is to increase control over the



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Data in PLN thousand

supply chain, preserve transparency and build long-lasting relationships with suppliers. It also allows multidimensional assessment of new cooperating entities and implementation of complaints procedures.

Within the confines of the above mentioned document, in 2018 the key suppliers of the Śnieżka Group were communicated the Group's policies regarding:

- *Quality, Environmental and Health and Safety Policy of the Śnieżka Group;*
- *Personnel Policy of the Śnieżka Group;*
- *Diversity Policy of the Śnieżka Group;*
- *Respect for Human Rights Policy of the Śnieżka Group;*
- *Anti-Corruption Policy of the Śnieżka Group;*
- *Social Involvement Policy of the Śnieżka Group;*

Regular suppliers of the Group, by signing a document showing the abovementioned policies, declared undertaking ethical business activities. The cooperation terms and conditions are binding for all suppliers irrespective of the type of activity, the area of business or cultural differences.

In addition, a *purchase policy* is being developed in the Purchasing Department based on the Company's values. It is scheduled to be introduced in 2020.

It should be noted that the transparency of market activities, also in terms of purchases, is for the Śnieżka Group a determinant of good cooperation with various entities, in accordance with the organizational values defined in the Company. Particular importance is given here to the values of "Cooperation, respect and trust", which is the basis of all business relationships.

### 3.1.12 Awards and distinctions for the Śnieżka Group in 2019

In the reporting period, the Group or its companies received numerous awards and distinctions. They were presented in four categories: corporate, regional and local, awards for company publications, prizes for the Group companies.

#### Corporate awards

- **The list of 500 by "Rzeczpospolita" daily**

The list of 500 is a prestigious ranking of the largest Polish enterprises, prepared by the editors of the "Rzeczpospolita" daily. The ranking is based on annual sales revenues of the largest companies in Poland. In the last edition of the list, published in 2019, Śnieżka took 442 place, going up by five points compared to the previous year. The total list includes 141 companies listed on the Warsaw Stock Exchange, which reported a total of PLN 665 billion in revenues.

- **The list of 2000 by "Rzeczpospolita" daily**

The list of 2000 is a list of the largest Polish companies from various branches of the economy. In the last edition of the ranking, Śnieżka was found on 739th position. The record-breaking sales revenues generated in 2018 as well as the level of profit and achieved profitability contributed to this. At the consolidated level, the net profit in 2018 amounted to PLN 63.4 million, and the net profit margin increased to 10.8%.

- **25 top manufacturers of paints and varnishes in Europe according to „European Coatings”**

Śnieżka was ranked 24th on the list of the largest companies in the paints and varnishes sector in Europe in 2019, prepared by the "European Coatings" magazine (Vincentz Network



publishing house - being the only representative of the Central and Eastern part of the continent. The ranking is prepared on the basis of annual sales results.

- **Ranking of the 200 largest Polish companies by „Wprost” weekly**

Śnieżka was ranked 190th on the list of the 200 largest private companies in Poland, prepared by the editors of the Wprost weekly. The list includes only companies controlled by Polish private entrepreneurs, the State Treasury or municipal property, and the ranking position is determined by the value of sales revenues, profits, assets or equity.

- **Ranking of the largest Polish private companies by the Forbes magazine**

The Forbes ranking has been prepared since 2016 and presents the most valuable companies in Poland. It includes both companies listed and non-listed on the Warsaw Stock Exchange. The position of the ranking is determined by the value of the company, which this time for Śnieżka was calculated at PLN 886 million, which ensured it 88th place on the list. To be found among the most valuable companies in Poland, the threshold of PLN 788 million had to be reached.

- **A list of the largest Polish private investors abroad by the Forbes magazine**

A list of the largest private companies successfully building their business abroad is the latest initiative of the Forbes magazine. The position in the ranking relies on the value of assets located outside Poland. The ranking does not include revenues from export activities conducted from Poland. Among 25 companies, Śnieżka was found on the 24th position, which currently has 7 facilities producing paints, varnishes and putties. Four of them are located in Poland (in Brzeźnica, Lubzina, Pustków in the Sub-Carpathian province and in Radom), and three abroad: in Hungary (Bócsa), Ukraine (Yavoriv) and Belarus (Zhodino near Minsk). Śnieżka has been successfully building its foreign capital for over 20 years.

- **Employer Branding Excellence Awards 2019**

The website [kariera.sniezka.pl](http://kariera.sniezka.pl) - combining image and recruitment functions - won a distinction in the VIII edition of the nationwide Employer Branding Excellence Awards 2019 in the category "Page / Career Tag / Landing page". The purpose of the entire undertaking is to demonstrate the best Employer Branding practices in Poland. Not only does the Śnieżka's website present current job offers, but also approximates company's profile or organizational values. The site consists of several thematic sections based on video, animations, photos and graphics, in which the main role is played by Śnieżka's employees - Project Ambassadors.

- **1000 largest companies in Poland**

For several years, the editors of "Gazeta Finansowa" have been preparing a list of the largest companies in Poland. Śnieżka was also on the list, which advanced by 19 points compared to the previous year, taking 472 place. Enterprises are classified based on the volume of sales revenues generated in the previous year.

### **Regional and local awards**

- **Economic Award of the Sub-Carpathian Province 2019**

In the last edition of the competition, which was attended by 155 companies, Śnieżka won the statuette in the category of large enterprises. Economic Award of the Sub-Carpathian Province is a competition which is participated by micro, small, medium and large enterprises conducting business activity in the Sub-Carpathian Province for at least two years. The jury awards prizes to the best and the most dynamically developing enterprises in the region, and when selecting



the winners, the following criteria are taken into account: sales volume, value of local investments, innovation, employment and care for employees, rapport with contractors, environmental impact and local community activities.

### **Prizes for company publications**

- **Power of Content Marketing Awards**

Power of Content Marketing Awards is a competition organized by the association - Content Marketing Polska. Its purpose is to promote high standards in creating content marketing projects. During the award ceremony, which was held on May 29, 2019 in Warsaw, Śnieżka was awarded three times. The gold and silver statuette was won by Dekoratorium, and the bronze - by the "In Color" quarterly. The *Dekoratorium* site won awards in the category "construction industry / home & garden" (for transparency and substantive response to the needs of recipients) and in the category "thematic portal for customers" (for inspirational advice). In turn, the *In Colour* quarterly was awarded the bronze statuette in the category "magazine for employees, circulation up to 1000 copies" - for high editing level.

### **Awards for Group companies**

- **CSR Hungary Award 2019 for Poli-Farbe**

On December 6, 2019, the Kreative awards were handed out in Budapest. The Hungarian company Poli-Farbe won one of them in the category of "Common Matters - Joint Responsibility" for activities in the field of corporate social responsibility.

- **Award for Poli-Farbe in the Hipnózis competition**

The advert of Poli-Farbe's matt latex paint won a bronze statuette in the Hipnózis competition - one of the first and most prestigious creative advertising competitions in Hungary, evaluated by the worldwide jury. The aim of the competition is to promote and reward creativity, as well as to raise people's awareness of creative agencies, while supporting them in gaining greater recognition.

#### 3.1.13 Other information

The description of the Śnieżka Group's business model has been prepared on the basis of internal materials, including documents and procedures. In 2019, no significant changes to the Group's business model occurred.

The following factors will or may affect the shape of the Group's business model in subsequent years:

- Acquisition of 80% shares in the Hungarian company Poli-Farbe Vegyipari Kft (and integration of this company with the Group);
- Commissioning of the Logistics Centre in Zawada scheduled for the first quarter of 2022 (warehouse and office facility, with an area of over 44,000 m<sup>2</sup>, will take over the function of Finished Goods Warehouses located in Brzeźnica, Lubzina and Pustków);
- Analysis regarding expansion into Southern Europe markets (scheduled after completing the integration and achieving the assumed synergy effects with Poli-Farbe Vegyipari Kft.);

### 3.2 Description of specific due diligence policies and procedures and outcomes of their application

FFIL ŚNIEŻKA SA, as a listed company, maintains efficient systems of internal control (ISO), risk management and compliance. The compliance monitoring system serves the purpose of review of compliance of all areas and aspects of the company's operations with the applicable laws, internal regulations and voluntary standards, including:

- Transnational provisions;
- Domestic law – acts and lower-ranking documents;
- Corporate internal regulations:
  - The Articles of Association, organizational regulations, procedures, etc.
  - Soft law (voluntary standards).

A number of processes implemented within all areas of the Śnieżka Group's operations are regulated pursuant to many policies, procedures, instructions and regulations. Thus, establishing the framework of the Group's operations, we do maximize their efficiency, consistency and transparency.

The key due diligence policies and procedures will be presented in the sections that follow, while this chapter is dedicated to the general practice indicating the Group's care for observance of the strictest due diligence standards in all aspects of the organization's activities. The Book of Organizational Values (referred to in item 3.1.9) adopted by the Parent Company and defining the principles of due diligence with reference to six values set out and described therein, plays a significant role with this respect.

Each of the documents adopted in the form of a policy, procedure, instruction or bylaws is made available to employees via the internal document management system, in a separate module. Publication of any new files is announced in advance in a communiqué specifying the scope and subject of the document. Blue collar workers with no access to the system are informed by their superiors and/or via internal media.

The access to knowledge of new documents is essential for their appropriate implementation. As regards documents considered to be of key importance, the employees are obligated to confirm that they familiarized with such documents by signing them or a confirming them in the system.

Thanks to the internal document management system and other electronic solutions implemented in the group, it is possible to rapidly develop the due diligence procedures, establishing new practices which constantly improve the Group's efficiency and transparency. Examples of such solutions include, inter alia:

#### **The electronic system of internal document management consisting of the following modules:**

- a module of electronic management of contracts with a function of assignment of the document owner and archiving the final version which contributes to transparency of the process of contract elaboration;
- a module of electronic recording of incoming and outgoing correspondence ensures a reliable and a smooth flow of correspondence;
- a module of electronic management of invoices provides for the possibility of a flexible assessment of business partners, and assures timeliness of payments;
- module for reservation of conference rooms, business cars and other fixed assets made available to the employees for shared use improves their availability and efficient use;



- a system of electronic complaint handling (Guarantee Service Centre) which ensures shorter handling times as well as the process transparency and archiving;
- an electronic book of orders making it possible to monitor task delegation and reporting;
- an electronic book of controls, i.e. archives in an electronic form of all controls carried out at the Company;
- an electronic book of guests where all persons who visit the Company's facilities are recorded.

**Other internal systems:**

- a system of registration of all incoming and outgoing goods ensures an accurate assignment and control over circulation of goods and materials;
- a system of registration and internal circulation of applications addressed to board meetings;
- a supplier-acquisition system, the so-called procurement platform, supports cost optimization thanks to selection of suppliers offering goods at best prices;
- the so-called auction portal where the employees are offered the possibility to buy company products and equipment at attractive prices;
- a system of internal information in the form of a newsletter, communications displayed on screens located in production facilities and a printed employee quarterly magazine "In Colour";
- a system of electronic registration of holiday leaves and business trips ensures control over a proper performance of management and settlement tasks.

The Group puts great emphasis on a continuous search of new solutions to optimize its internal and external processes. In March 2018, the Company commenced cooperation with SAP Polska Sp. z o.o., to exchange and improve IT systems and tools used in the Company. As a result of the changes adopted, create intuitive electronic solutions will be in place, both in the scope of the above-described and newly defined processes. The project implementation period agreed by the parties for the development and implementation of the software in question has been scheduled for 3 years. The program, which the Company called "*Change IT*", covers activities in which several projects are being implemented in parallel, with several project teams working on it.

In September 2018, implementation and testing were completed, and at the beginning of October, a new reporting system for sales and resale data based on the SAP CAR (Customer Activities Repository) tool was launched. In October 2018, work was also begun in the next two key projects, i.e. as part of replacement of the existing ERP IFS system into ERP SAP (SAP S/4HANA project) and as part of the implementation of a new warehouse management system, i.e. the launch of the SAP eWM system.

In 2018, the eCommerce B2B team completed the design phase and proceeded to the implementation phase of the new sales and electronic cooperation system for business clients. The launch of this tool is scheduled for March 2019. At the same time, a customer relationship management system (CRM - Customer Relationship Management) based on the SAP Hybris C4C product and a tool supporting marketing activities of Hybris Marketing are to be launched.

In January 2020, the Company launched a modern, integrated ERP SAP S/4HANA system, which aims to improve operational activity and increase the security of IT operations. As part of the integrated SAP package, in 2019 tools were also launched to support sales and customer relationship management as part of the SAP S/4HANA platform. The package consists of modern SAP E-Commerce B2B and B2C sales portals, cloud tools for customer relationship management and support for sales representatives, as well as cloud tools supporting electronic marketing SAP Marketing Cloud.

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

By saving principles such as "Business efficiency" or "Innovation" in the Book of Organizational Values, and taking into account the fact that each employee of the FFIL ŚNIEŻKA SA is subject to evaluation of their implementation, the fact is constantly motivating members of the Śnieżka team to look for new solutions optimizing due diligence, both at the level of the Company and the entire Group.

### 3.2.1 General assumptions of the Group in the area of sustainable development

We have been growing rapidly, systematically increasing our production capacity, developing infrastructure. Our products are sold on new export markets and the team of the Śnieżka Group has continued to expand. Concentrated development processes take place in the environment of care for transparency of rules and procedures which is embedded in our operations and the resulting regularity and consistency of processes.

In addition, we have been constantly developing a multi-dimensional monitoring of non-financial activities which is confirmed by the indicators analysed further in this report.

As a Group, we have been coordinating the actions taken at various levels of the organization, making sure that the rapid rate of growth does not undermine the principle of sustainable development which has been implemented through, among others:

- taking care of our employees' rights, safety and development;
- maintaining quality of production processes and resulting products;
- rational use of natural resources;
- ensuring transparency of market activities;
- creating projects to support equalization of opportunities.

In our day-to-day activities we strive to ensure that the rate of change connected with our market development does not undermine the key aspects of sustainable development, i.e. care for the natural environment, as well as direct and indirect impact of our activities on individuals and local communities in which we conduct our business operations.

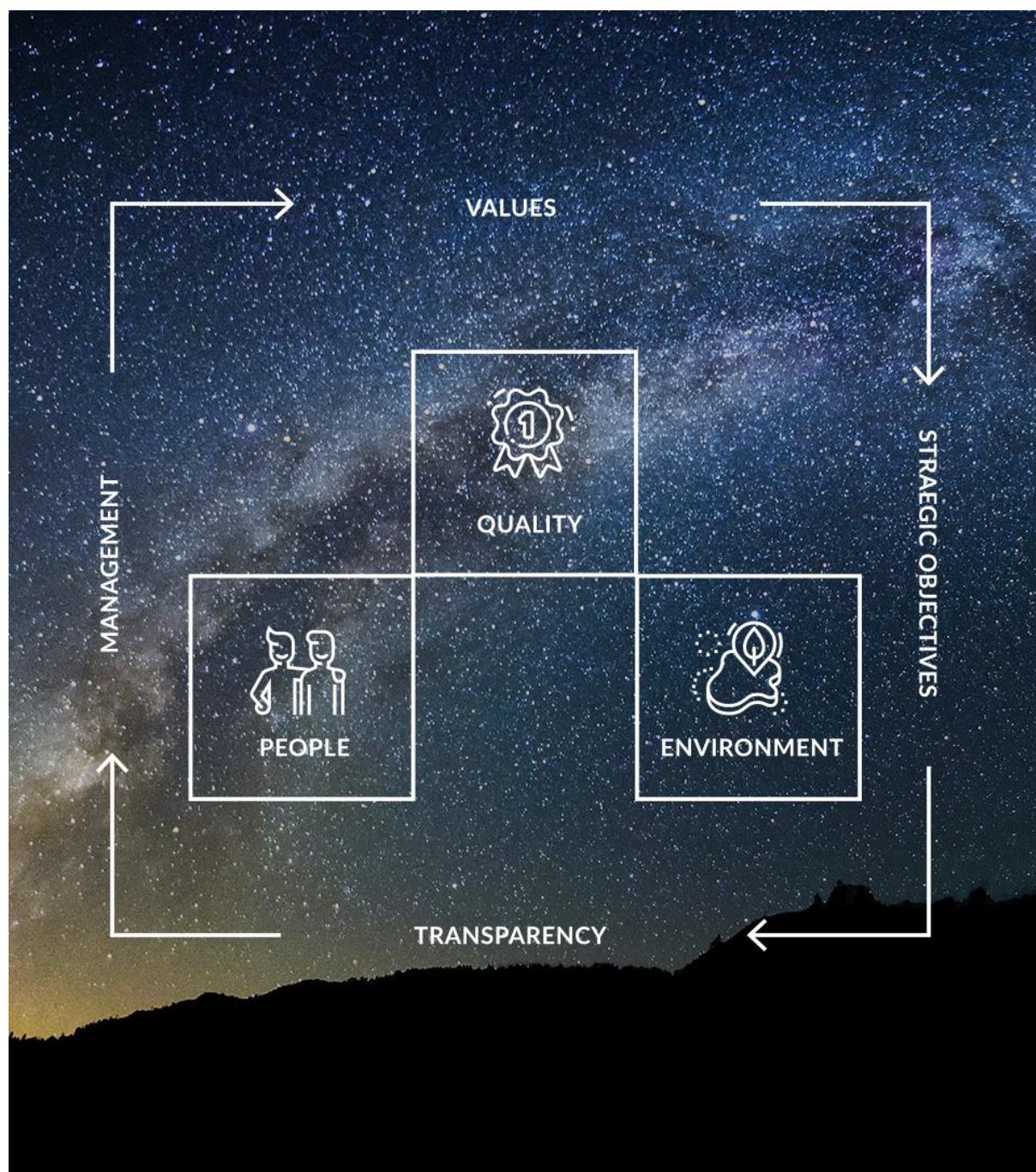
In the context of our activities, the aspects of sustainable development are reflected in the policies and indicators described further in this document. The Group's key policies are described in the following chapter. Their implementation is monitored and they are subject to periodic reviews, also as part of the due diligence procedures. All detailed internal documents, such as policies, regulations or instructions remain compliant with the Group's policies.

As regards materiality assessment conducted in 2017, key areas of operations were identified, which, after the selection of relevant ratios, have been described in detail herein.

The key areas of sustainable development in the Group are defined as: People, Environment and Quality. The efficient management of strategic goals supported by the values and the principle of transparency plays an important role in the responsible reacting to the challenges defined with respect to these areas.



Figure 5. Key areas of Sustainable development in the Śnieżka Group and the relevant supporting processes



#### Area: People

The members of our staff are the strength of our organization. Their commitment and ability to act in an innovative manner are the basis of our ideas and solutions that contribute to the establishment of a competitive advantage. By ensuring proper working conditions, safety and development of our employees we create a friendly and inspiring work environment.

The defined aspect of sustainable development is also understood as our impact on the the community residents, in the vicinity of which companies belonging to the Group operate. On a daily basis we do make sure so that our activities do not affect their comfort of life negatively, and by creating new jobs

and creating our own social initiatives, we contribute to minimizing social exclusion in the areas defined by us. Examples of such activities are described in the “Social initiatives” section.

At the global level of the society at large, we strive to ensure that our products are a source of satisfaction and inspiration for customers on all our markets.

Those activities include the development of products which are safe to health and products which improve the quality of indoor air.

#### **Area: Quality**

Our philosophy is based on the principle of the best product quality and the best production standards. The path of every product – from the concept board, through technological, production, logistical and commercial processes – is strictly monitored and subject to multi-dimensional control. Our objective is to deliver best quality products which meet rigorous standards, are durable and robust.

The focus on quality permeates all processes in our operations. It is also reflected in the transparency of our market and communication activities, as well as in the dedication to high standards of cooperation with our shareholders, trading partners and counterparties.

#### **Area: Environment**

In creating our technological solutions, manufacturing products and continually developing our own infrastructure, we strive to ensure that the operations of the Group meet the highest environmental standards. This approach applies to both our products’ impact on the environment, as well as the production process itself, including how we use the natural resources. By the continuous monitoring of the environmental aspects of our operations, and following legislative developments, we ensure responsible management of our plants and create in-house best practices as regards the protection of nature. The same applies to our products, which not only meet the highest external standards, but are also subject to rigorous internal environmental safety requirements.

##### **3.2.2 Description of the policies and due diligence procedures applied by the Group in relation to employee matters**

The most important document defining the basics and principles of human resource management in the Śnieżka Group is - based on organizational values - *Personnel Policy of the Śnieżka Group*. This document, closely connected with the adopted business strategy and the idea of responsible business, is a guide for actions undertaken in the field of employee matters. The fundamental assumption of the personnel policy is the value that each employee taken on in the Group contributes to the organization. Diversity of personality, knowledge, experience, beliefs, interests and passions of our employees provides us with great potential, is our capital and largely influences our successes. The unwavering belief that it is the value of people that translates into the organization’s competitiveness, it makes us want to invest in our employees and create an organizational culture that will support their development. Transparent personnel policy, appropriate procedures and processes in place help us manage this area.

*Personnel Policy of the Śnieżka Group* is an integral part of the Group's policy and its development strategy. It imposes on the Company and its subsidiaries obligation to carry out such activities that will ensure:

- access to qualified staff that meet expectations both in the area of competence and compliance with organizational values;
- retention of employees with key and critical skills, talents and potential - by building a positive image of an attractive employer and creating value for the candidate and employee;

- high employee involvement as part of creating a competitive advantage - thanks to creating space for broadly understood professional and personal development, exchange of knowledge and experience as well as openness to undermining *status quo*, embracing changes and introducing innovations;
- organizational effectiveness at the Capital Group level - thanks to the introduction of new technologies, unification of processes and integration of functions and employees.

All the activities concerning the human resources management are conducted in accordance with the applicable law, pursuant to the Labour Code. In the area of HR management, the due diligence procedures include the documents such as, inter alia,: The Labour Bylaws, the Compensation Bylaws and the Organizational Bylaws, which pertain to the basic issues related to the employment by the Company as well as Bylaws of the Company Social Benefits Fund.

The Human Resources Management Department, separated in the organizational structure of FFiL Śnieżka SA, is responsible for acting in accordance with the legal guidelines. It takes care of transparency of activities, compliance with personnel policy and the principles contained in bylaws and regulations, as well as establishes internal procedures and policies that specify the procedures in individual processes related to the employee's life cycle in the organization.

Detailed policies concerning employee matters operating within the Company and their main assumptions:

- The recruitment and employment policy is based on high anti-discrimination standards. It is based on the assumption of equal treatment irrespective of gender, age, health, sexual orientation, religion, marital status or country of origin and ensures equal opportunities. An important element is protection of personal data. We review compliance with the assumptions - subjecting the recruitment and employment process to cyclical assessment of candidates and employees, as well as examining their experience.
- The training and development policy assumes that all employees regardless of age or gender can benefit from training and development activities. The main criteria for the availability of training are the organization's business needs and opportunities, the need to have specific knowledge, authorizations, skills or competences on a particular position, as well as development needs diagnosed in the assessment process, consistent with the scope of activity of a given department, position or employee potential.
- The remuneration policy ensures a consistent wages system based on job valuation (grading categories assigned to individual organizational positions) and analysis of market remuneration in the manufacturing sector. The basis for valuation is the assessment of responsibility of individual positions.

The Company plays a predominant role in achieving the goal defined in the *Personnel Policy of the Śnieżka Group*. The solutions in subsidiaries are implemented gradually which allows to transfer the Polish market models into foreign ones on a regular basis.

### 3.2.3 Description of due diligence policies and procedures applied by the Company in relation to diversity

The Śnieżka Group's operations are driven by its equal treatment policy (anti-discrimination and mobbing). In Poland, in the context of the issue of respect for employee diversity, the basic legal act is the Labour Code (Journal of Laws of 1974 No. 24 item 141). The internal documents regulating work of specific companies comprising the Group have been developed on the basis of the act in question.



When appointing the company's management and its key managers, we strive to ensure versatility and diversity, especially in the area of gender, education, age and professional experience. A decisive aspect here are above all high qualifications and substantive preparation for performing a specific function.

The equal treatment policy is for us the first step to build diversity management within the Śnieżka Group, which is why we commit ourselves to be driven by principles of equal treatment and to counteract all forms of discrimination, both among our employees and associates throughout the entire value chain, as well as to promote and disseminate them to all stakeholders of the organization.

Our commitments include:

- Creating an organizational culture that ensures respect for diversity and helps the employees feel respected and appreciated, as well as supported in developing and fulfilling their professional potential. We carry out it by providing a friendly, tolerant 'organization language', supporting employee initiatives associated with equality practices in the company or openness to employing people who are socially excluded or threatened with marginalization in the labour market.
- Full compliance with anti-discrimination and anti-mobbing policies and procedures;
- Shaping human resource management in a manner to include a policy of equal opportunities in all internal documents specifying codes of conduct in individual processes as far as the employee's life cycle in the organization is concerned;
- Communication to employees regarding the diversity policy implemented by the Group, including by informing employees about the diversity policy and conducted media activities available to employees as well as providing employees with training on preventing anti-discrimination and mobbing;
- Implementation of a system for monitoring, analysing, measuring results and reporting diversity management, including anti-discrimination and anti-mobbing activities, promotions, training and remuneration by age and gender, employee turnover or complaints they lodge.

The diversity policy of the Śnieżka Group applies to FFIL Śnieżka SA and all its subsidiaries. By creating an inclusive environment, we want to make the most of the diversity potential.

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

In its operations, the Śnieżka Group is driven by a policy preventing human rights violations by observing applicable law. In Poland, the issue of respect for employee diversity is regulated by the Constitution of the Republic of Poland and the Labour Code (Journal of Laws of 1974 No. 24, item 141). On the international level, the *Universal Declaration of Human Rights* (of 1948) is the most comprehensive legal act pertaining to the area of human rights. The list of basic, universally recognized human rights is contained in the International Charter on Human Rights. The source of standards in this respect is also the *Declaration on basic principles and rights at work* adopted by the International Labour Organization (ILO), which defines the fundamental human rights in the work environment.

By virtue of these legal acts and conventions, internal documents were drawn up which regulate work of individual Group companies, the most important of which is the *Human Rights Policy of the Śnieżka Group*. It sets out principles of actions and behaviours related to human rights within the Group, including our supply chain and rapport with our stakeholders.

The Group's human rights policy supplements and consolidates aspects of human rights included in other policies, guidelines and other documents regulating the operations of the Group companies.

If the Group's policies, procedures and obligations towards other parties are more restrictive than those in force in a given country, we put our standards before them. If local regulations are less restrictive than the *Universal Declaration of Human Rights*, we make every effort to develop appropriate policies in the Group, guided by our policy.

The Śnieżka Group respects human rights in a universal dimension, without valuing them. However, due to the transparency of our commitments and their availability to our stakeholders, we particularly want to highlight the following areas of our commitment to counteracting human rights violations (we also require this from our business partners):

- **Occupational health and safety** - we manage employee risks in such a manner to prevent the possibility of accidents at work;
- **Ensuring freedom of assembly** - we understand freedom of assembly in the business sector as above all the opportunity for employees to freely express their opinions and attitudes on matters related to their work. We do not limit employees' right to associate;
- **Elimination of exploitation** - we undertake to promote a work environment free from all forms of harassment, exploitation, abuse and violence in accordance with the definitions used in the regulations of each country, where we conduct our business;
- **Compliance with employment conditions** - we comply with the provisions regarding employment conditions, including the provisions on basic working time and overtime, health and safety at work, adequate remuneration, as well as the arrangements made with employee representatives;
- **Prevention of discrimination** - we are committed to ensuring that every employee and potential employee is treated fairly and with dignity. No cases of discrimination based on race, colour, sex, sexual orientation, age, religion, ethnicity, national or social origin, property status, political or other views, disability, birth or other aspects will be tolerated;
- **Respecting the rights of local communities** - we are committed to respecting the rights of local communities, respecting their subjectivity, willingness to self-determination and all their legitimate rights. As part of this commitment, we take adequate security measures to minimize negative impact on local communities and the natural environment.

*Respect for Human Rights Policy of the Śnieżka Group* applies to applies to the entire Group, i.e. FFIL Śnieżka SA and all its subsidiaries.

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

The Group's *Quality, Environment and Health and Safety Policy* is the document encompassing the issues of environmental protection and quality. With this respect, the following values are considered to be critical: "Responsibility and commitment" and "Strategic outlook". All product solutions designed within the Group are created with due care, with responsibility taken for both the product and the environmental impact of its production. Such approach is embedded in the production technology itself and all related processes.

In respect of the adopted assumptions, bearing in mind the continuous technological supervision over the properties of raw materials and finished products with a view to ensuring their compliance with the eco-label requirements, the companies of the Śnieżka Group endeavor to reduce the impact of their plants on the natural environment. The environmental requirements are achieved by way of continuous

formal and legal oversight and implementation of the obligations specified in environmental decisions. Furthermore, good practices in the area of environment protection include an efficient consumption of raw materials and energy, compliance with the regulatory norms for emissions of pollutants into the air, water and soil, rational management of waste and packaging, and the application of solutions that improve the operational safety of technological installations. New investment projects are based on state-of-the-art technologies.

The Group's companies conduct on-going monitoring of their environmental impact, by maintaining registers of information and data on the scope of their use of the environment. They monitor consumption of energy and water, emissions of pollutants, generation of waste and packaging.

The Śnieżka Group has obtained the necessary environmental decisions, regularly pays its environmental fees, fulfills its reporting obligations and participates in the creation maintenance of a system for the collection, transport, recovery and disposal of waste generated from packaging introduced into the environment and participates in the conduct of educational campaigns. The Policy enforcement means that the Group takes efforts to strengthen its leading position in terms of product quality and pollution prevention, account being taken of safety and health at work.

The *Quality, Environment and Health and Safety Policy* has been established on the basis of the Company's procedures that set forth the principles of due diligence in the respective areas. These include the procedures listed in the Book of the Integrated Management System: Formalization, Supervision over Documented Information, Identification of Environmental Aspects, Waste Management, Managing Emissions to Air, Water and Sewage Management, Environmental Emergencies, Management Review, Infrastructure Supervision, Management of Trade Agreement Preparation and Review Process, Customer Communication, Launch of New/Modified Products and Merchandise, Procurement, Supply Control, Production Process Management, Storage and Delivery of Finished Products to Customers, Supervision over Measurement and Monitoring Equipment, Product Control, Internal Audits, Non-Compliance Handling, and Remedial and Prevention Measures.

### **The EcoLogical Strategy of the Group**

The main objective of the environmental strategy of the Śnieżka Group is the protection of natural resources by observing and implementing environmental and quality requirements, as well as creating appropriate attitudes and awareness of employees regarding environmental aspects. It was assumed that the highest quality of products, taking into account customer preferences, market conditions and care for the environment is an indispensable condition for the sustainable development of the Śnieżka Group.

The environmental objectives in the FFIL ŚNIEŻKA SA are addressed in accordance with the applicable legal requirements as well as the procedures and instructions. As part of the integrated ecological strategy and quality management, the Company puts particular emphasis on:

- implementation of production and technological processes in accordance with legal regulations and based on modern recipe and technical solutions;
- acting with respect for the environment, from the initial design of products and their entire life cycle to issues related to the protection of water, air, soil, noise, raw materials and energy;
- conducting proper energy management through continuous monitoring of consumption and implementation of the EMS energy management system;
- achieving energy efficiency by reducing the energy consumption of technological processes, which is confirmed by obtaining energy efficiency certificates (white certificates);
- taking into account environmental protection requirements and the conditions for the proper use of its resources;
- applying high quality components only from qualified suppliers;



- research and development operations aimed at laboratory, experimental verification of assumptions for new industrial technologies in the areas of introducing new or improved environmentally friendly technologies and pro-ecological products;
- strict control of each level of processes, permanent supervision over the ownership of raw materials and finished products in terms of meeting the requirements necessary for “ecolabelling”;
- thorough studies of the final product, taking into account its impact on the natural environment;
- applying high standards in the area of health and safety at work;
- raising awareness of employees and other stakeholders in the area of environmental aspects of operations (on the risk of possible failures adversely affecting the environment, economic and ecological effects of waste generation and pollution, and the benefits of their reduction, including impact on the Group's prestige and competitive position);
- rational waste and packaging management, considering recycling.

While conducting its operations, the Śnieżka Group endeavours to act in accordance with all applicable regulations.

### **Environmental policy of the Group**

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

The Śnieżka Group has obtained the necessary environmental decisions, regularly pays its environmental fees and fulfils its reporting obligations. The Group’s companies monitor their impact on the environment on an on-going basis, keeping records of energy and water consumption, emissions of pollutants, generation of waste and packaging. In addition, they conduct research on emissions of generated and discharged pollutants, they participate in developing a system for collecting, transporting, recovering or neutralizing packaging waste, and are involved in conducting educational campaigns.

*The environmental policy of the Śnieżka Group* applies to the entire Group, including all subsidiaries. Compliance with environmental policy provisions is monitored on a regular basis. The Group, expressing its commitment to complying with environmental policy provisions, at the same time ensures that if necessary it undertakes to immediately define and implement corrective actions.

FFiL Śnieżka SA in cooperation with subsidiaries will regularly assess any discrepancies between the provisions of its environmental policy and new applicable national regulations and other norms.

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

From the perspective of anti-corruption activities, the most important values include: “People”, “Cooperation, respect and trust” and “Responsibility and commitment”, which mean that we all behave in a manner that shows how to create an atmosphere that favours cooperation and development of a culture of high engagement.

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

The Anti-Corruption Policy adopted by the FFIL ŚNIEŻKA SA is performed through:

- training employees and informing them on matters related to this policy;
- spurring employees and associates to report violations of the organization’s policy and unethical behaviours;



- notifying law enforcement authorities about any violations of applicable law.

We guarantee that none of the employees who report a detected or purported corruptive activity or actions connected with other economic malpractices cannot be for this reason dismissed from their jobs, relegated or suspended in their duties.

An employee with respect to whom explanatory actions are conducted and who is accused of taking corruptive actions or other economic malpractices will be guaranteed to have an opportunity to present his or her position. The Anti-Corruption Policy was prepared based on the principles of due diligence in force applicable at the Company to the extent to which such procedures are included as: Procurement, or manuals, including: *The Manual on Selecting a Supplier of Investment Orders with Values Over PLN 25,000*. A good practice with regard to the above is also the internal recommendation to compare price offerings of vendors of services commissioned between at least three entities. In addition, the Company develops solutions supporting anti-corruption activity, such as, e.g., the Procurement Platform referred to in the introduction to this chapter.

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

As far as the Social Commitment Policy is concerned, the key values for us are: “Responsibility and commitment”, “People” and “Cooperation, respect and trust”. Designing local and nationwide social projects in Poland and engaging in various initiatives, we take care that they correspond in a coherent manner to the values held by our organization.

In the Śnieżka Group, we understand the Social Commitment Policy as a document which describes precisely the areas and directions of the Group’s Companies involvement in this area. The overriding aim of all the actions taken is to design them in such a way that they are vehicles of the actual support and assistance in the selected areas, in accordance with the principle of equaling opportunities and sustainable development.

Social activities are performed by the Śnieżka Group’s Companies at two levels:

- **Nationwide** – here the axis of the performed undertakings are authorship cyclic programs and social projects. These are supplemented by the support given by the Śnieżka Group Companies to nationwide projects and other pillars of social activity coherent with those defined in the Social Commitment Policy.
- **Local** – here the axis of the performed undertakings are local authorship cyclic projects and social programs implemented by the Śnieżka Group Companies in their surroundings. These activities are supplemented by participation in local project, coherent with the pillars of social activity as defined in this policy. In the event of actions supported locally, the Śnieżka Group Companies follow also the principle of being open to the needs of local units and institutions, provided that these needs are not in conflict with the Group’s strategy and mission.

The policy defines principles of selecting supported initiatives at the nationwide and local levels and indicates that the selection is made on the basis of criteria adopted by the Companies, in compliance with the Community Activity Policy and well in advance, making it possible to include a given project to the quarterly activity plan of each Company.

It is also allowed to have the Group Companies participate in local initiatives performed outside the area of their direct activity, provided that they correspond, in a distinguishing manner, to the main pillars of the Group’s social involvement.

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

### **3.3 Non-financial performance indicators related to the activity of the Śnieżka Group**

While conducting an assessment of the impact of individual subsidiaries on the Group (based on their production and sales volume, as well as the number of shares held in them), the Management Board decided to describe the non-financial aspects of their operations according to the criterion of significance. The report on non-financial data of the Śnieżka Group was prepared based on the data of four key companies: FFIL Śnieżka SA, Poli-Farbe Vegyipari Kft., Śnieżka-Ukraina Sp. z o.o. and Śnieżka-BelPol Sp. z o.o.

The subsidiaries - Hungarian, Belarusian and Ukrainian - were described according to analogically selected indicators as in the case of FFIL Śnieżka SA, taking into account the realities of their markets and the availability of data required by the local law.

#### **3.3.1 Employee issues**


The business environment, the adopted *Personnel Policy of the Śnieżka Group* and the personnel strategy overlapping it have set the Company with priority directions of action in the field of human resources management for 2019.

In the reporting period, the Company continued the implementation of activities consistent with the Employer Branding concept (initiated in 2018) and building the position of an attractive employer. We focused on defining the principles of cooperation with school and academic environments. We signed a cooperation agreement with the Rzeszów University of Technology - one of the best universities in the region - assuming the implementation of joint initiatives addressed to students. We commenced contacting students directly by organizing information meetings about our organization and the characteristics of work in selected organizational areas. We developed and implemented an internship program targeted at final year students and young graduates - implemented under the name *Spektrum*.

The main goals of this program were - in addition to building an image of an interesting and good employer - addressing long-term strategic recruitment plans, building human resources and living up to current business needs. The internship program was carried out over the course of the holiday period. Both the program participants and tutors, who worked with the interns, rated it very highly in every aspect - substantive, qualitative and relational. By investing in potential future staff, the Company has gained natural brand ambassadors and a belief in the value of similar projects. The next edition of the *Spektrum* program is scheduled for 2020.

As regards activities aimed at creating a positive image of the Company and becoming an employer, recognizable and desirable, we also worked on further optimization of the recruitment and employment process. We introduced several solutions thanks to which our processes in this area are assessed, both by the candidates and current employees as: effective, focused on the customers' needs and meeting his expectations as to the quality, timeliness or consistency of promises made with real work. We obtained a high score of so called positive *candidate experience*.

Also, we promoted our organization among potential candidates by inviting them to the *Coffee with Recruiter* event. During these meetings, candidates who did not participate in recruitment processes had the opportunity to talk to our recruiters about the organization, but also about their professional future. We also continued the *Officially Recommend* program implemented in 2017, thanks to which -



through recommendations of our employees - we acquired new, valuable team members. We communicated all activities affecting our employer's brand through the dedicated website [www.kariera.sniezka.pl](http://www.kariera.sniezka.pl) and social media, including Facebook, LinkedIn and Twitter.

In 2019, as part of building an effective and innovative organization, we continued work related to job valuation and updating the remuneration policy and bonus schemes. We established an internal evaluation committee, which periodically reviewed and evaluated positions and ensured consistency with the adopted assumptions. We reviewed the remuneration scheme and updated it in line with market realities. At the same time, we implemented organizational project management methodology and a bonus scheme based on it related to employee participation in projects. Based on the pilot results, we implemented the principles of conducting, monitoring and reporting projects throughout the organization. Since then, all projects carried out in the Company are implemented in accordance with the adopted methodology.

In the reported period, we conducted the next edition of the *Engagement Study*, which was participated by 81% of our employees. Compared to the previous edition, we obtained higher results, both in the area of involvement and support. Owing to the study, we learned the opinions and suggestions of employees on conducted activities as well as we gained knowledge about what employees are satisfied with, what they value, and what still needs to be improved. Among other things, thanks to this study, we decided to plan changes in the benefits offered by the Company. The area of additional benefits was rated the lowest. Taking into account employees' opinions and feedback we established a task force that commenced work on creating a new offer of non-wage benefits. Based on the principle of flexibility, the task force has developed assumptions for a new, package view of benefits, whose full implementation is scheduled for the first quarter of 2020.

As part of building a high commitment culture, in 2019 we carried out the second edition of the study of organizational climate and leadership styles. The outcome of this study was positive. In order to maintain a high level of managerial skills in such rapidly volatile business conditions, we also continued activities aimed at developing these competences among people holding managerial positions. We organized individual development meetings for each of our superiors. Whereas, for a group of directors, we set up a development cycle called the *Agile Leadership Academy*, whose objective was to work on the subject of change management and efficient, effective functioning and management in times of volatility, uncertainty and unpredictability.

Caring for the development of attitudes and competences of our employees, in 2019 we focused on redefining the current *Development Talks* process, which is a kind of annual appraisal. We facilitated the principles, remodelled the process and conducted internal training. Thanks to the changes implemented, we minimized the red tape connected with the process. Consequently, we saved more time for the most important part of this process, i.e. face to face conversation between an employee and their supervisor. The changes were evaluated positively, but we still want to make this process more friendly and streamlined. Therefore, in 2020 we intend to introduce further improvements in this aspect.

As part of development activities at FFIL Śnieżka SA, we provided our employees with an opportunity to participate in various types of external and internal training. We carried out several development projects dedicated to selected areas of the organization, including sales or R&D. We also offered English language course in both traditional and online form to every employee who needs a language skill in their daily work. Being convinced that constantly developed human and intellectual capital remains one of the most important elements of building competitive advantages, we provided our employees with access to a wide range of educational and development activities in line with the requirements of their work.

In 2019, we also devoted a lot of work to preparing and conducting the process of implementing employee capital plans (ECP) at FFIL Śnieżka SA. In order to do this reliably and efficiently, we set up

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a task force that was responsible for carrying out the implementation process. The task force’s members, based on the assumptions of the Act, analysed the offers of institutions authorized to manage ECP, defined general and detailed selection criteria, conducted meetings with selected institutions, evaluated them and prepared a recommendation. Eventually, the ECP implementation process in the Company was carried out in accordance with the guidelines and deadlines.

### Core employment information

On December 31, 2019, the Śnieżka Group employed 1,377 people - 265 more than a year ago (+ 23.8% y/y). The increase in the number of employees in the Group resulted, inter alia, from incorporation of the Hungarian company Poli-Farbe Vegyipari Kft. and its subsidiaries into the Group, as well as the employment increase in the parent company.

On December 31, 2019, FFIL ŚNIEŻKA SA employed 793 people - 20 more than a year ago (+2.6% y/y). In accordance with the development strategy adopted by the Company, the employment increase stemmed primarily from recruitments carried out in the areas of domestic and export sales, marketing controlling as well as research and development.

In 2019, the Śnieżka Group hired on a yearly average, in full-time equivalents, 1,404 people, i.e. by 25.9% more than a year earlier, when the headcount amounted to 1,114.

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



The dominating part of the Group's employees (60%) was aged 30-50. 63,3% of employed women and 58.6% of employed men belonged to this age group. The share of women employed in the Group as well as men under 30 was similar to that of employees over 50 years of age. For women, these shares were respectively 17.9% (under 30 years) and 18.8% (over 50 years), and for men 16.8% (under 30 years) and 24.6% (over 50 years).

#### 3.3.1.1 Indicators associated with employment

Men, as the employees of the Śnieżka Group, outnumbered women - as at 31 December 2019, 963 men were employed, who accounted for 69.9% of the total number of employees. This employment

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structure results mainly from the productive nature of the Group's operations, which involves a high percentage of workers' positions in relation to the total number of positions. The share of men in the employment structure of the Group decreased during the year by 3.9%.

*Table 18. Total number of employees broken down by gender (with the Management Board)*

	31.12.2018		31.12.2019	
	Women	Men	Women	Men
<b>FFIL ŚNIEŻKA SA</b>	220	553	239	554
<b>Poli-Farbe Vegyipari Kft.</b>	–	–	100	161
<b>Śnieżka-Ukraina Sp. z o.o.</b>	39	174	41	167
<b>Śnieżka-Belpol, Sp. z o.o.</b>	16	37	18	28
<b>Rafil</b>	13	53	13	49
<b>TM INVESTMENT Sp. z o.o.</b>	3	4	3	4
<b>Total broken down by gender</b>	<b>291</b>	<b>821</b>	<b>414</b>	<b>963</b>
<b>Total the Śnieżka Group</b>	<b>1 112</b>		<b>1 377</b>	

The majority of the Group's employees held employment contracts for an indefinite period - 70.3% as at 31 December 2019 (including 68.6% of employed women and 71% of employed men). Employees with employment contracts for a definite period were mainly employed in companies with production facilities.



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



Table 19. The Śnieżka Group’s employees broken down by employment contract

	31.12.2018		31.12.2019	
	Women	Men	Women	Men
<b>FFIL ŚNIEŻKA SA</b>				
indefinite employment contract	160	477	184	490
definite employment contract	52	65	50	59
trial period agreement	8	11	5	5
<b>Total broken down by gender</b>	<b>220</b>	<b>553</b>	<b>239</b>	<b>554</b>
<b>Total</b>	<b>773</b>		<b>793</b>	

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	31.12.2018		31.12.2019	
	Women	Men	Women	Men
<b>Poli-Farbe Vegyipari Kft.</b>				
indefinite employment contract	–	–	85	140
definite employment contract	–	–	13	14
trial period agreement	–	–	2	7
<b>Total broken down by gender</b>	<b>–</b>	<b>–</b>	<b>100</b>	<b>161</b>
<b>Total</b>	<b>–</b>		<b>261</b>	
	31.12.2018		31.12.2019	
	Women	Men	Women	Men
<b>Śnieżka-Ukraina Sp. z o.o.</b>				
indefinite employment contract	0	6	0	4
definite employment contract	39	168	41	163
trial period agreement	0	0	0	0
<b>Total broken down by gender</b>	<b>39</b>	<b>174</b>	<b>41</b>	<b>167</b>
<b>Total</b>	<b>213</b>		<b>208</b>	
	31.12.2018		31.12.2019	
	Women	Men	Women	Men
<b>Śnieżka-Belpol Sp. z o.o.</b>				
indefinite employment contract	0	0	0	0
definite employment contract	16	37	18	28
trial period agreement	0	0	0	0
<b>Total broken down by gender</b>	<b>16</b>	<b>37</b>	<b>18</b>	<b>28</b>
<b>Total</b>	<b>53</b>		<b>46</b>	

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	31.12.2018		31.12.2019	
	Women	Men	Women	Men
<b>Rafil</b>				
indefinite employment contract	13	52	13	47
definite employment contract	0	1	0	2
trial period agreement	0	0	0	0
<b>Total broken down by gender</b>	<b>13</b>	<b>53</b>	<b>13</b>	<b>49</b>
<b>Total</b>	<b>66</b>		<b>62</b>	
<b>TM INVESTMENT Sp. z o.o.</b>				
	31.12.2018		31.12.2019	
	Women	Men	Women	Men
indefinite employment contract	3	3	2	3
definite employment contract	0	1	1	1
trial period agreement	0	0	0	0
<b>Total broken down by gender</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>4</b>
<b>Total</b>	<b>7</b>		<b>7</b>	
<b>Total the Śnieżka Group</b>	<b>291</b>	<b>821</b>	<b>414</b>	<b>963</b>

The managerial positions were held by 223 persons, i.e. accounted for 16.2% of all employed within the Group. The managerial positions were comprised of 70 women.

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Table 20. Breakdown of the Śnieżka Group's employees by positions (as at 31.12.2019)

position/gender	FFIL ŚNIEŻKA SA		Poli-Farbe Vegyipari Kft.		Śnieżka Ukraina Sp. z o.o.		Śnieżka-BelPol Sp. z o.o.		Rafil		TM Investment Sp. z o.o.		Total	
	F	M	F	M	F	M	F	M	F	M	F	M	F	M
managerial	38	74	16	37	8	20	2	7	5	12	1	3	70	153
other	201	480	84	124	33	147	16	21	8	37	2	1	344	810
Total broken down by gender	239	554	100	161	41	167	18	28	13	49	3	4	414	963
<b>Total</b>	<b>793</b>	<b>1818</b>	<b>261</b>	<b>666</b>	<b>208</b>	<b>681</b>	<b>46</b>	<b>137</b>	<b>62</b>	<b>215</b>	<b>7</b>	<b>5</b>	<b>1377</b>	<b>3217</b>

Table 21. Total number of the Śnieżka Group's employees broken down by positions

	31.12.2018			31.12.2019		
	Women	Men	Total	Women	Men	Total
<b>FFiL Śnieżka SA</b>						
<b>Brzeźnica</b>	184	349	533	201	361	562
<b>Lubzina</b>	11	80	91	14	75	89
<b>Pustków</b>	12	116	128	12	112	124
<b>Mielec</b>	2	2	4	1	1	2
<b>Warsaw</b>	0	1	1	0	1	1
<b>Radom</b>	11	5	16	11	4	15
<b>Poli-Farbe</b>						
<b>Hungary</b>	–	–	–	97	159	256
<b>Romania</b>	–	–	–	0	2	2
<b>Slovakia</b>	–	–	–	3	0	3
<b>Yavoriv (Ukraine)</b>	39	174	213	41	167	208

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<b>Zhodino and Minsk (Belarus)</b>	16	37	<b>53</b>	18	28	<b>46</b>
<b>Radom (Rafil)</b>	13	53	<b>66</b>	13	49	<b>62</b>
<b>TM INVESTMENT</b>						
<b>Brzeźnica</b>	3	3	<b>6</b>	3	3	<b>6</b>
<b>Warsaw</b>	0	1	<b>1</b>	0	1	<b>1</b>
<b>Total</b>	<b>291</b>	<b>821</b>	<b>1112</b>	<b>414</b>	<b>963</b>	<b>1377</b>

Table 22. Composition of management bodies and human resources of the Śnieżka Group

	aged below 30	aged 30-50	aged above 50	Total
<b>FFIL ŚNIEŻKA SA</b>				
<b>Managerial positions</b>	<b>3</b>	<b>90</b>	<b>19</b>	<b>112</b>
of which women	2	33	3	<b>38</b>
<b>other</b>	<b>137</b>	<b>425</b>	<b>119</b>	<b>681</b>
of which women	41	138	22	<b>201</b>
<b>Poli-Farbe Vegyipari Kft.</b>				
<b>Managerial positions</b>	<b>7</b>	<b>32</b>	<b>14</b>	<b>53</b>
of which women	2	8	6	<b>16</b>
<b>other</b>	<b>45</b>	<b>97</b>	<b>66</b>	<b>208</b>
of which women	15	43	26	<b>84</b>



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<b>Śnieżka-Ukraina Sp. z o.o.</b>				
<b>Managerial positions</b>	<b>2</b>	<b>17</b>	<b>9</b>	<b>28</b>
of which women	0	6	2	8
<b>other</b>	<b>32</b>	<b>105</b>	<b>43</b>	<b>180</b>
of which women	8	18	7	33
<b>Śnieżka-BelPol Sp. z o.o.</b>				
<b>Managerial positions</b>	<b>0</b>	<b>7</b>	<b>2</b>	<b>9</b>
of which women	0	2	0	2
<b>other</b>	<b>8</b>	<b>22</b>	<b>7</b>	<b>37</b>
of which women	6	7	3	16
<b>Rafil</b>				
<b>Managerial positions</b>	<b>0</b>	<b>6</b>	<b>11</b>	<b>17</b>
of which women	0	1	4	5
<b>other</b>	<b>2</b>	<b>19</b>	<b>24</b>	<b>45</b>
of which women	0	3	5	8
<b>TM INVESTMENT Sp. z o.o.</b>				
<b>Managerial positions</b>	<b>0</b>	<b>3</b>	<b>1</b>	<b>4</b>
of which women	0	1	0	1
<b>other</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>3</b>
of which women	0	2	0	2

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Total				
<b>Managerial positions</b>	<b>12</b>	<b>155</b>	<b>56</b>	<b>223</b>
of which women	4	51	15	<b>70</b>
<b>other</b>	<b>224</b>	<b>671</b>	<b>259</b>	<b>1154</b>
of which women	70	211	63	<b>344</b>

### 3.3.1.2 Indicators associated with development and assessment

#### Data on employee training and assessment - FFIL ŚNIEŻKA SA

In the reporting period, at the Company, 456 persons (57,5% of the employees) participated in training. In the group, there were 199 women (83.3% of female employees) and 257 men (46.4% of male employees).

The number of training hours completed at the Company in 2019 was 12,628, which in comparison with 2018 accounts for the increase of 3 437 hours. (+37,4% y/y). This trend directly indicates and confirms the direction of the human resources management strategies implementation. The Company consistently focuses on developing knowledge and competence of its employees, by spurring and enabling them to participate in training, but also providing opportunities and facilitating access to the best sources of theoretical and practical expert and managerial knowledge.

Table 23. Data on the value and cost of training at FFIL ŚNIEŻKA SA

	2018	2019
Value of scheduled training [PLN thousand]	660.5	679.4
Cost of completed training [PLN thousand]	493.2	552.2

#### Data regarding training - subsidiaries

Table 24. Training performed in subsidiaries of the Śnieżka Group (as at 31 December 2019)

	Number of completed training courses	Number of training participants	
		total	of which women
Poli-Farbe Vegyipari Kft.	13	121	53
Śnieżka-Ukraina Sp. z o.o.	46	71	18
Śnieżka-BelPol Sp. z o.o.	8	10	0
Rafil	18	45	17

### Data on employee assessment - FFIL ŚNIEŻKA SA

In 2019, we closed the next edition of the *Development Talks* process, which is a form of both assessment of the employee's performance and efficiency, as well as opportunity to talk, analyse and plan further development within the organization. The Company promotes the culture of continuous feedback and provides employees with feedback on a regular basis throughout the year. In this respect *Development Talks* are a form of verification, summary and closure of the annual stage in the continuous process of employee development.

Employees' participation in the *Development Talks* process in 2019:

- The number of employees: 764 (29% women, 71% men);
- The number of persons who had the right to be assessed: 737 (28% women, 72% men) - those who did not have such a right were persons employed for a period shorter than 3 months.
- The number of persons assessed: 685 (93% of all the employees who had the right to be assessed);
- The number of persons not assessed: 52 (7% of all the employees who had the right to be assessed);

Reasons for not assessing: absence for a period longer than 3 months.

Both the assessment and the activities included in the development plan are based on the Company's organizational values. The entire process is standardized, and the documents that help in a uniform way to prepare for it and carry it out are as follows: The Book of Organizational Values, textbooks for the supervisor and employee, and forms corresponding to a type of position.

Table 25. The number of assessed employees broken down by gender

	The number	Percentage
Women	182	27%
Men	503	73%

Table 26. The number of assessed employees broken down by categories of positions

	The number	Percentage (as % of the assessed having a right to be assessed in a given group)
Directors	20	100%
Managers	44	96%
Foremen	36	95%
Specialists	189	93%
Production line employees	403	94%



### 3.3.1.3 Other employee indicators

In the Śnieżka Group, we approach each case of terminating an employment contract individually, carefully analysing each case and suggesting solutions oriented to the employee’s interest. In the Group, employment is stable, which is demonstrated by a low number of employees leaving their work at the employer’s initiative.

*Table 27. Share of terminations at the employer’s initiative in the total number of terminations at the Śnieżka Group in 2019*

<b>Company</b>	<b>Percentage share of persons dismissed at the employer’s initiative who left the Group</b>
FFIL ŚNIEŻKA SA	2.41%
Poli-Farbe Vegyipari Kft.	20%
Śnieżka-Ukraina Sp. z o.o.	0%
Śnieżka-BelPol Sp. z o.o.	31.82%
Rafil	62.5%
TM Investment Sp. z o.o.	0%
<b>Total the Śnieżka Group</b>	<b>14.72%</b>

In the Group, no additional pension plan for employees has been established. The Company pays pension and disability benefit contributions to the Social Insurance Institution (ZUS) on the compensation of all its employees. In 2019, the amount of the payer’s contributions was PLN 8,802 thousand. In foreign Companies, belonging to the Group, contributions were paid as required by the local law.

At the Company, rules of equal treatment of employees are in force with regard to the access to any benefits, including non-salary benefits. At the Company, all the employees have the opportunity to take advantage of additional benefits for which the employer participates in their costs. These benefits are granted regardless of the contract type or working time.

Non-salary benefits:

- benefits within the Company Social Benefit Fund,
- additional life insurance,
- co-financed meals.

Employees of the Śnieżka Group are free to take advantage of the parental rights they are entitled to concerning, among others, maternity, parental and paternity leaves.

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In 2019, 14 female employees at the Company took advantage of maternity and parental leaves after a childbirth, while 29 employees (fathers) took advantage of paternity leaves they were entitled to.

Table 28. Use of maternity /paternity leaves in the Śnieżka Group companies

Company	The number of employees who took advantage of maternity / paternity leaves at childbirth	of which women
FFIL ŚNIEŻKA SA	43	14
Śnieżka-Ukraina Sp. z o.o.	6	5
Śnieżka-BelPol Sp. z o.o.	2	2
Rafil	0	0
TM Investment Sp. z o.o.	1	1
<b>Total</b>	<b>52</b>	<b>22</b>

### 3.3.2 Human and other rights


Fundamental principles of ethical behaviour are defined by the Book of Organizational Values adopted by the Parent Company in 2016. This document distinguishes seven major rules of conduct, with each of them being assigned specific attitudes that are expected from employees of the Company. The introduction of the Book was accompanied by intensive communication and education about the principles found in it.

At the Company, mechanisms have been also prepared to counteract workplace bullying and harassment. The appointment of a special body known as the Anti-Harassment Commission and introduction of the rules and regulations to prevent workplace bullying and harassment provides the employees with the full protection of their interests in this area. The Commission, composed of seven members appointed for a three-year term of office, is a body whose aim is to eliminate at the Company such behaviours as:

- workplace bullying – actions or behaviours pertaining to an employee or directed against an employee, involving persistent and continuing persecution or intimidation of the employee, resulting in lowering his/her evaluation of professional adequacy, causing or intending to cause the employee to be humiliated or ridiculed, isolating him/her or eliminating him/her from a team of colleagues;
- harassment – undesirable behaviour whose aim or consequence is to undermine an employee's dignity and create an intimidating, hostile, humiliating or insulting atmosphere around him/her, including any undesirable behaviour of sexual nature or relating to the employee's gender whose aim or consequence is to undermine the employee's dignity, and in particular to create an intimidating, hostile, humiliating or insulting atmosphere around him/her; the behaviour may involve physical, verbal or non-verbal elements;

If a possible abuse occurs, the commission's task is to initiate an explanatory proceeding. In 2019 the commission did not review any case related to violation of the principles of respect for human rights.





Anti-mobbing bylaws apply in all plants of the parent company, FFIL Śnieżka SA. The fundamental rule for reporting breaches falling outside the area of the work of the Anti-Harassment Commission is to contact one’s direct supervisor. If in doubt, team members may also report their concerns through, among others, employee representatives or stationary contact boxes located on the Company’s premises.

### 3.3.3 Natural environment

As an entity operating in the chemical industry, we are aware that for our operations to be environmentally friendly, it is necessary to take the utmost care for being responsible at each stage of the product’s lifecycle – from its design, through production, to launching onto the market. The largest portion of our production is concentrated in the structures of FFIL ŚNIEŻKA SA, and it is ascribed the leading role in making efforts to achieve the highest environmental standards with the simultaneous implementation of the relevant new solutions in the subsidiaries - including the Hungarian Poli-Farbe Vegyipari Kft. company, which joined the Group in May 2019.

The environmental objectives in the FFIL ŚNIEŻKA SA are addressed in accordance with the applicable legal requirements as well as the procedures and instructions. Environmental protection management covers processes related to the Company’s operations in the area of purchases, production, storage, sales and analyses them in relation to the impact on the natural environment. Monitoring and measurement data are analysed for the following purposes, among others:

- to support and assess operational oversight in areas connected with significant environmental aspects;
- to assess effects of environmental activity;
- to assess compliance with legal and other requirements;
- to track progress in the observing obligations of the environmental policy;
- to assess the operation of the environmental management system.

Working on the adopted assumptions and bearing in mind the continuous technological supervision over the properties of raw materials and finished products with a view to ensuring their compliance with the requirements which must be satisfied to receive the “Ecolabel” for its products, the Company endeavours to reduce its impact on the natural environment. The environmental requirements are achieved by way of continuous formal and legal oversight and implementation of the obligations specified in environmental decisions.

The Company’s strategic objectives include:

- protecting natural resources by adhering to and implementing environmental requirements;
- fostering proper attitudes and awareness among the employees through appropriate management of hazardous and non-hazardous waste, packaging;
- reducing VOC emissions into the air and protecting water and soil.

The schedule of Company’s environmental objectives means indicating specific time frames to perform particular environmental tasks, defined each year in the investment plan, with regard to the three basic principles:

- continued compliance with environmental protection laws;
- preventing pollution;
- continuous improvement.

To ensure that the strategic objectives are achieved, environmental objectives are defined for each year with specific environmental tasks, whose performance is recorded by the Investment Department.

Due 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 them follows from legal and other requirements.

#### *3.3.3.1 Key environmental aspects*

The following environmental aspects of the Company's activity are classified as significant:

- A. emissions of volatile organic compounds and dust;**
- B. emissions from burning high-methane natural gas;**
- C. production of hazardous waste;**
- D. production of non-hazardous waste;**
- E. production of non-hazardous packaging waste;**
- F. wastewater – rainwater and meltwater.**

The compliance of the Company's activity with environmental requirements is shown by: efficient consumption of raw materials and energy; compliance with the regulatory norms for emissions of pollutants into the air, water and soil; rational management of waste and packaging; and the application of solutions that improve the operational safety of technological installations. New investment projects are based on state-of-the-art technologies. Also, technological solutions have been constantly sought to make it possible to improve further the environmental parameters in various aspects of the activity.

An example of such an action in 2018 is the installation of a filtration unit for cleaning air from dry dust released during technological processes involving non-combustible materials with a relative air humidity not exceeding 80%.

By using a modern filter construction featuring very high efficiency of air purification at the level of 99.98% for particles above 0.5 µm allowed to reconcile the aspects of simultaneous meeting a high level of requirements:

- for the work environment of new and existing workplaces,
- elimination of negative impact on the natural environment with simultaneous increase of production capacity.

The records kept on an on-going basis in the log of the filtration unit allow to monitor the device's performance and assessment of the emission levels to the natural environment.

The device used with a very high efficiency of air purification allows it to be recirculated into the interior of the facility without deterioration of working conditions. Air filtration products - contaminants considered as waste are collected in containers and fully utilized, processed, used, etc. by other waste management units. The Group conducts on-going monitoring of their environmental impact, by maintaining registers of information and data on the scope and intensity of their use of the environment. The Group monitors consumption of energy and water, emissions of pollutants, generation of waste and packaging.

Water used in the Company's plants comes from the network, therefore the Company does not use sources of water that could adversely affect the region's water resources. The Company does not recycle water for re-use.

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The Group does not have any plants located in protected areas or in areas valuable in terms of biodiversity. Thus, the plants and the products do not pose any threats to such areas. The Group does not distribute or use in the production process any substances depleting the ozone layer.

### In reference to A

Figure 11. Emissions of Volatile Organic Compounds and dust into air from technological processes and accompanying processes compared to production volume [ton/ton] – FFIL ŚNIEŻKA SA

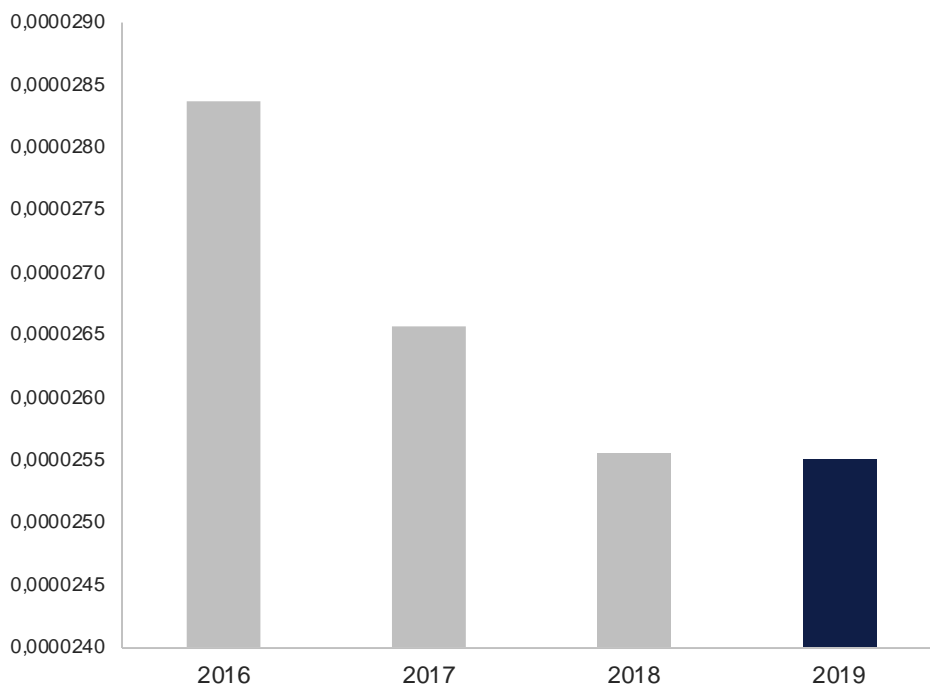
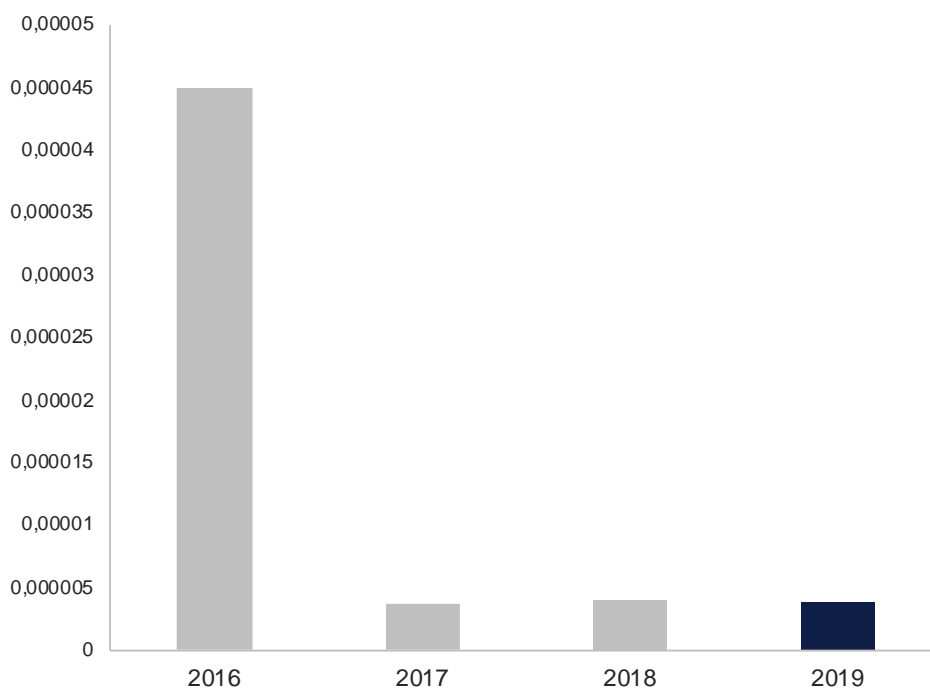


Figure 12. Emissions of Volatile Organic Compounds and dust into air from technological processes and accompanying processes compared to production volume [ton/ton] – Śnieżka-Ukraina



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Figure 13. Emissions of Volatile Organic Compounds and dust into air from technological processes and accompanying processes compared to production volume [ton/ton] – Śnieżka-Belpol

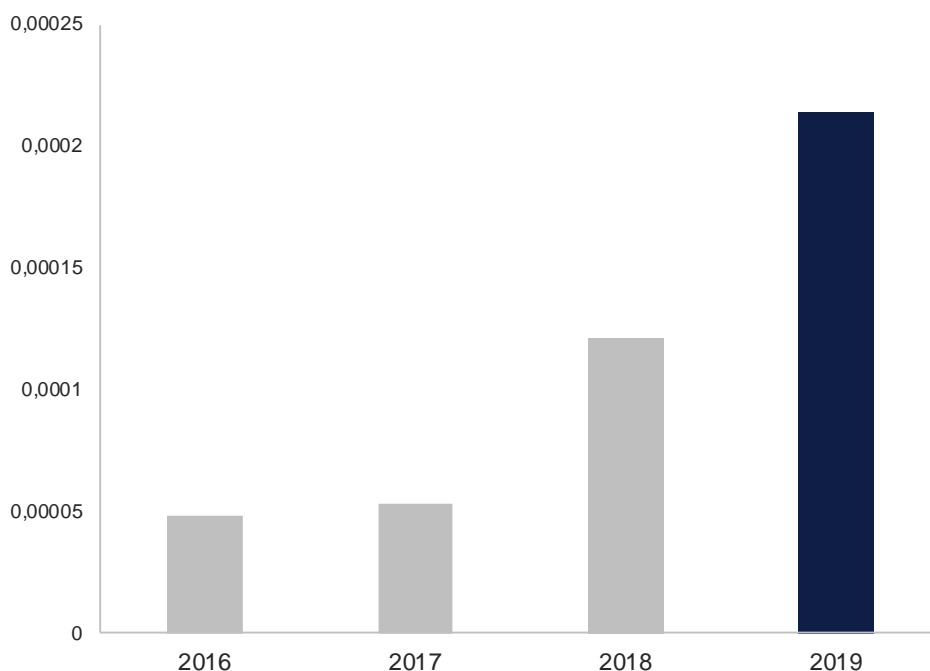
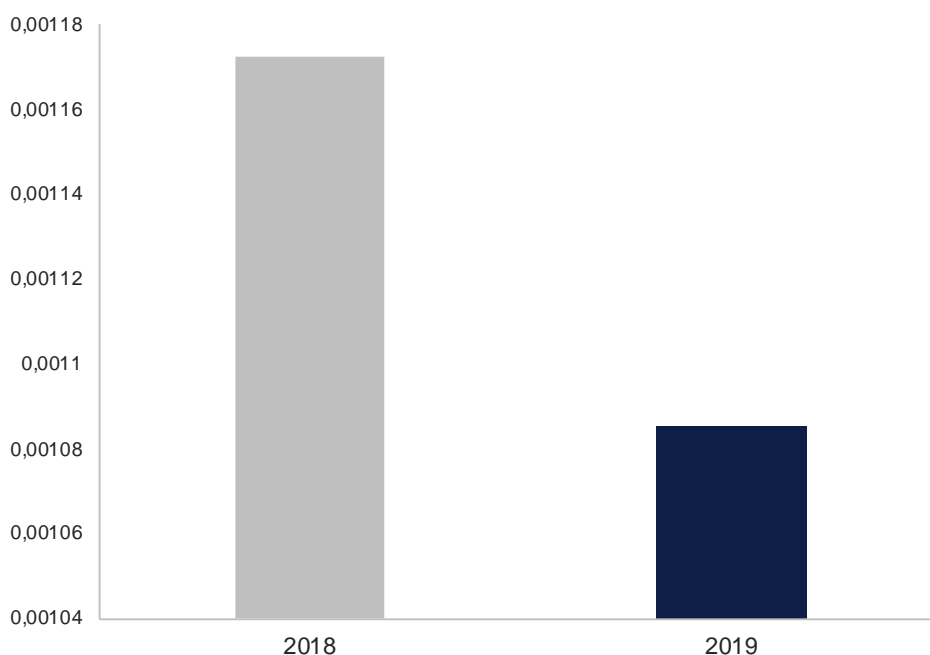


Figure 14. Emissions of Volatile Organic Compounds and dust into air from technological processes and accompanying processes compared to production volume [ton/ton] – Rafil



The volume of emissions of volatile substances into the air (including volatile organic compounds, VOC) depends on the production volume. In 2019, production at FFIL Śnieżka SA facilities was lower compared to the previous year. In the Ukrainian company there was a slight decrease in the value of the emission indicator. Whereas in the Belarusian subsidiary the indicator increased as a result of higher fuel consumption for heating production facilities and warehouses. In the Radom facility belonging to the Rafil subsidiary, a decrease in the indicator was recorded as a result of decline in the production of those products, whose production generates bigger environmental pollution (more volatile substances).

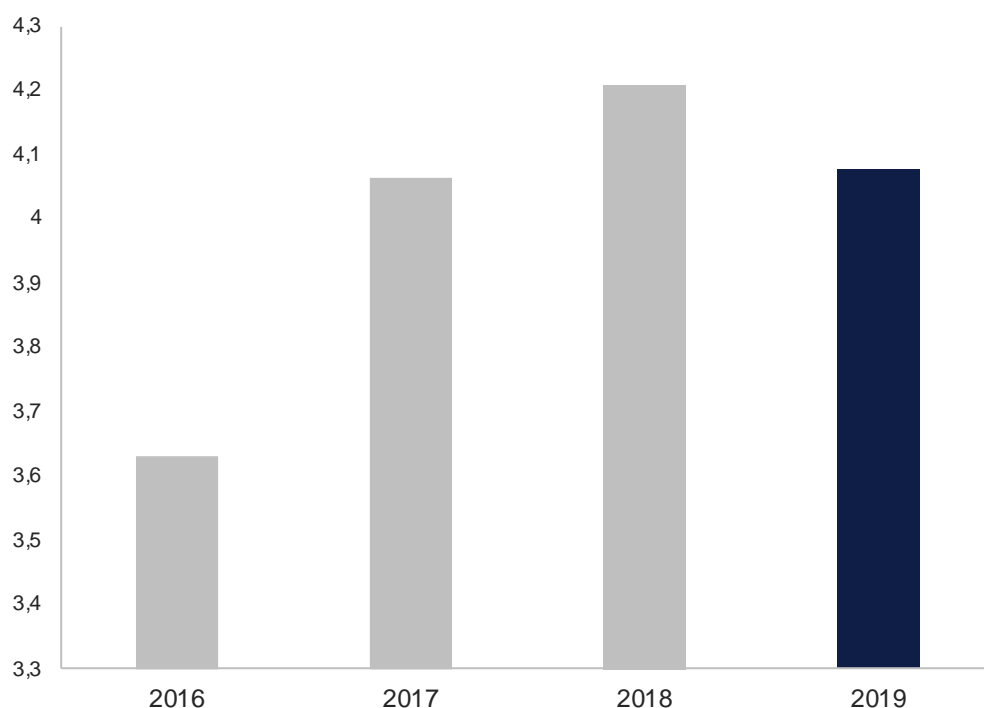
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Subsidiaries - Belarusian and Ukrainian - were described according to analogically selected indicators as in the case of FFIL Śnieżka SA, taking into account the realities of their markets and the availability of data required by the local law. This rule was also applied to the Hungarian company, i.e. Poli-Farbe Vegyipari Kft - with the proviso that this company joined the Group a few months ago, in 2019, and as at the date of publication of the Group's Report, which is composed of Poli-Farbe, the process of implementing internal reporting standards and their consistency with the standards of the Śnież Capital Group is pending.

### In reference to B

Figure 15. Emissions of gas – gas consumption in FFIL ŚNIEŻKA SA compared to the production volume [m<sup>3</sup>/ton]



The Group's plants emit, directly and indirectly, greenhouse gases to the environment. The major sources of direct emissions (CO<sub>2</sub>, N<sub>2</sub>O) are as follows:

- production of heat for heating buildings and producing central tap water for them. The production involves fuel combustion in heating furnaces and causes emissions of CO<sub>2</sub> and small amounts of CH<sub>4</sub> and N<sub>2</sub>O;
- personal transport (cars).

The Group's plants, by using electricity from the grid, also contribute to indirect emissions of greenhouse gases generated during the electricity production.

FFIL ŚNIEŻKA SA:

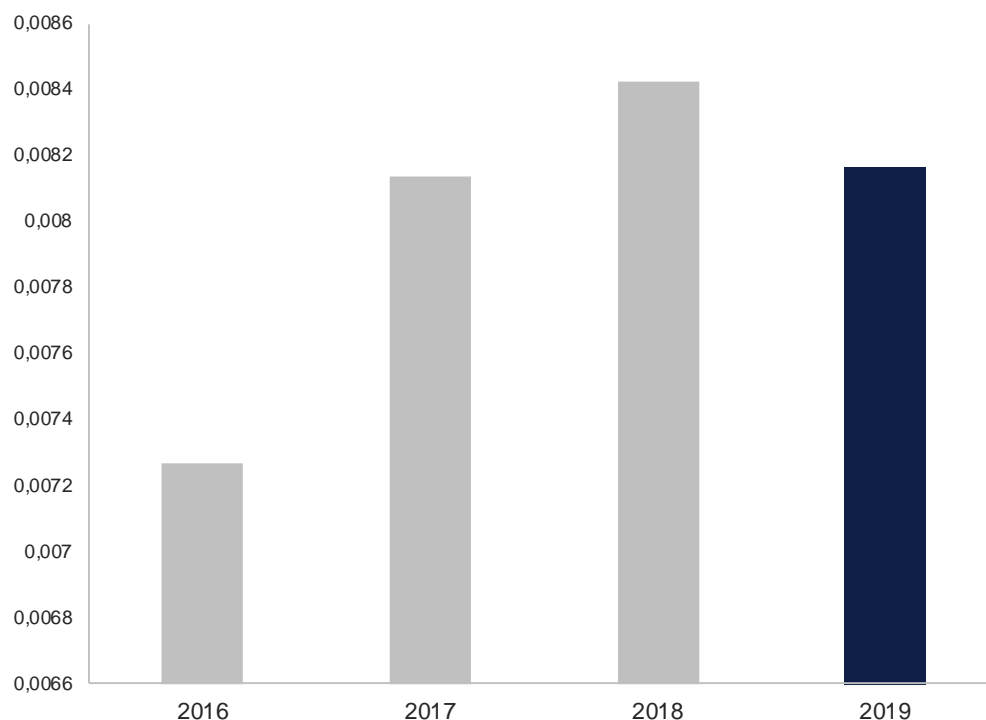
- Quantity of CO<sub>2</sub> emissions in 2019 – **857.140 tons** (i.e. a decrease compared to 2018, when the emission amounted to 896.774 tons);
- Quantity of NO<sub>x</sub> emissions in 2019 – **0.722 tons** (i.e. a decrease compared to 2018, when the emission amounted to 0.754 tons);



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Figure 16. Emissions of gas – amount of pollutant emission load from burning gas in FFIL ŚNIEŻKA SA (amount of pollutant emission load/production volume [ton/ton])




As shown by the above graph, the amount of pollutant emission load is directly proportional to gas consumption.

Table 29. Introduction of gases or dust into air from combustion of fuels in internal combustion engines in FFIL ŚNIEŻKA SA

Type of internal combustion engine with reference to the type of document held	Fuel type	Fuel consumed in 2016 [tones]	Fuel consumed in 2017 [tones]	Fuel consumed in 2018 [tones]	Fuel consumed in 2019 [tones]
Engines in vehicles with documents confirming compliance with EURO 5* requirements	gasoline	7.84	3.677	35.705	95.665
	oil	291.819	278.462	254.219	209.621
Engines in vehicles with documents confirming compliance with EURO 3* requirements	oil	10.945	12.413	12.24	12.667
Engines in slow-speed vehicles, machines and units with a document confirming compliance with stage I** requirements	LPG propane butane	1.804	2.09	0	0

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	gasoline	0.363	0.335	0.299	0.79
Engines in slow-speed vehicles, machines and units with a document confirming compliance with stage II** requirements	LPG propane butane	14.176	7.172	7.26	6.248
	oil	2.891	1.017	0.946	4.582
Engines in slow-speed vehicles, machines and units with a document confirming compliance with stage IIIA ** requirements	LPG propane butane	44.517	53.944	42.174	41.954

\* European emission standards for motor vehicles (passenger cars, trucks and buses).

\*\* European emission standards for engines of machinery and equipment, slow-moving vehicles, agricultural tractors, rail vehicles and vessels.

The rules for the operation of the vehicle fleet used for transporting employees in FFIL Śnieżka SA are regulated by the Fleet Policy implemented in 2019. In FFIL ŚNIEŻKA SA, the vehicle fleet used for transporting employees is replaced systematically. The process is divided into timeframes from 3 to 5 years of using a given vehicle or its replacement after reaching the mileage higher than 150 thousand kilometres. Such an assumed frequency, and therefore ongoing replacements of vehicles for new ones, makes it possible to maintain the highest quality standards with regard to exhaust emissions by the vehicles in the fleet. In the reporting period, three out of four groups of vehicles (divided on the basis of the type of internal combustion engine) satisfied the high Euro 6, and in one group, Euro 4, standards. Further vehicle replacements will be directed towards a gradual introduction of vehicles satisfying the Euro 7 standard to the fleet. Also, in the group of slow-speed vehicles, most of them satisfies the high requirements of stage III A.

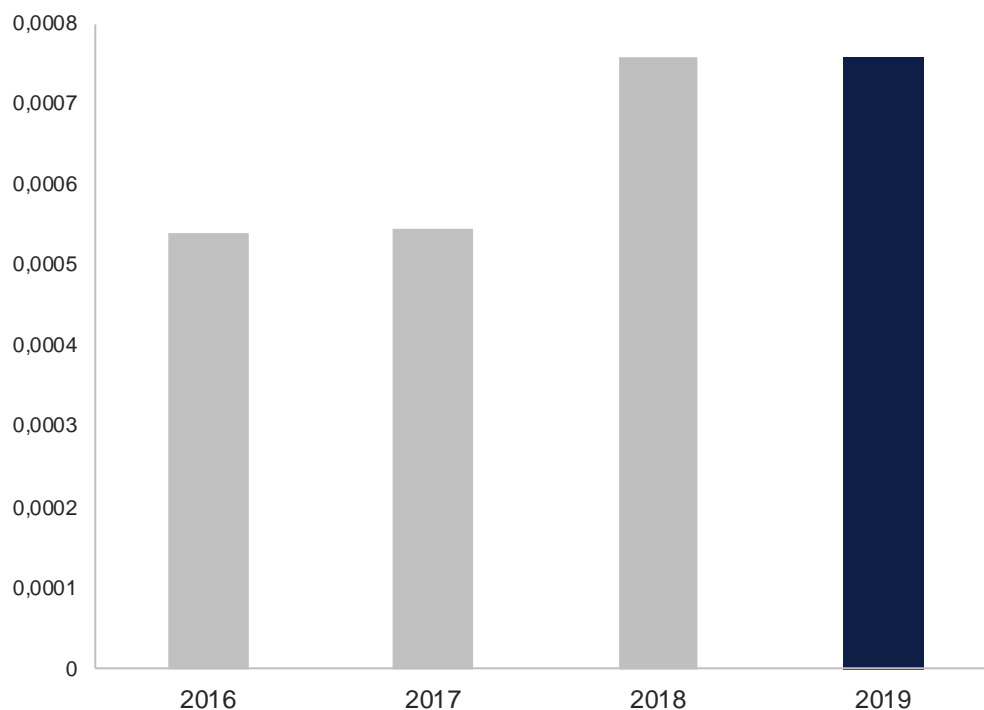
### In reference to C

Wastes generated by Śnieżka Group are sorted according to the waste type and code in compliance with the Polish laws in force.

FFIL ŚNIEŻKA SA does not process waste on its own; all the waste is sent to be disposed of, processed, used, etc. by other business entities rendering waste management services. The Company, being responsible for the waste generated, has adopted a strategy of transferring it directly to development plants, without intermediaries, thus eliminating the possibility of uncontrolled and illegal emissions into the environment.



Figure 17. Amount of generated hazardous waste compared to the production volume [ton/ton]



In FFIL Śnieżka SA, the hazardous waste amount indicator against the production volume in 2019 remained at the same level as in 2018.

At Poli-Farbe, the specificity of waste depends on many factors, and hazardous waste is generated both directly and indirectly. Despite large diversity of production in the company's facility in Hungary, the amount of hazardous waste against the production volume remained at the same level as year before. At the same time, the Poli-Farbe site recorded a large decline (50%) in generating waste, production losses (direct waste) - which is a satisfactory level in achieving the environmental goal.

In Śnieżka-Ukraine, the value of this indicator in 2019 was 0.0000106.g The amount of generated waste in relation to the previous year remained at the same level, which shows positive effects of the pro-ecological activity of the Ukrainian company.

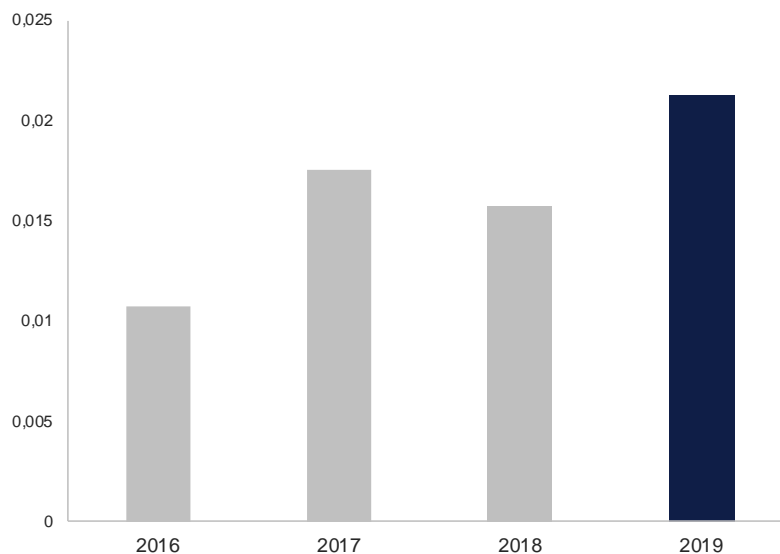
In Śnieżka-BelPol, the indicator was 0.003 and also remained at the same level as in 2018. The Belarusian company also emphasizes pro-ecological activities. In 2019, 1.42 tones (8.2%) were segregated from all of the hazardous waste generated and recycled.

As regards generation of hazardous waste the Rafil's indicator amounted to 0.0072 units, compared to 0.035 from last year. Although this is a significant decrease, it should be assumed that 2019 was a regular year of operation for the plant, and will constitute reference values for subsequent years. In 2018, the amount of generated waste was higher as a result of reprocessing expired raw materials and products.

The production processes of finished products in the Group's plants do not translate into any direct generation of hazardous waste. Waste generated indirectly arises as a result of work accompanying production (e.g. cleaning equipment, production line of technological apparatus, defective and incompatible goods and products).

In reference to D

Figure 18. Amount of generated non-hazardous waste compared to the production volume [ton/ton], FFiL ŚNIEŻKA SA



In the reporting period, more non-hazardous waste was generated at FFiL Śnieżka SA than in 2018. This was the result of: an increase in the number of laboratory tests carried out by R&D centre, and the replacement of brand stores' equipment, which generated an increase in production. In Śnieżka-Ukraina, the value of this indicator increased by 14.38%, and in the Belarusian company - by 33%. The increase followed by additional amount of raw material (gypsum) waste generated during transport and unloading operations.

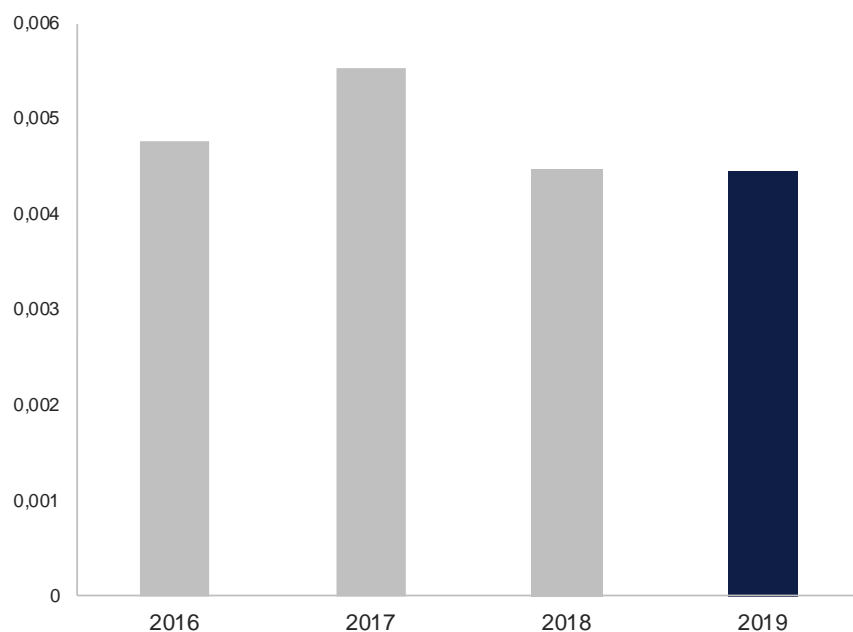
Poli-Farbe made efforts to reduce the production of non-hazardous waste, which in 2019 decreased by 16.94% compared to 2018. It should be noted that the above increases result from greater care for the environment and proper sorting and selection from residential waste.

As regards generation of non-hazardous waste the Rafil's indicator amounted to 0.0795 units, compared to 0.102 from last year. This decrease, similarly as for hazardous waste, is the result of one-off internal operations. It should be assumed that 2019 was a regular year of operation for the plant, and will constitute reference values for subsequent years.



**In reference to E**

*Figure 19. Amount of generated non-hazardous packaging waste compared to the production volume [ton/ton], FFIL ŚNIEŻKA SA*



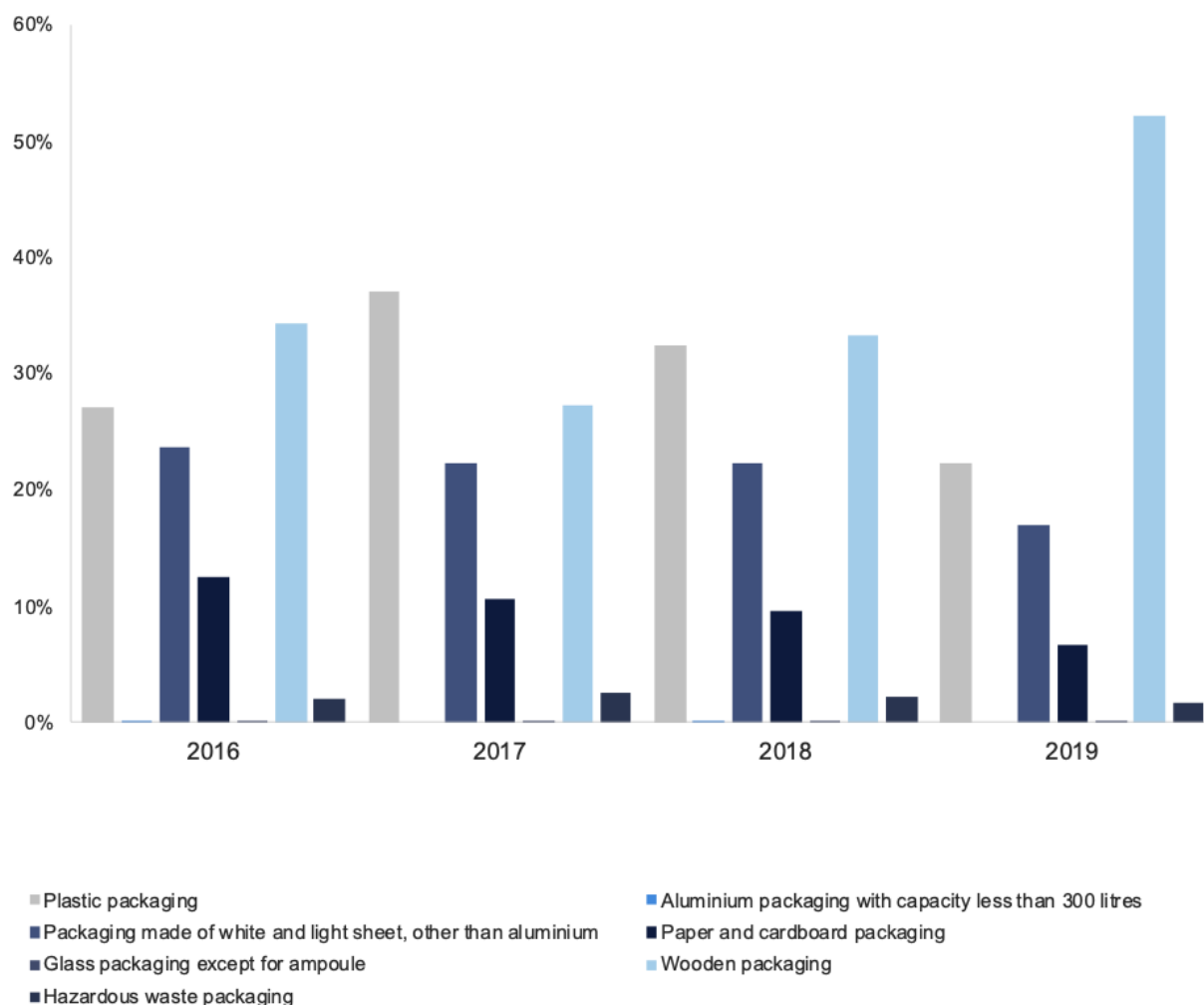
The Group companies take actions to increase the amount of raw materials directed for recycling through the binding rule of waste segregation and selecting packaging from it according to the type of material. An example of positive pro-ecological effects in the above area is still the generation of large amounts of packaging waste that can be processed in the Company. It is possible thanks to the investments made in previous years as regards extension of raw material storage facilities with bulk raw material tanks, which enabled tanker transport and excluded transport of individual raw material units.

In 2019, the amount of recyclable packaging waste generated by the Group companies was at the same level as in 2018.

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Figure 20. Quantity of each type of packaging introduced to the Polish market compared to the production volume in each year [ton/ton], FFIL ŚNIEŻKA SA



The graph presents introduction of types of packaging to the domestic market as packaging of our own commodities and products introduced into trading as compared to the production volume.

FFIL ŚNIEŻKA SA participates in development and maintenance of a system for the collection, transport, recovery and disposal of waste generated from packaging introduced into the environment and participates in conducting relevant educational campaigns. The process is performed in accordance with the statutory requirements. The Company manages packaging in a rational way. The effectiveness of the implemented waste selective segregation system is shown by the increase in the quantity of segregated waste. The continuous duty to segregate waste makes it possible to achieve effects in ecological terms as well as measureable financial effects.

As part of the above activities, the Company:

- Conducts training for employees on amendments to environmental protection law and in the area of the Company's use of the environment, the present environmental aspects, environmental policy, threats and environmental disasters, prevention of bad habits and raising awareness of the economic and environmental impact of generating waste and pollution, as well as the benefits of minimizing their generation (e.g. increasing the Company's prestige and





creating competitive advantages). In 2019, 312 employees underwent training, representing a 31% growth over 2017.

- Carries out a continuous technological supervision of properties of raw materials used for production and supervision of properties of finished products with respect to fulfilment of the Ecolabel system's requirements.
- Conducts compliance assessment, employee exposure monitoring and environmental impact monitoring for each product, in compliance with provisions of the REACH Regulation in the form of Inspection Records.

In 2019 any organizational and production operations were performed in compliance with the assumptions of the Investment Plan, while the achievement of objectives and tasks was characterized by caring for the natural environment. That care, observable in all the aspects of the Company's activity, produced measurable effects in the field of environmental protection. This is confirmed by, among others, such figures as the numerical quantity of emissions into the air, amount of generated waste or wastewater carried into the ground.

Furthermore, monitoring environmental issues occurring in the Company allows to define and introduce the appropriate methods of conduct in the production processes of the Company's plants.

#### *3.3.3.2 Environmental costs*

The companies comprising the Śnieżka Group hold the necessary environmental decisions, pay their environmental fees, fulfilling their reporting obligations, in compliance with the laws of the countries where they are located.

In connection with performing production activity, FFIL Śnieżka SA uses the environment and pays appropriate fees. These costs may be divided into two basic groups:

- costs of direct use of the environment, which include: fees for emissions of compounds into the air, for the production of paints and varnishes, burning gas in boilers, burning fuels in internal combustion engines, carrying off rainwater from the area of a plant and the adjacent parking areas;
- costs of indirect use of the environment, which include: fees for carrying out the recovery and recycling duties connected with the introduction of packaging with products on the Polish market, including the payment for organizing the collection system for packaging of hazardous products and the educational campaign and fee for waste disposal and neutralization.

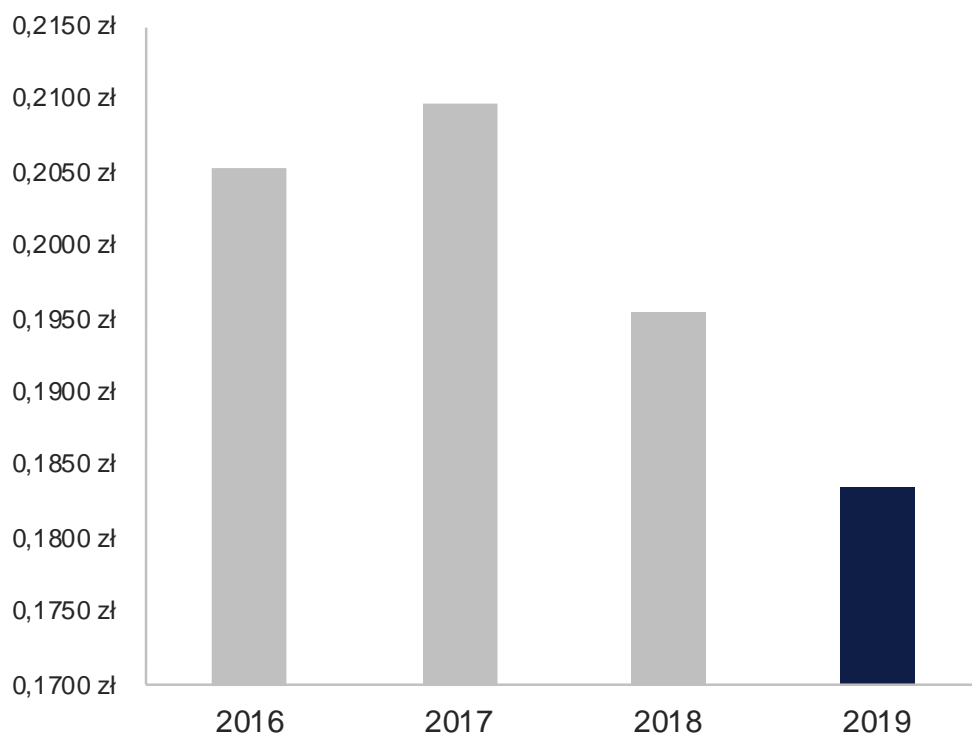
In 2019, FFIL ŚNIEŻKA SA did not pay any financial penalties of increased fees for using the environment. Neither did the Company commit any incompliance in this area, which confirms its great care for the natural environment and administrative responsibility. In the reporting period, the Group did not suffer, either, any sanctions, financial or non-financial, for breaching environmental protection laws or regulations.

The Śnieżka Group incurs costs for environmental usage. The level of financial burden in 2019 was comparable to 2018. The entire financial burden is a fee for releasing gases and dust into the air.

The Water Law exempted the Company from paying a fee for discharging rainwater to the ground.



Figure 21. Amount of environmental usage fees compared to the production volume [PLN/ton], FFIL ŚNIEŻKA SA



In the reporting period, the Group's activity towards the environment was not complained about because of adverse impact on the natural resources, which shows that Śnieżka's production operations are perceived as positive by the society.

From the data about the environmental activity of FFIL Śnieżka SA included herein, the following conclusions may be drawn:

The Company:

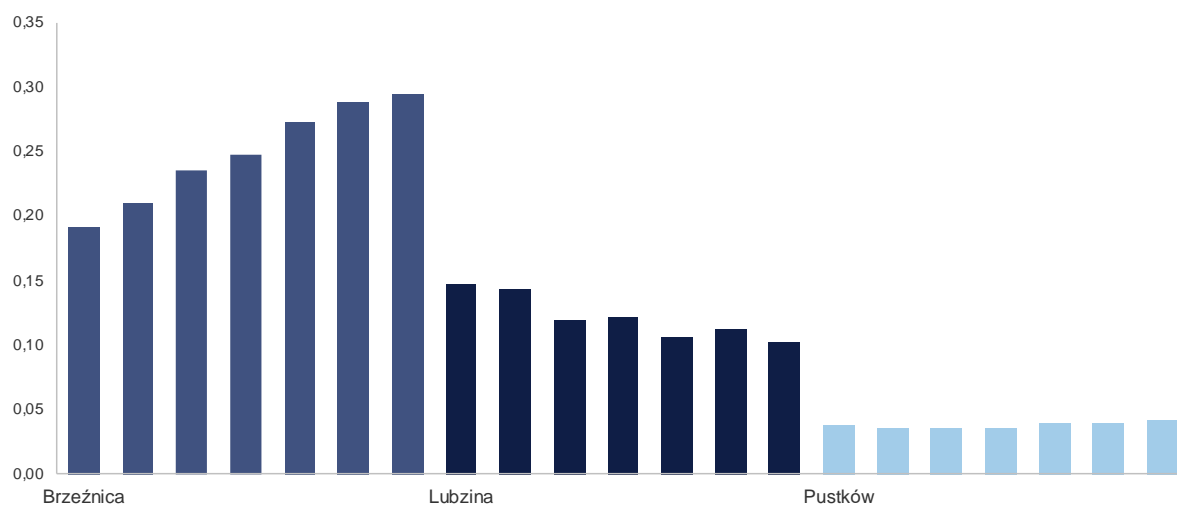
- holds necessary decisions on environmental usage;
- pays environmental usage fees and complies with the reporting duties;
- the results of control measurements of the emission of air pollutants and effluents demonstrate compliance with the environmental norms and the requirements;
- waste management complies with the permits held and limits given therein and brings the planned economic effects.

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Figure 22. Electricity consumption per production unit between 2013-2019 at FFIL ŚNIEŻKA SA by location [kWh/l, kg]



Electricity consumption [kWh] per production unit [l,kg] in the Company's facilities y/y was not subject to any significant changes and in relation to 2018 was the following:

- in Brzeźnica from 0.2887 to 0.2949 kWh/l,kg (increase by 2.15 %),
- in Lubzina from 0.1117 to 0.1025 kWh/l,kg (decrease by 8.24 %),
- in Pustków from 0.0401 to 0.0419 kWh/l,kg (increase by 4.49 %).

The differences in the value of this rate, occurring in individual locations, result mainly from the types of goods produced there.

In 2019, the facility in Lubzina - where colour paints are made - decreased the cost of electricity per production unit. It is the result of continuous automation of the production process and the gradual introduction of drives in paint mixers using frequency converters, as well as the modernization of the cooling system taking advantage of drycooler.

In the Pustków facility - where mainly white paints are made - the lighting in the finished products warehouse was modernized in the third quarter of 2019. This will contribute to electricity savings of 178,355 kWh per year (15.336 toe/year). In connection with the lighting modernization, consisting in replacement of discharge and fluorescent lighting with LED lighting, the Company is applying (similarly to 2018) for energy efficiency certificates, so-called white certificates at the Energy Regulatory Office.

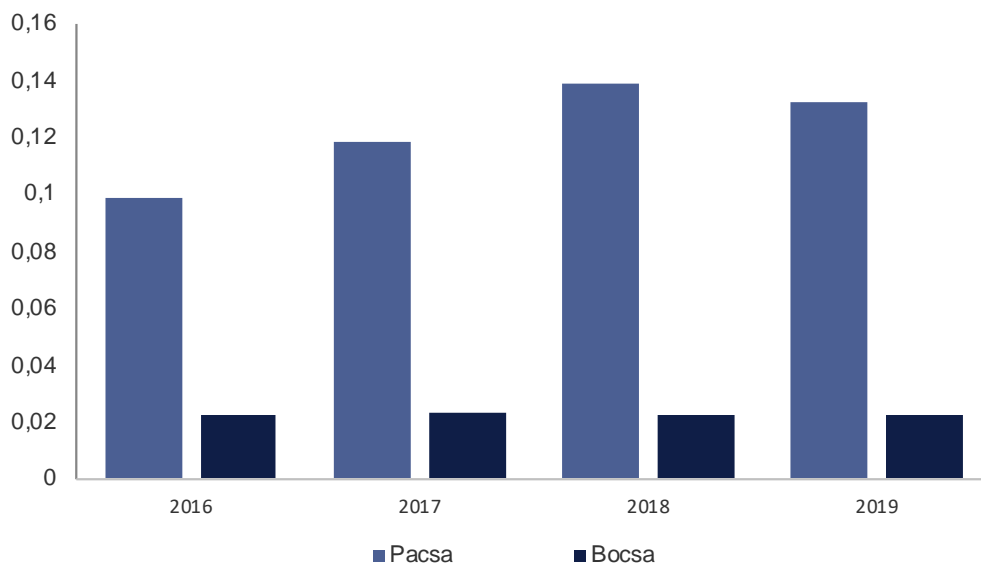
Electricity costs incurred by FFIL Śnieżka SA including transmission services - in total for the facilities in Brzeźnica, Lubzina and Pustków - increased in 2019 from 311.4 PLN/MWh to 313.83 PLN/MWh (+ 0.77% y/y ). This minimal change was possible due to a favourable annex signed in 2018 to the electricity sales agreement.

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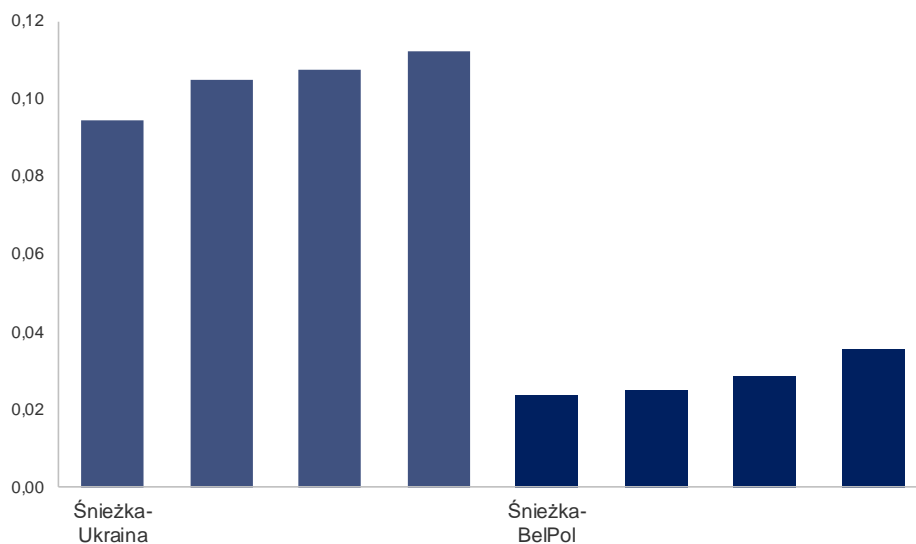


Figure 23. Electricity consumption per production unit between 2016-2019 at Poli-Farbe, facilities in Bocsa and Pacsa [kWh/l,kg]



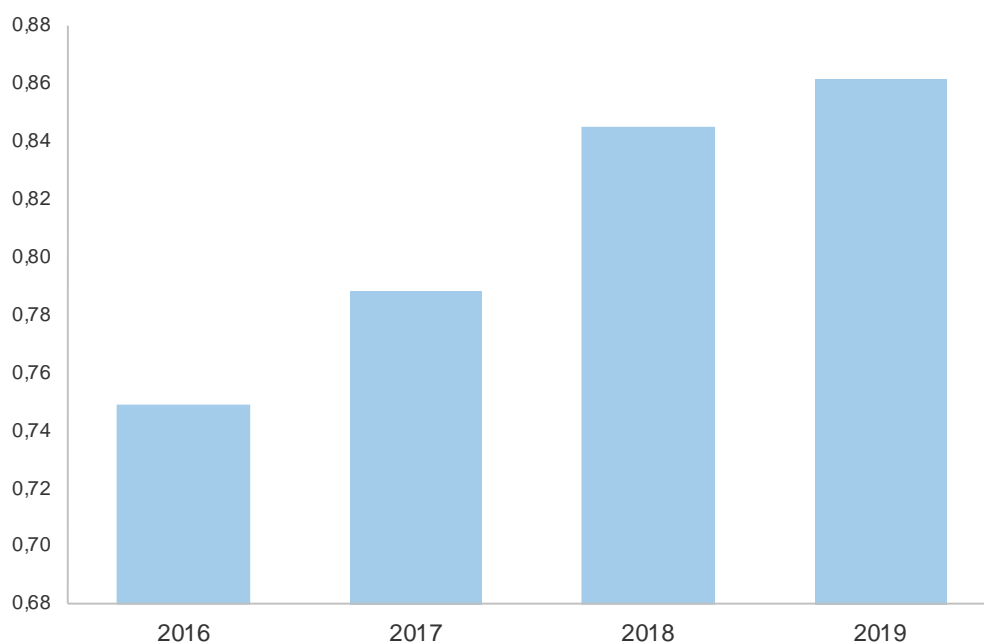
Poli-Farbe Vegyipari Kft. is comprised of two branches in Bócsa and Pacsa, located in Hungary. Bocsa site manufactures paints. Energy consumption per production unit between 2016 and 2019 remains constant at the same level. Pacsa site is involved in the production of polystyrene. Thanks to the production optimization in 2019, energy consumption decreased by 5.1% per production unit compared to 2018.

Figure 24. Electricity consumption per production unit between 2016-2019 at Poli-Farbe, in subsidiaries kWh/l,kg]



Electricity consumption per production unit [kWh / l,kg] increased both in Ukraine and Belarus.

Figure 25. Electricity consumption per production unit between 2016-2019 at Rafil [kWh/l,kg]



In 2019, energy consumption per production unit increased slightly due to a marginal decrease in production volume. The increase in energy consumption per production unit compared to 2018 amounted to approximately 1.9%. However, the total energy costs per production unit fell by 4.3% compared to the previous year.

#### 3.3.3.3 Safety of work

All the employees of FFIL ŚNIEŻKA SA are represented by elected Employee Representatives. It is a team of three people appointed for a 4-year term of office. The scope of their activity covers representation of employees' interests and opinions before the Management Board and all the aspects of work, including also those connected with Occupational Safety and Health. In the reporting period, at the Company, no trade unions operated.

Employees of the Company (including to some extent the Employee Representatives) participate also in the work of commissions appointed in the Company:

- **Occupational Safety and Health Commission** – its aim is to perform inspections of working conditions, periodical assessments of the condition of occupational safety and health, to present opinions on measures introduced by the employer to prevent accidents at work and occupational diseases, to submit requests to improve working conditions and to cooperate with the employer on carrying out its duties in the field of occupational safety and health.
- **Company Examination Commission** – conducts examinations for 100% of employees on non-managerial positions.
- **Fire and Technical Commission** – its members are the Company's engineering and technical service employees, who inspect, in the framework of inspection activities, the area, facilities and systems used by the Company, and, with relevant reports, define protection and prevention measures that must be taken in order to remove detected threats to life and health as well as those concerning fire security and evacuation of employees.
- **Company Anti-Harassment Commission** – the scope of its tasks has been discussed in the chapter on human rights.

- **Social Commission** – it manages every year the cash from the Company Social Benefit Fund and determines the rules for spending it to adjust it to the employees' needs; the commission is authorized to issue opinions and advice about assessment of personal and financial situation of persons having the right to receive the benefits from the Fund and applies for granting these benefits
- **Waste Collection Locations Inspection Commission** – acting within the Integrated Quality and Environment Management System, the commission inspects, once a year, the locations where waste is collected. The result of a performed inspection is a Report on Waste Locations Inspection, which includes recommendations decided to be implemented during the inspection.
- **Waste Storage and Units and Systems Inspection Commission** – acting within the Integrated Quality and Environment Management System, the commission inspects, once a year, the Waste Storage as well as the Units and Systems. The result of a performed inspection is a Report on Waste Storage Inspection and a Report on the Inspection of Units and Systems, which include recommendations decided to be implemented during the inspection. An additional element supporting the activities of the above-mentioned Commission is the Environmental Report prepared by *Fabryka Farb i Lakierów Śnieżka SA* once a year, after its completion, providing a comprehensive image of the Company's operations in all aspects of exploiting the environment.

## Accidents

High standards of work safety are reflected by a low number of accidents. In 2019, in the Company eight accidents occurred, including one which did not occur at work. All of them were recognized to be accidents at work and all of them were individual and light ones.

In 2019, these accidents contributed in total to 184 days of inability to work. In order to determine permanent or long-term percentage of health detriment, documentation was submitted to ZUS regarding two accidents at work. Comparing the accident frequency ratios "Ww" and accident severity ratios "Wc" in 2018 with 2019, it should be noted that the accident frequency ratio increased insignificantly from  $Ww=7.76$  in 2018 to  $Ww=8.83$  in 2019. At the same time, there was a decrease in the accident severity ratio for the accidents that occurred from  $Wc=39.20$  in 2018 to  $Wc=26.28$  in 2019. Severe accidents, fatal accidents or occupational diseases were not recorded.

In the reporting period, one accident was reported on the way home from work. In all accidents, an accident investigation was carried out, appropriate documentation was drawn up for these accidents and the circumstances and causes of these events were established. In each of the accidents occurred, the President of FFIL Śnieżka SA issued a written recommendation to eliminate permanently the accident causes and prevent similar ones in the future.

Two accidents at work were reported Poli-Farbe in Hungary. Both were classified as individual, light, which resulted in a total of 77 days of inability to work. Severe accidents, fatal accidents or occupational diseases were not recorded in the Company.

In the subsidiaries in Ukraine and Belarus in the reporting period no accidents at work and occupational diseases were recorded.

Rafil reported two individual accidents at work, which were classified as light and resulted in a total of 224 days of inability to work. Severe accidents, fatal accidents or occupational diseases were not recorded in the said company.

In 2019, six post-accident risk analyses were carried out, referring strictly to the root causes of accidents, determined during the post-accident investigation. Records of corrective and preventive actions were included in the current occupational risk assessment in individual departments or cells.



## OHS training

Training is an essential element of health and safety at work activities. In 2019, periodic training for a total number of 2 supervisors managing employees was organized and conducted. At the same time, during the year, periodic training in the area of occupational health and safety and fire issues was organized and conducted for five training groups. 372 employees, holding manual and administrative positions, participated in the training.

The training was conducted on the basis of periodic training programs developed at the Company and covered the following issues:

- legal regulations concerning occupational health and safety, including provisions related to the work performed;
- threat factors occurring in the work processes as well as principles and methods of elimination or limiting the impact of these factors on employees, taking into account changes in technology, work organization and work positions, application of collective and individual protection measures, introduction of new equipment, machinery and tools;
- progress related to risk assessment factors occurring in the work processes and to the scope of protection methods preventing threats to health and life of employees;
- issues related to the arrangement of office workstations, taking into account the principles of ergonomics, including those equipped with screen monitors and other office equipment;
- circumstances and causes of accidents at specific work places and their prevention;
- rules of conduct in the event of an accident at work, fire, explosion or release of a chemical agent into the natural environment. Rules for conduct in emergency situations such as fire, explosion or serious industrial accident.

As part of the health protection of employees, the Polish companies of the Group, in accordance with the dates set by the doctors of the Occupational Medicine Clinic, carry out systematic supervision of employees' health by means of initial, periodic and control preventive medical check-ups. These examinations are carried out during working hours at the expense of the employer, i.e. at the same time the employee retains the right to remuneration.

Also the Group's foreign companies conduct periodic medical examinations based on local national law. Having valid medical examinations is necessary for an employee to be allowed to perform tasks on the assigned position.

All employees of the Group have access to appropriate and safe equipment and machinery, and are supplied with personal protective equipment either on an individual basis or permanent availability of these means.

In 2019, the OHS and Fire Protection team of FFil Śnieżka SA carried out a number of inspections in the Company's departments and units and drew conclusions regarding the necessary improvement of observed irregularities. Thematic inspections were also carried out and the required opinions were drawn up in this respect. In 2019, the OSH team evaluated and prepared 3 reports for the assessment of employee exposure control (Rich), and reviewed 8 Technology Instructions on work safety related to the manufacturing process of the products made.

The aim of these activities was to improve work safety at production positions and general fire safety in the Company.



### 3.3.4 Our products

Our product is a measure of our activity. It is the product that expresses creativity and pursuit of the highest quality as well as coherence with customers' expectations. We devote our time and resources exactly to develop new product solutions and improving the existing ones, while creating our brands and expanding their portfolio.

The manufacturing of products is based on the recipe developed in the Research and Development Department and designed in the course of a complex process. A finished product is a mixture of many raw materials, each of which fulfills its important functions. At a product designing stage, raw materials are selected in such a way that the final product should fulfil the assumed functional parameters, complied with legal requirements and ultimately brought satisfaction to the customer. At the testing stage, the designed mixture of raw materials undergoes laboratory and application testing, after which, if it satisfies all the requirements, it is transferred to the large scale, or proper production. If it is necessary to make changes to the raw materials in a product, the product is subject to a process similar to that performed at the stage of its designing. The replaced raw material is assessed with respect to formal and legal compliance, and then it is verified whether the material is compatible with the existing recipe and its properties are tested. At the final stage, products are assessed in terms of their quality by numerous tests in compliance with the standards.

As far as the product's compliance with legal requirements is concerned, attention is paid mainly to the end user's comfort and safety. Products are manufactured in compliance with provisions of the Polish and European Union laws. This concerns both construction law and the external regulations: REACH and CRP. Each product also has a material safety data sheet, technical card and may also have additional certificates (required or voluntary).

The above regulations define provisions of the procedures: Procedure for Implementing New/Modified Products, Procedure for Managing Production Process, Procedure of Product Monitoring, Procedure for Handling Non-compliance.

#### *3.3.4.1 Certification*





All the goods produced by the Group are subject to assessment in terms of their impact on the users' health and classified by the Product Documentation Team.




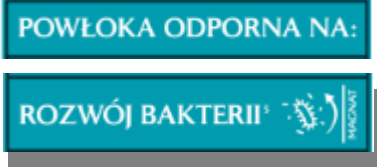


Apart from meeting the requirements for compulsory certification, the Group also takes effort to acquire additional voluntary certificates.

Table 30. Voluntary certificates

	<p><b>The Ecolabel sign</b> is a European award granted to <b>environmentally friendly products meeting high quality and health standards.</b></p> <p>The grounds for the award of EU Ecolabel is Regulation (EC) no. 66/2010 of the European Parliament and of the Council of 25 November 2009 on the ecological labelling of particular product groups.</p>
	<p>Product sign, which includes <b>VOC emission class</b> in accordance with the French Decree no. 2011-321 of 23 March 2011 relating to the labelling of construction products with their volatile pollutant emissions.</p>
	<p>Certificate issued by the <b>British BBA certification body for a complex thermal insulation system.</b> BBA certification is recognized in the construction industry as a symbol of quality and safety, which ensures the product's suitability for the intended application.</p>
	<p><b>PN Certificate</b> issued by the Polish Standardization Committee (PKN). The label is a quality and safety guarantee and confirms that the product was certified by the PKN.</p>

Table 31. Mandatory certificates

	<p><b>European Technical Assessment</b> for a complex thermal insulation system – or documented assessment of functional properties of a construction product with regard to its principal characteristics, in accordance with the relevant European assessment document</p> <p>A document confirming the highest functional parameters of products making up the FOVEO TECH S insulation system is <b>European Technical Assessment ETA 15/0022</b>.</p> <p>The document is in force in the territories of all the European Union states and confirms that the products making up the system are characterized by the highest functional parameters, including impact resistance, fire resistance, vapour permeability and resistance to varying thermal and humidity cycles.</p> <p>The European Technical Assessment is the most important document confirming quality and durability in the area of <b>construction materials</b> in Europe.</p>
	<p>Compliance Certificate for products that are subject to mandatory certification <b>in the territory of the Republic of Moldova</b>.</p>
	<p>Compliance Certificate for products that are subject to mandatory certification <b>in the territory of Belarus</b> confirms quality of products in compliance with prevailing normative acts of law.</p>
	<p><b>GOST R Declaration of Conformity</b> - is an official document that confirms the compliance of product safety and its safety with the requirements set out in the provisions of Russian law.</p>

	<p><b>Safety of toys</b>                  Products marked with the symbol "safety of toys" meet the requirements of PN-EN 71-2 standards regarding flammability and PN-EN 71-3 and migration of certain elements.                  Benefit confirms that the product can be used successfully for painting toys.</p>
<p>Antistatic</p>	<p><b>Antistatic</b> - reduced dust absorption.</p>
<p>UV radiation resistance.</p> 	<p><b>UV-C radiation</b> resistance.</p>
 <p>Ekologiczna</p>	<p><b>Hypoallergenic and microbiological</b> tests.</p>
	<p>Testing of <b>antibacterial properties</b> on plastics and other non-porous surfaces - according to ISO 22196 / JIS Z 2801.</p>
  <p>POWŁOKA ODPORNA NA WILGOĆ, ROZWÓJ GRZYBÓW I PLEŚNI<sup>1</sup></p> <p>ZABEZPIECZA PRZED ROZWOJEM GRZYBÓW</p>	<p>Protection of coatings against <b>fungi</b> PN-EN 15457: 2014                  Meets the requirements of the standard for moulds</p>

Confirmation of care with regard to transparency of information placed on the packaging of the Group's products is the absence of any important breaches in that field and on-going monitoring of the relevant labelling in view of the changing provisions of law in that area.

In the reporting period, three cases of non-compliance in terms of information and correct labelling of the Group's products were found, but this did not involve any financial penalties. In relation to the identified non-compliances, immediate correction actions were implemented in order to remove them. There were no cases of non-compliance with regulations or voluntary codes regarding the impact of products on health and safety.

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



### 3.3.4.2 Customers' opinions

The end customer is in the centre of attention of the Śnieżka Group - their needs, preferences and expectations. We are convinced that getting to know them well is the key to success. It is important to us to comprehend the strategy of our business partners and define a common path to reach the end customer.

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

- a) properly designed products,
- b) appropriate communication and marketing tools,
- c) ensuring availability of the product,
- d) well-organized points of sales, based on the principles of merchandising.

To assess customer satisfaction and loyalty, the Company monitors:

- sales volume and value,
- image of individual brands,
- opinions of end consumers.

Customers' opinions, both end and business, are taken into account when designing products, marketing and sales tools and process improvement.

### 3.3.4.3 Research and development activities

The Research and Development Centre (R&D), owned by FFIL Śnieżka SA, is a facility combining the following departments: Research & Development and Quality Assurance. The Research and Development Centre is comprised of research Laboratory accredited by PCA (no. AB 855).

R&D covers all companies comprising the Group, and its main task is broadly understood product development, including:

- research work on the knowledge and application of modern raw materials;
- learning new product manufacturing technologies as well as introducing new solutions to production processes;
- extension and implementation of research methods;
- verification of the quality of offered products in relation to market demands;
- cooperation and support of other departments of the group in their activities.

The product result of the works carried out in 2019 was the implementation of new products developed in the previous year:

- Magnat Ceramic Kitchen & Bathroom - a ceramic paint with a coating resistant to moisture, fungi and bacteria development, intended for areas exposed to moisture and condensation occurring periodically;
- Magnat Creative - paints with hydrophobic and oleophobic properties;
- Magnat Creative Kitchen & Bathroom - a latex paint featuring hydrophobic and oleophobic properties, with a coating resistant to moisture, mould and fungi development for rooms exposed to periodic moisture and condensation;





- Magnat Non-Reflex - an anti-reflective paint protecting the coating against fungi and mould development;
- Śnieżka Eko Plus - a snow-white interior latex matt paint;
- Śnieżka Plamoodporna - a stain-resistant, matt interior paint, non-splashing during painting, easy-to-apply and featuring perfect coverage.

In the reported period, the R&D staff supported the launch of a new automatically controlled production line intended for the production of colour paints.

Moreover, the R&D implemented several new research methods, including research methods for determining the content of biocide active substances in raw materials and products using liquid chromatography techniques.

As the result of new entity - Poli-Farbe - which joined the Śnieżka Group, the Research and Development Department team began active cooperation in terms of mutual exchange of knowledge and experience with the Hungarian counterparts. The exchange of *know-how* between the R&D departments provides the Group with new opportunities of developing synergistic solutions. As part of cooperation, works are being carried out to optimize the Poli-Farbe portfolio and use new raw materials for formulations previously used by the Hungarian company.

#### *3.3.4.4 Changes to the Group's portfolio in 2019*

The portfolio is one of the elements of building the competitive advantage of FFIL Śnieżka SA and the entire Śnieżka Group. Market observation, on-going analysis of sales results and the situation in the paints and varnishes sector are one of the most important processes carried out in individual Group companies. Consequently, they contribute to activities extending or restructuring the product offer and work on modifying products already available on the market - in order to adapt the portfolio to the consumer and the market's requirements.

In the reported period, FFIL Śnieżka SA decided to introduce changes to its offer. As regards the changes in the Magnat brand portfolio, the following products were launched onto the market:

- A new collection of interior paints under the Magnat Creative brand. It is a stain-resistant hybrid latex interior paint, which combines two properties: resistance to liquid contaminants (hydrophobicity) and resistance to grease (oleofobicity). Available in 56 colours in a deep matt finish.
- Intended for kitchen and bathroom applications. Magnat Creative Kitchen & Bathroom paint available in 18 ready-to-use colours.
- New paints comprising the portfolio of the Magnat Ceramic brand. Magnat Ceramic Kitchen & Bathroom ceramic paint for areas featuring high humidity was released onto the market offered in 18 ready-to-use colours.
- An anti-reflective latex paint for ceilings Magnat Non-Reflex, which thanks to the special formulation allows to make adjustments without streaks. By forming deeply matt, absorbing light reflections, the coating optically levels the painted surface.

As regards the changes in Śnieżka brand portfolio, the following products were launched onto the market:

- Scrub resistant white interior paint Śnieżka Eko Plus,.
- A new collection of interior paint available in ready-to-use colours called Śnieżka Plamoodporna (stain-resistant). This product lives up to those consumers' needs who are looking for a high quality product featuring very good performance at a reasonable price. Stain resistant is the name of a product and at the same time its main distinguishing feature and benefit, highly



appreciated by consumers. Consumers can enjoy 48 unique and fashionable colours available in matt finish.

In the period in question, the Śnieżka product offer was subject to modification by withdrawing certain products from the market.

In the reporting period, work was also carried out on development of a product offer dedicated to the main export markets where the Group companies operate. Analyses and reviews of product portfolios and competitive products were conducted. These activities are to contribute to an offer that will be tailored to the local markets' requirements and will address the local consumers' needs. The developed solutions will be implemented by individual companies of the Śnieżka Group from the 2020 season.

#### *3.3.4.5 Marketing Communication*

Conducting proper communication with the consumer is one of the most important issues for each brand, and this process can be implemented using a number of tools and by various channels. The quality of marketing communication is particularly essential nowadays since it is currently the consumer who decides how and where his dialogue with the brand takes place. It is therefore crucial to provide them with a consistent shopping experience regardless of which channel or channels they interact with the products. Such an approach, fully in line with this trend, is represented by companies comprising the Śnieżka Group in their marketing activities.

#### **FFiL ŚNIEŻKA SA**

In the reporting period, the Company arranged an array of activities supporting Magnat products (premium segment) on the Polish market. In 2019, the brand ambassador became an actress, Danuta Stenka, who is liked and appreciated for her professional achievements. The new campaign of Magnat ceramic paints, performed under the slogan "This magic is Magnat", was aimed at strengthening the Company's position in the segment of ready-to-use paints and building an image of the brand creating a unique atmosphere and magic of painted interior. These activities initiated in May 2019, and the main communication channels were television and the Internet. In addition, Magnat Ceramic and Magnat Care products were placed in a popular TV program dedicated to interior renovations.

In the period in question, FFiL Śnieżka SA also supported marketing of other Magnat products. Advertising activities under the slogan "Color changes everything" - carried out in cinemas and radio, including sponsorship activities on television and communication on the Internet - supported the new paint in ready-to-use colours, Magnat Creative. In the autumn, the Company also conducted a radio campaign for ceramic paint reducing formaldehyde - Magnat Care.

Due to the fact that consumers make decisions about buying paints and varnishes primarily at points of sale, the Company makes sure that their brands are properly displayed. Modified display standards were prepared for the 2019 season, based on new shelves with LED backlight, and work related to the exchange of display arrangement was carried out in the 2019 season and will continue in 2020.

Vidaron was also supported commercially. Advertising activities, based on sponsorship and product placement in gardening TV television shows, began in April 2019. In the very same month, a radio campaign based on the new slogan "Care is a male thing" inaugurated. Thorough activities were supported by various activities conducted on the Internet. Following modification of the packaging graphics of Vidaron products, new displays and other POS materials were also arranged, which appeared in stores at the beginning of the season.

The company also supported advertising of other portfolio products, including the new paint in ready-to-use colours Śnieżka Plamoodporna (Stain-resistance), as well as the offer of the Foveo-Tech thermal insulation system brand, which was mainly targeted at contractors. In the reporting period, the Company also carried out various marketing activities on selected foreign markets.

### Other companies of the Group

In 2019 Śnieżka-Ukraina and Śnieżka-BelPol subsidiaries implemented own scheduled advertising activities.

In the reported period, on the Hungarian market, Poli-Farbe carried out various marketing activities supporting the sales of its products. Between April and September, advertising campaigns of the Poli-Farbe Platinum Matt Latex emulsion in ready-to-use colours were arranged, which included communication on TV and Internet activities. Advertising activities were also carried out for products for wood protection and decoration sold under the brand - Poli-Farbe Boróka, water-borne enamel Poli-Farbe Cellkolor aqua and another internal paint in ready-to-use colours - Poli-Farbe Platinum. The sponsorship of popular TV programs was used in the communication conducted for the said products. The Hungarian company was also active in social media and blogosphere.

A radio campaign took place in Ukraine to support the sales of the Vidaron brand, product placement of Śnieżka in themed television programs and various types of promotions on the Internet. In addition, Śnieżka-Ukraina continued the partnership program, and as part of its activities, further stores were embraced by the Śnieżka brand store network.

Activities supporting the Vidaron brand were carried out on the Belarusian market in June and July 2019. Billboards and led screens in the Minsk underground and the radio were used for communication.

Less intense advertising activities and with the use of various tools were also carried out on other export markets.

In its marketing activities, the Śnieżka Group strives to ensure that the marketing messages conveyed are in line with the highest market and ethical standards. No case of violation of the Advertising Code of Ethics occurred in 2019 in marketing activities conducted by FFIL ŚNIEŻKA SA.

Safety of our customers' personal data is extremely critical to us. We do pay attention so that the data remains always safe and confidential. In the reporting period, no complaints regarding violation of customer privacy or loss of customer data were addressed to the Śnieżka Group.

#### 3.3.5 Social issues

Local communities of the areas neighbouring with our plants are at the centre of our social responsibility activities. We actively support those around us by ensuring high quality of production processes, caring for the environment and providing jobs.

In the reporting period, our companies were not engaged in any activities that could have a negative impact on local communities, which is validated by our record free of any complaints. FFIL ŚNIEŻKA SA conducted a stakeholder mapping exercise. The plans of engaging the stakeholders into joint actions have been included in the Employer Branding strategy developed in 2017. The strategy involves actions addressed not only to employees, but also to local communities. The implementation of these assumptions was scheduled for 2018-2019, and some activities also for 2020.

For over ten years now we have actively created signature social initiatives, in the form of programs and projects, both on a local and nationwide scale. The directions of actions defined in the social responsibility policy set the framework for the design and implementation of those activities.

We define the main pillars of the Śnieżka Group social commitment as follows:

- **Colour** – our social responsibility projects and other forms of commitment are focused around the principle – also written into our business strategy – of “making the world more colourful”, which we apply to many areas of our beneficiaries' lives. By “colour” we understand “a change



for the better”, “inspiration” and “joy”, a permanent part of sustainable development aspects of our socially-oriented activities.

- **Local community** – in the context of the entire Group, we emphasize the importance of the local environment in which our companies operate. We perceive local communities as the strength of each region and the country at large; we devote a lot of attention to local communities in our programs and projects. Aiming at dialogue with the communities, where our companies are located, we are engaged in activities important from the residents' perspective. We also perceive local community as a determinant of actions undertaken at the scale of the entire country; our initiatives are addressed, inter alia, to inhabitants and units located in small towns or areas at the verge of exclusion.
- **Children and young people** – they are the primary beneficiaries of our social actions, including their families and immediate milieu. Support for children and young people is rendered predominantly in cooperation with, or intermediated by, public bodies.

### **Key social activities performed by the Śnieżka Group companies in the reported period:**

#### *3.3.5.1 Original programs of FFIL ŚNIEŻKA SA*

##### **“Children's world in colours”**

“Children's world in colours” social program has been carried out for 14 years. During this time, 30 children's hospital wards throughout Poland have been renovated and artistically repainted. In the reported period, we thoroughly renovated one children's ward in the Health Care Facility in Dębica. This time, the activities undertaken by Śnieżka included not only preparing, painting and decorating the surface of the walls, but also replacement of door woodwork or installation of guards. The walls of the ward were provided with colourful motifs referring to the rich history of the Dębica region. In addition, as part of this edition, a children's corner was created, which we financed by rewarding the involvement of our employees in one of the internal projects - thanks to which each member of our team had the opportunity to support the ward. Over 650 people from Śnieżka got involved in the undertaking. The ceremonial presentation of the renovated ward was held on June 18, 2019. The renovation works in the hospital in Dębica lasted over 2 months and covered an area of about 4050 m<sup>2</sup>.

##### **„Koloratorium”**

"Koloratorium" is a project whose aim is to discover the extraordinary world of chemistry and biology for primary school students from small towns across Poland. Experience and knowledge in creating modern construction chemistry products has led to the establishment of a project that helps inspire children in areas consistent with our company's business profile. Modern laboratories provide children with an opportunity to explore the secrets of science, which so far have not been available to them. At the elimination stage of the competition, schools and students gain points for various activities set out in the competition rules. 30 schools, which score the most points at the elimination stage, get to the final stage. The rivalry takes place via the internet website, which is also a place for knowledge exchange, and the educational materials posted on it are an inspiration for both teachers and students who can also take part in the individual competition. The pilot edition of the competition was held in the 2017/2018 school year. In turn, in September 2019, the first nationwide edition of the project ended. Under the following slogan: "Explore and change the world!" students from 118 primary schools from several provinces competed for as many as 11 colourful classrooms sponsored by Śnieżka. The total value of all prizes in the project accounted for PLN 240 thousand gross, and schools were given 1400kg of various products necessary to carry out renovation of their classrooms. Educational facilities which engaged the largest number of students and performed the most interesting competition entries were awarded.

Figure 6. Minilabs funded by Śnieżka in 2019



Places 1-3 (3 minilabs worth PLN 30 thousand)

Places 4-6 (3 minilabs worth PLN 15 thousand)

Places 7-11 (5 minilabs worth PLN 10 thousand)

The nationwide edition of the "Koloratorium" was initiated in November 2019. The results will be announced in June 2020. This time, 164 schools from towns up to 20,000 inhabitants are competing for professional equipment of ten minilabs.



### *3.3.5.2 Initiatives co-organized and supported by FFIL ŚNIEŻKA SA*

#### **„Śnieżka Cup”**

The Śnieżka Cup competition is an opportunity for young footballers to show their talent to a wider audience and a great moment to test sports skills. The Śnieżka Cup tournament has been organized for several years and both the summer and winter edition are very popular among small athletes, their coaches and parents. Nearly 1,500 young footballers from the Podkarpackie, Małopolskie, Świętokrzyskie and Lubelskie provinces participated in the summer edition of the tournament, which was held between 15 and 16 of June in 2019. In turn, the winter edition, lasting from November 2019 for almost 2 months, gathered over 1000 children from 70 teams. The players came from three provinces: Podkarpackie, Małopolskie and Świętokrzyskie. Not only do the “Śnieżka Cup” tournaments promote physical activity and a healthy lifestyle among the youngest, but also teach them rules of fair play.

#### **“Safe road to school”**

"Safe road to school" is an action organized since 2012, which aims to popularize safe road behaviour among the youngest road users. Once again, Śnieżka joined the initiative, which funded colourful backpacks for 510 first graders from Dębica. The participants could take advantage of special boards covered with Magnat board magnetic paint, on which the first graders could paint road signs, and puzzle enthusiasts could play with magnetic puzzles, which with their help turned into information and warning signs. Every year, local companies as well as representatives of the police, territorial defence forces, ambulance service and fire brigade are involved in the event. Since the beginning of the project, more than 4,000 children from primary schools in Dębica have received school equipment.

#### **“Summer Cinema”**

Once again, Śnieżka supported open-air holiday sessions organized by the City Cultural Centre in Dębica. On Friday evenings at the band shell at Brzegowa street in Dębica, comfy beach chairs waited for film lovers as well as the best movies, free popcorn and competitions with prizes organized by Śnieżka. All you had to do was to fill out the coupons distributed before the screenings, by giving creative answers to "colourful questions" - Śnieżka products could be won to carry out summer renovations.

#### **“Great Orchestra of Christmas Charity” (WOŚP)**

On January 13, 2019, Śnieżka once again played with the Great Orchestra of Christmas Charity. The aim of the 27th Great Orchestra of Christmas Charity was to raise funds to acquire modern equipment for children's hospitals, such as magnetic resonance imaging, computed tomography, x-ray diagnostic devices, high-quality ultrasound scanners, echocardiographs and endoscopic equipment. Śnieżka, which has been involved in the Great Orchestra of Christmas Charity for years, handed over a check for this purpose for PLN 60,000 for the "Dębica Kwiatek" staff.

### *3.3.5.3 Programs and initiatives implemented by subsidiaries*

#### **Poli-Farbe Vegyipari Kft.**

- **"The Story of 25 Talented People" - publication "Equal Opportunities"**

"The Story of 25 Talented People" is a book depicting the life story of 25 talented people with disabilities. The work on the book lasted several months, and the publication itself promotes equal opportunities, increases awareness on the valuable work of disabled people and their achievements in areas such as sport, acting, science and business. The campaign was awarded the Kreatív CSR and Prizma in Hungary. The publication with interviews was distributed together with the ÉVA magazine in the spring of 2019. A leading Hungarian women's





magazine is largely addressed to middle and senior managers and business owners who play a decisive role in the integration and employment of handicapped people. During the second stage of the Poli-Farbe Kft. campaign, it expanded the publication’s content and made it publicly available on April 3–25, 2019 as part of the exhibition at the Centre for Information and Studies of József Attila at the University of Szeged.

- **“The Champion of our school”**

This initiative, aimed at renovating gyms and sports halls, began five years ago after starting cooperation between Poli-Farbe and the Hungarian Student Sports Association. During this time, 13 gyms in Hungarian schools have been renovated. The main assumptions of the project are promotion of a healthy lifestyle and doing sport. In 2019, the program was joined by another renovated facilities such as: Catholic Primary School Gáboros Kisboldogaskuje in the Békés commune, Herman Ottó Primary School and Artistic Primary School in Miskolc.

- **Renovation project for hospitals "Poli-Farbe - with colours and soul"**

It is a program which embraces wards in Hungarian hospitals. In 2019, 25 wards were renovated in 9 healthcare facilities in Budapest, Eger, Kecskemét, Miskolc, Szentes and Szolnok. Thanks to the program, hospital interiors gained brightness and freshness. In total, 1300 cans of paint were used in the project. Owing to the company's support, the healthcare centres that became the project beneficiaries could also purchase modern medical devices necessary for patients' diagnosis and treatment.

## **Śnieżka-Ukraina**

- **“The colourful world of childhood”**

„The colourful world of childhood” is the equivalent of the "Children's world in colours" Polish program (described in item 3.3.5.1). It is an original program under which Śnieżka-Ukraine has been refurbishing children's wards in Ukrainian hospitals for 7 years. The project has already been carried out in Ternopil, Zhytomyr, Rivne or Lviv. In 2019, another facility - the Khmelnytsky Municipal Children's Hospital, joined the program, where a 568 m<sup>2</sup> ward was subject to renovation.

- **Practical and Educational Centre**

Śnieżka-Ukraine has been cooperating with vocational schools in Ukraine for five years. Over this period, nine practical and educational institutions have been established in Ukraine, which annually organize various competitions, events and courses providing students with an opportunity and motivation to acquire new skills. The learners can acquire practical and theoretical knowledge in the areas like: painter, carpenter, fitter of thermal insulation systems. In 2019, other centres were opened in schools in Cherkassy and Kharkov. Last year, Śnieżka-Ukraine, with the support of the Department of Vocational Education and the Ministry of Education and Science of Ukraine, also organized a competition entitled "Decoration of finished wooden product with VIDARON products" for students in the following professions: carpenter, construction and woodworking carpenter. Teams from nine vocational schools in Ukraine, in which the centres operate, took part in the competition.

### *3.3.5.4 “Your Opportunity” Śnieżka Foundation*

The objectives in the area of social involvement are also performed by the “Your Opportunity” Śnieżka Foundation, which is a public benefit organization. The pillars supporting the Foundation appointed by the Parent Company in 2005 are the areas of education, healthcare and social aid. The Foundation

## the Śnieżka Group – Management’s report on the activities for 2019

Data in PLN thousand

supports the achievement of Śnieżka’s social involvement objectives, being simultaneously an independent entity acting pursuant to its own articles of association.

In the reporting period, due to the support from the Founder (FFiL Śnieżka SA), which amounted to PLN 350 thousand as well as due to payments coming from natural persons and cash from 1% of tax, the Foundation was able to actively pursue its goals in the following areas:

### EDUCATION

The Foundation supports comprehensive development of children and youth through performing its own educational initiatives and through supporting projects performed by units conducting teaching, cultural, educational and sports activity.

Among the institutions which received donations in 2019, there were, among others, schools, kindergartens, sports clubs and cultural units.

For 14 years of the Foundation’s operation, it has provided such support to over several hundred institutions and organizations.

- **“Small world of big money” project**

This is an original educational program performed by the Foundation in partnership with FFiL Śnieżka SA since 2016. The aim of the program is to familiarize fourth graders with secrets of economics. Lessons are conducted in an interesting way to get the children involved and the thematic areas of the cycle of six meetings was selected so that practical application of the discussed issues is shown. The original program prepared by experts is adjusted to small children and is made up of practical actions, at the same time filling the gap in the area of the foundations of economic education for primary school pupils. The final stage of the project is a trip to Warsaw, which includes a visit to the Money Centre at the National Bank of Poland. In the IV edition of the program in the 2019/2020 school year, 398 pupils from 20 schools from Dębica and neighbouring areas took part.

- **“Opportunity grant” a scholarship program**

**In 2019, the Foundation inaugurated a new scholarship program, which was addressed to high school students**

The purpose of the Program is to promote ambitious and highly talented pupils, distinguished by high achievements in their fields, as well as to support and enable them to develop further. The program is intended for those pupils and students whose financial conditions prevent them from undertaking or continuing a given venture in the field supported by the Foundation, in which they achieve successes at least at the national level. The support is of a grant nature and is provided for fees related to improvement, learning and development in the field presented by the scholarship holder.

In 2019, the Foundation also continued the payment of scholarships in relation to several scholarship holders accepted in previous years to the previous scholarship assistance program.

### HEALTH CARE

The Foundation helps chronic patients and the disabled. Financial support in this area includes payment for specialist procedures, therapies, rehabilitation or medicines. In the reporting period, the Foundation’s beneficiaries included children and adults with cancer, paralysis, suffering from genetic defects and other serious diseases.

For 14 years of the Foundation’s operation, it provided help to over several hundred persons. In 2019, 53 persons were under the care of the Foundation

The amounts of cash acquired and expended by Śnieżka’s Foundation in 2019 are presented in the tables below.

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Data in PLN thousand

Table 32. Cash acquired by the Foundation in 2019 [PLN]

Donations from the sponsor FFIL Śnieżka S.A.	350,000.00
Donations from other legal entities	11,628.64
Donations from natural persons	113,657.51
1% of tax	409,406.29

Table 33. Cash earmarked by the Foundation to achieve major statutory objectives in 2019 [PLN]

Aid to schools, kindergartens, educational and cultural institutions	64,928.58
Assistance in physical education, including aid to sports clubs	28,250.00
Aid to the ill and the disabled	436,022.40
Assistance in children's development	140,279.74
Charitable activity, including aid to charities	35,495.29
Scholarships	35,495.29

Data based on the Financial Statements of the "Your Opportunity" Śnieżka Foundation.

### 3.4 Managing risks related to the activity of the Group that affect non-financial issues.

As a result of the current pandemic of the COVID-19 disease (caused by the SARS-CoV-2 coronavirus), in the absence of available reliable and complete information and data on its effects, as at the date of

preparing the annual report for 2019 - similarly to all entities conducting business activity both in Poland and worldwide - it is not possible to precisely describe the risks associated with the Group's activities in the event of a possible pandemic that may have an adverse effect on the non-financial issues set out below.

The Company's Management Board will monitor the potential impact and take all possible steps to mitigate its possible negative effects on the Group, if any. However, due to the inability to obtain reliable information and data, currently all forecasts regarding the future - and in particular descriptions of risks related to activities that may have an adverse effect on non-financial issues - must, according to the Management Board, be analysed taking into account the abovementioned information.

#### 3.4.1 A description of significant risks associated with the Group's activity and affecting non-financial issues and methods of managing these risks

##### **Risk associated with product defects**

Claims related to product liability may have a negative impact on the business and operating results of the Śnieżka Group. In order to counteract product risks, the Śnieżka Group strives to continuously improve the quality of programs applicable in various areas of the Group and focuses on the effective implementation of research, development, innovation and sustainable development programs. An additional tool protecting against the effects of unwanted events is insurance coverage in the area of product liability.

Due to the complex technological process of the production of paints and varnishes, there is a risk that the final product will suffer from defects. The Śnieżka Group strives to eliminate any product defects at every stage of its development - from technological processes through the purchase of the top quality raw materials, meeting the most stringent standards, through the production process performed at the highest level, accompanied by quality control at every stage of production. Also the stages of storage and distribution are subject to very strict internal standards, and are controlled on an on-going basis.

The Company has a procedure for dealing with non-compliant products, which defines the principles for dealing with products that do not comply with the required technical parameters. Current quality control activities allow to ensure specific parameters of raw materials and products as well as allow to take immediate action in the case of non-compliance.

##### **Risks associated with development of a new product**

The risk related to production processes may negatively affect the bottomline of the Śnieżka Group. It results from such areas as process quality and product quality, health and safety at work, process safety and product safety. The unlikely scenarios may result in serious incidents significantly affecting the Śnieżka Group, entailing the business continuity and reputation risks. The Śnieżka Group carries out regular and detailed safety audits in these areas, and has in place an appropriate, multi-stage and iterative system of new product development management system.

##### **Risk associated with marketing communication**

The marketing communication of the Śnieżka Group is very intense. This may lead to a risk connected with the drafting and publication of messages (advertisements, etc.) which may in different ways breach the highest standards of marketing communication and cause damage to the company image. The Śnieżka Group has been taking efforts to prevent potential breaches of the highest standards of its marketing communication consisting among others in a thorough internal review of the planned advertising campaigns and checking compliance of the planned campaigns with the guidelines based on the Advertising Ethical Code. In order to prevent such breaches, the Parent Company has formulated

the principles of approval of marketing communications as well as a manual of conduct in the case of potential violations.

### **Risks associated with the increasing customer requirements**

The customer expectations with regard to parameters of the products offered have been growing rapidly. This trend can be observed in many industries as it is connected with higher levels of consumer awareness and wealth. It is quite a challenge as in some cases these expectations grow faster than they might be taken into consideration in the technological process. That is why the Śnieżka Group has been taking a range of actions to be able to meet the customer expectations in terms of the product quality and parameters. These actions include, among others, monitoring the customer expectations, internal knowledge sharing system for the persons responsible for production technology, dialog with suppliers regarding potential solutions and innovation they offer, as well as implementation of innovative technical solutions at the stage of new product development and testing.

### **Risk associated with the EU regulations concerning inter alia paint formulas**

The EU legal regulations which may affect the paints and varnishes industry are constantly becoming more severe and complex. This is of particular importance in the case of Ecolabel products. By way of example, to make sure that an eco-friendly paint remains fit for use for a long time it is necessary to use biocides since the use of natural components would result in the paint losing its properties due to natural decomposition. At the same time, the legal regulations on biocide parameters are becoming more rigorous. The Group monitors the legal developments that might affect the production on an ongoing basis and takes actions aimed at a rapid adjustment of its technology process with a view to mitigating this risk.

### **Risk associated with potential breaches of ethics in the supply chain**

Potential cases of violation of ethics in the supply chain may have an impact on the Group's image. The Śnieżka Group intends to implement measures to improve the review of the suppliers' ethical standards so as to mitigate this risk.

In order to reduce this risk, the Company implemented in 2018 the *"Terms and conditions of cooperation with vendors based on the policies of the Śnieżka Group"*. Further information regarding this subject is presented in item 3.1.11 herein.


In addition, actions were taken to draw up a purchase policy based on the Company's values. The completion of works and implementation is scheduled in 2020.

## **Risks associated with the areas covered by the Policies:**

### **Employee issues**

#### **Risk associated with demographic changes**

Demographic changes taking place in societies will soon pose a big challenge for employers who are to encounter the problem of the number and availability of employees. Regardless of the issue of changes in the labour market determined by changes in population in cities, the problem of demographic structure is a major challenge for employers, particularly in terms of unfavourable aging trends and low birth rates. At the same time, the trend of economic emigration is on the increase - more and more often a job is searched (temporarily or permanently) abroad. This applies to Poles as well as to the inhabitants of Ukraine, Belarus and Hungary, who often decide to leave their country and look for a better job elsewhere. Consequently, external and internal migrations will also be a critical element necessary to take into account the personnel strategies of companies. The Śnieżka Group follows changes in society and reduces demographic risk: by conducting employment analysis processes in the long-term



perspective, planning possibilities of managing the available workforce and preparing such activities that will allow for increasing the flexibility of processes and introducing attractive forms of cooperation with the Company.

#### **Risk connected with limited availability of staff and talent attraction and maintenance**

Staff availability, especially in some business areas, is becoming a problem for most organizations. As a result of globalization and the introduction of new technologies connecting potential employees with companies located in various regions of the world, the current labour market is the employee market. Competition for talent is taking place not only locally, regionally or nationally, but also internationally. Employers compete with each other to find the best employees who meet their expectations and fall into the organization's pattern. The Śnieżka Group is also facing the challenge of availability of suitable candidates and retaining key people in the organization. In order to minimize these risks, actions are taken to build the Company's image that will be attractive to potential employees from various regions of Poland and to prepare such a value offer that will make Śnieżka stand out among other organizations. The Company runs internal projects and programs aimed at employee development, community building and strengthening the rapport between employee and employer. Also in subsidiaries, internal activities are carried out to make the employee offer more attractive and retain employees in the organization. The positive image of the Group as an employer is also influenced by on-going projects between individual companies, which confirm the international scope of the Group's operations, thus providing employees with the opportunity to operate in a broader business perspective and allowing the development of competences at an international level.

#### **Risk related to a decrease in employee motivation and involvement**

As any organization, the Śnieżka Group is aware of risks that may arise in a difficult area of employee motivation. Considering various needs of representatives of different generations cooperating with each other and paying attention to unique internal motivators driving our employees to specific actions and decisions, the Group strives to conduct a personnel policy in order to address diverse needs of employees. Employees' moods are subject to monitoring and their level of satisfaction is examined. Furthermore, one of the key elements of the current HR strategy is building a culture of high engagement.

#### **Natural environment**

##### **Risk associated with a potential adverse impact on environment**

In connection with the use of chemicals the Śnieżka Group must pay special attention to its environmental impact as well as all regulations in this area. Therefore, the mandatory environmental responsibility reviews are carried out to control the risks, monitor the actions taken to perform the obligations in the scope of environment protection and to assess the changes in the undertaking's exposure. Also, the Śnieżka Group has been taking efforts to conduct its business as safely and responsibly as possible and to develop technologies and innovation to reduce environmental footprint of its products.

##### **Risk associated with environmental management standardization**

In connection with the differences in the development of the Polish and the Ukrainian and Belarusian markets, the Śnieżka Group is now facing the challenge of standardization of the environmental management so as to make sure that the highest standard is applied throughout the Group. Pro-active actions have been taken to adjust the areas such as occupational safety and health to the level required by the laws of Poland and of the European Union.

#### **Social issues**





### **Risk associated with crisis communication management**

In view of a scale of its business and communications, the Śnieżka Group is to some extent exposed to the risk of occurrence of certain events which might require the necessity to use crisis communication. The Group has commended actions to implement a crisis management system in the area of communication. The aim of these activities is to ensure an efficient mitigation of potential communication risks.

### **Respect for human rights**

#### **Risk associated with work conditions, including occupational safety and health**

Human rights may potentially be breached at the Śnieżka Group in connection with the work conditions (working time, work conditions, etc.) The Śnieżka Group mitigates the risk thanks to detailed guidelines and procedures set forth in the key documents such as the Labour Bylaws in effect at the specific companies of the Group.

In view of the nature of its operations, the Śnieżka Group has prepared and implemented very detailed procedures in the area of occupational safety and health which are complied with very strictly.

### **Anti-corruption**

#### **Risk associated with potential occurrence of corruption acts**

Taking a potential risk of corruption into consideration the Śnieżka Group has formulated and implemented the Anti-corruption policy which has been communicated to all employees.

### **Diversity**

#### **Risk associated with potential cases of discrimination and harassment**

There is a potential risk of occurrence of events which may be understood as discrimination and/or harassment. The Group has developed and implemented an anti-harassment procedure so as to prevent this risk. There is also an anti-harassment commission operating at FFIL ŚNIEŻKA SA, and employee training on the subject is provided.

#### 3.4.2 Stakeholders – stakeholder map

The chart presenting the key stakeholder map was prepared in 2017 during a strategic workshop with participation of the Company's key managers and members of the Management Board. In the reporting period there were no changes in the structure of stakeholders, therefore the diagram is considered up-to-date.

Figure 26. Stakeholder map



### 3.4.3 A description of relationship management with respect to specific stakeholder groups

Framework standards in the area of information and data management in relations with key stakeholder groups are regulated by the *Information Policy of FFIL Śnieżka SA* implemented in 2019. The overriding objective of the Policy is to adopt a framework for managing information and data on the Company, including protecting the Company's interests in this area, mitigating the risks arising from a significant scale of the Company's operations and operating in many locations and on many markets. The standards adopted by the Company will be gradually implemented into subsidiaries.

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Data in PLN thousand

We address each of the stakeholder groups on an individual basis and communicate with each group in a manner adjusted to its needs. We believe that feedback is a valuable guidance that enables us to review, on an on-going basis, the actions taken with a view to building stable and transparent relationships with our stakeholders. The establishment of such relationships is a value for the Group.

Table 34. Methods of managing relations with stakeholder groups

Stakeholder group	Methods of managing relations with stakeholder groups							
	Meetings	Satisfaction surveys	Training	Social Media	Industry conferences and events	Website	Internal communication	Phone/e-mail contacts
<b>Cooperate closely</b>								
Current employees	x	x	x	x		x	x	x
Strategic shareholders	x				x	x		x
Suppliers of raw materials	x				x			x
B2B customers	x		x			x		x
Competition				x	x	x		
Financing banks	x					x		x
Institutional shareholders	x					x		x
Service providers	x					x		x
<b>Monitor</b>								
Individual shareholders	x					x		x
<b>Inform</b>								
Customers	x			x		x		
Local community	x			x		x		
Media	x			x	x	x		x





Below we present the most frequently used methods of communication with our stakeholders:

- **current employees** – company magazine, employee newsletter, intranet, information displays, posters, contacts via selected employee representatives
- **strategic shareholders** – General Shareholder Meetings, reports (interim, current, annual)
- **competition** – industry meetings, monitoring of activity in the media, monitoring of sales in the paint market
- **suppliers of raw materials** – meetings, phone conversations, industry events
- **B2B customers** – meetings and phone calls, training
- **financing banks** – phone calls and meetings,
- **institutional shareholders** – regular meetings dedicated to performance
- **service providers** – tenders and meetings
- **prospective employees** – publication of vacancies, Employer Branding activities, fairs
- **local communities** – dedicated social activities, the “Your Opportunity” Śnieżka Foundation, local media
- **customers** – customer satisfaction surveys, social media, POS communication, competitions and promotional actions, advertisements via various communication channels
- **media** – briefing, on-going contacts (press office and direct contacts)
- **public administration** – direct contacts as well as phone, e-mail and traditional communication
- **individual shareholders** – phone conversations and meetings

### **3.5 Principles used to prepare the Non-Financial Report**

For the purposes of preparing this Non-Financial Report, the Śnieżka Group performed an internal analysis of actions taken, policies and due diligence procedures in place. The internal analyses were conducted, inter alia, on the basis of ratios determined in the process of assessment of materiality in 2017, based on data collected by the Śnieżka Group companies. A project team was appointed to prepare the report. The team members performed an assessment of materiality of the reported areas and selected the key indicators as well as confirmed the validity of the stakeholders' map developed in 2017.

## **4. Risk management**

This chapter presents significant risk factors and threats to the operations of the Śnieżka Group.

As a result of the current pandemic of the COVID-19 disease (caused by the SARS-CoV-2 coronavirus), in the absence of available reliable and complete information and data on its effects, as at the date of preparing the annual report of the Group for 2019 - similarly to all entities conducting business activity both in Poland and worldwide - in the opinion of the Company's Management Board, it is not possible to present any possible significant risk factors and threats to the Group's operations.

The Company's Management Board will monitor the potential impact and take all possible steps to mitigate its possible negative effects on the Group, if any. However, due to the inability to obtain reliable assumptions, currently all forecasts regarding the future - and in particular descriptions of risks related to the Group's operations - must, according to the Management Board, be analysed taking into account the abovementioned information.

In addition, the Group identified risk factors affecting non-financial issues. They are described in item 3.4.1 herein under: “Managing risks related to the activity of the Group that affect non-financial issues”.

## 4.1 Risk associated with macroeconomic situation

Macroeconomic conditions play an important role for the Śnieżka Group. Changes in the economic, social and political environment - in Poland and other foreign markets, on which individual Group companies operate (primarily Hungary, Ukraine and Belarus) - may adversely affect the Group's operations and bottom line.

Risk associated with macroeconomic situation for the Śnieżka Group is mainly connected with:

- Covid-19 pandemic.

A short or long-term economic recession in the future, triggered by the COVID-19 pandemic, cannot be excluded. At this stage, its duration and possible consequences for the Group cannot be determined.

- Lowering the purchasing power of society as a result of economic slowdown or recession.

Increasing inflation in Poland, caused by a boost in energy costs and a rise in the minimum wage, may affect household consumption. This can lead to, inter alia to reduce expenditure on renovations and modernization of apartments. According to the Central Statistical Office data, domestic demand was one of the main drivers of GDP growth in Poland in 2019. Lower wage growth (despite an increase in the minimum wage), higher inflation and lower (y/y) indexation of pensions imply a much lower increase in real household income in 2020.

The risk of reducing the purchasing power of the society may occur in particular in Ukraine and potentially may be caused by: lack of reforms (which may limit assistance from the IMF and the European Union), exacerbation of conflicts in the east of the country and a change in economic policy after the 2019 elections. A serious risk for economic growth also occurs in Belarus owing to problems related to the indebtedness of the state sector.

- Deterioration of the construction industry's condition

In the reporting period there was a decrease in the capacity utilization of enterprises, which in January 2020 amounted to 79.9%. The increase in labour costs (e.g. by raising the minimum wage) and difficulties in recruiting employees may cause that the construction sector will not be able to meet investment needs, which, as a consequence, may have an adverse effect on the demand for decorative products. In addition, construction companies pay attention to obstacles in conducting business operations, such as employment costs, shortage of qualified employees and high budget burdens.

A possible decrease in consumption, deterioration in public sentiment and increasing prices of residential quarters may lead to lesser demand for apartments - both on the primary and secondary market. It may also result in a reduction of expenses on renovations and modernization of apartments, which mainly determine the demand for decorative paints. However, it seems that the economic downturn in construction should not be expected in the coming year.

- The condition and credit policy of banks.

In 2019, banks tightened their lending policy in the area of granting mortgages and consumer loans. The increase in bank loan spreads may have a negative impact on the demand for apartments and the renovation scale of existing housing resources. In particular, such a risk may appear in Ukraine, whose banking sector is in poor condition.

## 4.2 Strategic risk

Strategic risk is related to a possibility of negative financial 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 development dynamics of the paints and varnishes market.

Faster than assumed by the Group the market growth may result in the Group's failure to adapt its production potential to increased demand and losing its current market position;

- Inaccurate predictions of customer preferences, both in terms of the volume of product demand and product features (e.g. in terms of colours).
- 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.

### **4.3 Risk associated with operating activities**

It cannot be ruled out that the COVID-19 pandemic 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 facilities, limited availability of raw materials for production and an increase in their prices or supply issues or product distribution. As at the date of preparing the Group's annual report for 2019, an estimate of the probability of materialization of such scenarios and the scale of the abovementioned possible consequences in the area of the operating activities of the Group companies is unfeasible.

At present, the Company's Management Board does not notice the direct impact of the COVID-19 epidemic on the Group's operations, except for the decision of the General Director of Śnieżka-Ukraina Sp. zoo., who reduced temporarily a part of the production in this company. This decision was made as a consequence of the epidemiological activities of the Ukrainian authorities, taken against the pandemic. The Śnieżka-Ukraine authorities estimated that as a result of the above constraints, the production level in the above mentioned period will drop to around 50% of the current production level. Information regarding this is presented in item 1.3 herein.

By conducting business activities, the Śnieżka Group is exposed to various types of operational risk, such as:

- Disturbances and interruptions in the operation of production facilities, as a result of failures and natural disasters.

In order to minimize this type of risk in production facilities, FFIL Śnieżka SA maintains a continuous, preventive maintenance policy, consisting in planning and implementing various activities to avoid 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. CMMS class systems are specialized software dedicated to production facilities in which individual organizational units operate responsible for maintaining the technical condition of the facility at a certain level.).

The Group's companies also hold a property insurance policy against all risks, including the impact of natural disasters.

Essential insurance agreements concluded by the Group are presented in item 1.7.2 herein.

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

As far as strategic raw materials are concerned, there is a continuous risk related to high sensitivity of price changes, which stems from the global demand/supply relation and the availability of raw materials. The paints and varnishes industry is strongly dependent on the prices of titanium white (TiO<sub>2</sub>). Almost half of the production capacity of TiO<sub>2</sub> is concentrated in six global corporations, while the chemical market tends to further consolidate, which results in further price increase of titanium white. Therefore, any failures and stoppages in plants producing this raw material may cause difficulties with its supply and lead to an increase in its price.

Moreover, the Group is exposed to the risk of price increase of other raw materials, e.g. solvents, pigments, resins as well as metal and plastic and oil (used to make packaging for paints and varnishes).

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 main risk for the Śnieżka Group in the field of supply is primarily related to the price increase in raw materials depending on oil price, transport costs, temporary or long-term restriction of access to raw materials and changes in exchange rates.

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 these risks, the Group, among others, 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 supply from suppliers' supply. In addition, the Group believes 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

There is a risk related to a decrease in availability of the Group's products, which is a consequence of the strategies implemented by business partners (DIY networks) and direct competitors. The Group strives to minimize this risk by developing a multi-channel sales strategy and building strong own brands.

- The risk associated with surplus stocks.

Changes in the product portfolio and the shares of individual segments in sales necessitate to constantly monitor the level of stocks of raw materials and finished products. The reduced demand for the Group's products may lead to accumulation of excessive inventories and the need to create revaluation write-downs.



- The risk associated with infrastructural constraints.

Lack of sufficient production capacity connected with intensive development may cause infrastructural constraints in the effective implementation of business objectives in the future. To prevent this risk, the Company is modernizing and expanding its production lines. In 2019, the Company made a number of investments in its plants in Pustków and Lubzina (a description of these activities, see item 1.7.1). By 2022, the Company is also planning to complete the erection of a modern logistics centre, whose objective is to supply the market with its products more efficiently and cheaply.

#### **4.4 The risk associated with competition**

The Group's operations on other markets are also conducted in conditions of fierce competition, both on the part of local entities and international companies. Relatively high crossbars to enter the market of paints and varnishes mean that large financial outlays are necessary to start up new production facilities in the industry, and the possible emergence of a new competition could result primarily from acquisitions. In 2019, there were no significant changes in the scope of the power distribution among paints and varnishes producers on the Polish, Hungarian and Ukrainian markets. Russian manufacturers are more and more visible in Belarus.

The Group monitors the activities of other entities on all key markets. The Group companies try to limit the risk related to competition activities through appropriate sales and marketing initiatives supporting the sales of products comprising the Group's portfolio.

#### **4.5 The risk associated with environmental protection**

When using chemicals in its operations, the Group must pay particular attention to its environmental impact and all regulations in the area of ecology. Therefore, the mandatory environmental responsibility reviews are carried out to control the risks, monitor the actions taken to perform the obligations in the scope of environment protection and to assess the changes in the undertaking's exposure. Also, the Group has been taking efforts to conduct its business as safely and responsibly as possible and to develop technologies and innovation to reduce environmental footprint of its products.

The risk related to environmental protection at the Śnieżka Group is primarily associated with the emission burden exceeding the standards resulting from applicable legislation and the conditions of use specified in environmental decisions, which may arise as a result of improperly conducted warehouse and production activities.

However, the environmental risk is treated by the Group in many dimensions, as referring to various environmental aspects - both internal and external. A severe measure of loss may be significantly increased fees for the use of the environment, penalties for non-compliance (up to several million zlotys) and, as a consequence, suspension of production operations. 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.

A specific ecological strategy and environmental policy of the Śnieżka Group are the safeguards against materialization of the risk that may arise in the field of environmental protection. The environmental activities in the FFIL ŚNIEŻKA SA are implemented in accordance with the applicable legal requirements.

FFIL Śnieżka SA in cooperation with subsidiaries will regularly assess any discrepancies between the provisions of its environmental policy and new applicable national regulations and other norms.

## 4.6 Financial risk

It cannot be ruled out that the COVID-19 pandemic may in the future cause a number of adverse effects in the area of the Group's finances - including, for example, failure to meet obligations by customers or liquidity issues. Also, there is a risk of a significant increase in costs and, as a result, a decrease in profitability as a result of prolonged strengthening of currencies - especially the euro, which is used to acquire significant proportion of raw materials - with the simultaneous inability to transfer the resulting increase in costs to the price of products manufactured by the Group due to market conditions. As at the date of preparing the Group's annual report for 2019, an estimate of the probability of materialization of such scenarios and the scale of the abovementioned possible consequences in the area of finances and liquidity of the Group companies is unfeasible.

### Currency risk

In its activity, the Śnieżka Group is exposed to the risk of fluctuating exchange rates. The Group imports raw materials, paying primarily in Euro, used for the production of paints and varnishes and the largest currency risk for the Group is the one related to changes in the EUR to PLN exchange rate.

On the other hand, the Group exports products mainly to Central and Eastern European countries where settlements are carried out in various currencies - both those most commonly used in international trade and in local currencies.

In addition, currency risk arising from equity 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 exposures in HUF and UAH of the said investments are higher than resulting from export flows. The risk in net investment in Hungary is secured by a foreign currency loan in HUF raised by FFiL Śnieżka SA, while the currency risk from investments in Ukraine is mitigated by systematic payment of dividends to the Company by Śnieżka-Ukraina.

From the point of view of currency exposure, as at the date of publication of the periodic report for 2019, the following currency pairs are most important for the Śnieżka Group:

- EUR/PLN: around EUR 49m,
- HUF/PLN: around EUR 9m (where, assuming the consolidation of the results of the Poli-Farbe group for the entire last year, this figure can be estimated at around EUR 15m).

The above currency exposure analysis was performed based on the profit and loss account and is of a simplified nature.

In order to minimize the negative impact of exchange rates on generated revenues and profits, the Group conducts a currency risk analysis on an on-going basis. As at the date of preparing the annual report - due to the very high volatility on currency markets in the last weeks before the publication of the report, which is the result of the COVID-19 disease pandemic - this risk has increased significantly.

Information on currency risk is also included in the consolidated financial statements, in notes 38.2 and 39.3.2.

### Interest rate risk

The Śnieżka Group holds loan and borrowings as well as financial lease liabilities with a variable interest rate. Therefore, it is exposed to the risk related to the increase in interest rates.

As at December 31, 2019, the Group's total liabilities on loans and borrowings and financial leasing amounted to PLN 221,803 thousand. The increase in official interest rates (WIBOR, EURIBOR, LIBOR, BUBOR) may contribute to a risk of increasing the Group's financing costs.



In 2019, the Group did not apply instruments hedging the interest rate risk.

### **The risk associated with receivables**

The Śnieżka Group continues and develops the previously adopted policy of managing receivables based on cooperation with reliable and long-term partners. The Group actively manages the customer's credit risk, comprehended as customer's failure to comply with their obligations. It is achieved by limiting and monitoring trade credit, depending on their financial standing and development dynamics. In this process, the Company liaises with business intelligence and insurance companies.

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.

Expansion to new markets, and in particular to export ones, is associated with uncertainty in terms of obtaining receivables. To tackle this challenge, the Group limits the risk by insuring receivables from newly won customers. 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. The policy of monitoring receivables is also used between related companies within the Group. 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 liquidity risk is related to the company's ability to settle its current liabilities and 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, 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 31 December 2019, the Group had no problems with timely settlement of its liabilities, which can be reflected by its ratios.

### **Information about the loans incurred and the loan agreements terminated**

In 2019 FFIL Śnieżka SA signed loan agreements with several banks to finance the acquisition of 80% shares in Poli-Farbe Vegyipari Kft., and to implement investment plans of the Company in 2019 as well as to ensure financing of the Company's current operations.

Agreements and annexes with the banks concluded in 2019 are described in item 1.7.2. Other loan agreements with the banks are presented in item 1.7.3 herein.

## **4.7 IT risk**

Failures of key information systems or unauthorized access through cybercrime or other events may have a direct impact on the 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, is constantly monitored by the IT Security Operation Center, regularly backs up key data, and has extensive anti-virus and anti-phishing protection.

In January 2020, the Company launched a modern, integrated ERP SAP S/4HANA system, which aims to improve operational activity and increase the security of IT operations. As part of the integrated SAP package, in 2019 tools were also launched to support sales and customer relationship management as part of the SAP C/4HANA platform. The package consists of modern SAP E-Commerce B2B and B2C sales portals, cloud tools for customer relationship management and support for sales representatives, as well as cloud tools supporting electronic marketing SAP Marketing Cloud.

As part of the internal program to build awareness of cyber security called *Cybersecurity*, operations are being carried out to build employees' awareness in the context of this subject. These activities are part of a long-term plan to build employees' awareness and preventive measures as well as detect and respond to cyber threats.

#### **4.8 The risk associated with the loss of qualified staff**

The Śnieżka Group invests in the development of its employees - both in terms of gaining new knowledge and practical experience. Due to these investments, the Group has significant value, which is highly qualified and experienced staff. In the Group companies, the percentage of jobs occupied by highly qualified persons with specialist knowledge in various business areas is constantly increasing. The value of such employees is crucial for building and maintaining the competitive advantage of FFiL Śnieżka SA, and their loss may result in a decrease in efficiency and loss of business opportunities.

Considering the risk of losing qualified staff, the companies comprising the Group have a personnel policy with the following strategic elements:

- turnover monitoring,
- building retention programs that ensure continuity and smoothness of work and translate into retention of knowledge and experience within the organization.

An important element of this strategy is also the development of managerial attitudes and leadership styles among managers of highly qualified employees.

#### **4.9 Legal risk**

It cannot be ruled out that due to the COVID-19 disease pandemic, caused by the SARS-CoV-2 coronavirus, legal solutions introduced by public authorities - including the Regulation of the Minister of Health issued on March 20, 2020 regarding the introduction of epidemic status in Poland, and other legal solutions, which will eventually be introduced in the future, will have an impact on the Group's operations. As at the date of preparing the Group's annual report for 2019, it is not possible to assess their potential impact on the Group.

The EU legal regulations which in any way affect the paints and varnishes industry are constantly becoming more severe and complex.

In order to prevent this, the Group monitors the legal developments that might affect the production and takes actions aimed at a rapid adjustment of its technology process with a view to mitigating this risk.

There is also a risk related to differences in the interpretation of tax regulations. Despite observing by the Group both domestic and EU legal regulations in the field of accounting, tax information included in tax returns and declarations may be considered by the Polish tax authorities to be unlawful. If the tax authorities adopt a different tax interpretation than the one applied by the Group to calculate the tax liability, such a situation may have a significant impact on the Group's financial results.

#### **4.10 Risks characteristic to the major foreign markets on which the Group operates**

##### **Hungary**

In the coming years, the economic slowdown in Hungary is expected to reach slightly above 3%. A strong Hungarian economy and reduced production capacity will boost imports, and exports may slow down along with weaker international trade and rising labour costs. The risk of a slowdown in Hungary is focused on higher-than-forecast wage increases, which leads to higher inflation expectations. Further weakening of the situation on export markets (for local companies) may worsen the outlook for GDP growth in Hungary. On the other hand, a lower than expected increase in import prices may mitigate changes in domestic prices and maintain growth.

##### **Ukraine**

In 2019, presidential elections were held in Ukraine, followed by parliamentary elections. Risks that may affect the Group's activities on the Ukrainian market include political instability, lack of structural reforms or their failure, as well as the still not completely stable situation in the east of the country. A high level of corruption and uncertainty of the Ukrainian hryvnia exchange rate are still a significant limitation for business development or new investments.

##### **Belarus**

The Śnieżka Group, operating on the Belarusian market, must bear in mind the possibility of situations that may adversely affect its bottom line. Among them, it is necessary to indicate a risk related to weak dynamics of economic development (GDP growth rate) and currency risk. Currency risk results from a centrally controlled currency exchange model. For this reason, the majority of settlements are made in euros, and many distributors arrived at a conclusion to purchase the Company's products/ goods in zlotys (consequently, the price is not affected by USD/EUR fluctuations).

The situation of the Śnieżka Group is influenced by activities carried out by the Belarusian government to protect the domestic market (customs, permits, certificates). One of manifestations of this protection is obligation to implement costly certification of imported goods.

In addition, the risk factors encompass consequences of Belarus's membership of the Eurasian Customs Union (including Russia), including the related expansion to the Belarusian market of Russian manufacturers of construction materials, e.g. Vetonit-Weber, Knauf, Bergauf and others.



## 5. Corporate governance and corporate information

### 5.1 A set of corporate governance principles and the scope of their application

FFIL ŚNIEŻKA SA applies recommendations and principles of corporate governance specified in “*Best Practice for GPW Listed Companies 2016*” document. The document is publicly available on the following website: [www.corp-gov.pl](http://www.corp-gov.pl).

From the date of entry into force *Best Practice for GPW Listed Companies 2016*, the Management Board of FFiL Śnieżka SA strives to ensure that the principles and recommendations referred to in this document are applied to the Company to the widest possible extent.

At the same time, the Management Board declares that in 2019 the Company withdrew from applying or applied partially the following principles/ recommendations:

Principle/Recommendation	FFiL ŚNIEŻKA SA’s comment
<b>I. Disclosure policy, investor communications</b>	
<b>I.Z.1.</b> The Company operates a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:	
<b>I.Z.1.3.</b> a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1;	Not applicable - in the absence of applying principle II.Z.1.
<b>I.Z.1.10.</b> financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation;	Does not apply to the Company. The Company does not publish any financial projections.
<b>I.Z.1.15.</b> information about the company’s diversity policy applicable to the company’s governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website;	The principle is not applied.  The Management Board of FFiL Śnieżka SA informs that the Company has not developed and does not apply any diversity policy to the company’s governing bodies and key managers but the diversity policy applies to all employees within the Group. The main criterion for appointments to key positions in the Company is competence and the fulfilment of requirements for the position in question. Characteristics such



as gender or age do not affect the evaluation of candidates.

**I.Z.1.16.** information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting;

The principle is not applied. The Company does not apply this principle due to the waiver of principle IV.Z.2.

**I.Z.1.20.** an audio or video recording of a general meeting,

The principle is not applied.

In the Company's opinion, the costs of organizing a general meeting of shareholders using electronic means of communication are disproportionately high in relation to the potential benefits arising from this. Due to the Management Board's departure from the principle of providing shareholders with the opportunity to participate in the general meeting by means of electronic communication, the record of the general meeting in audio or video will not be posted on the Company's website.

## II. Management Board and Supervisory Board

**II.Z.1.** The internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website.

The principle is not applied.

The Management Board of FFIL Śnieżka SA hereby reports that the Company does not comply with principle II.Z.1 providing for the internal division of responsibilities among management board members. Due to the nature and size of the Company's business, and pursuant to the Management Board Bylaws, the entire Management Board is jointly and severally liable for all areas of the Company's business and the fulfilment of obligations arising from the provisions of the commercial law and the articles of association.

## III. Internal systems and functions

**III.Z.3.** The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.

The principle is not applied.

The Company does not have any separate internal audit unit and does not have any separate position for a person managing such a unit, however, the Company carries out certain activities in this area.



**III.Z.4.** The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

The principle is not applied.

The Company does not apply the above mentioned principle due to the absence of a separate function of this kind in the Company. The functions of the internal audit are performed by the Management Board, presenting the Supervisory Board with the assessment of the effectiveness of the systems and functions in this area - without drawing up additional reports.

#### IV. Shareholder Meeting and Shareholder Relations

**IV.R.2.** If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) real-life broadcast of the general meeting;
- 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting, exercising, in person or by proxy, the right to vote during the general meeting.

The Company does not apply this principle.

The Company does not apply this principle due to shareholder structure and the high costs involved in arranging Shareholder Meetings with the use of electronic means of communication are incommensurate with the potential benefits such communication may entail.

**IV.R.3.** Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

Does not apply to the Company.

The Company's securities are only traded at WSE.

**IV.Z.2.** If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Does not apply to the Company.

The Company does not apply the above mentioned principle. due to shareholder structure and the high costs involved in arranging Shareholder Meetings with the use of electronic means of communication are incommensurate with the potential benefits such communication may entail.



## V. Conflict of Interest, Related Party Transactions

**V.Z.5.** Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing does not apply to typical transactions and transactions at arm's-length made as part of the company's operations between the company and members of its group.

If the decision concerning the company's significant agreement with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.

The principle is not applied.

The Company does not apply this principle, however, the Articles of Association, Regulations of the Supervisory Board and Regulations of the Management Board contain provisions that oblige the Company's bodies to act in accordance with the interests of the Company, its shareholders and other stakeholders.

**V.Z.6.** In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

The principle is not applied.

The Company does not have in place any formalized internal regulations satisfying this regulation.

## VI. Remuneration

**VI.R.3.** If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

Does not apply to the Company.

The Company has not appointed any remuneration committee.

**VI.Z.1.** Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's

Does not apply to the Company.

The Company does not have any incentive schemes.

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management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

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**VI.Z.2.** To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

Does not apply to the Company.

The Company has not adopted any incentive schemes based on options or other instruments linked to the Company's shares.

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**VI.Z.4.** In this activity report, the company should report on the remuneration policy including at least the following:

- 1) general information about the company's remuneration system;
- 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
- 3) information about non-financial remuneration components due to each management board member and key manager;
- 4) significant amendments of the remuneration policy in the last financial year or information about their absence;
- 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

The principle is not applied.

No remuneration policy has been developed in the Company. However, the Company, performing the information obligations set out in the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognizing information required by the law of a non-member state as equivalent, publishes information on remuneration of management board members in the annual report and members of the supervisory board.

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## **5.2 Internal control and risk management systems in relation to processes of preparing financial statements**

The primary features of the Śnieżka Group's systems for internal control and risk management pertaining to the preparation of financial statements and consolidated financial statements are based on the following provisions of law and standards:



- International accounting standards,
- International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations,
- The Accounting Act (in the areas not governed by IAS/IFRS),
- the internal procedures for preparing periodic reports, made public in relation to the status of a public company.

Supervision over the Group companies is exercised by the Management's Office.

### **5.3 The Articles of Association**

FFIL ŚNIEŻKA SA operates on the basis of the Articles of Association. The Articles of Association is available at the Company's website: [www.sniezka.pl/serwis-korporacyjny/relacje-inwestorskie/dodatkowe-pliki](http://www.sniezka.pl/serwis-korporacyjny/relacje-inwestorskie/dodatkowe-pliki)

Any amendments to the Articles of Association require a consent of the Shareholder Meeting and the entry into the Register of Entrepreneurs in the National Court Register.

Pursuant to the Articles of Association, governing bodies of the Company are:

- Shareholder Meeting,
- Supervisory Board,
- Management Board.

#### **Amendments to the Articles of Association in 2019**

On April 26, 2019, by Resolution No. 8/2019 of the Ordinary General Meeting of FFIL Śnieżka SA, the Company's Articles of Association changed as follows:

- 1) §6 sec. 3 point 2 of the Company's Articles of Association is subject to change in the following manner:

*Series A registered shares are preference shares with regard to the right to appoint members of the Supervisory Board within the scope specified in § 12 sec. 2-4 of the Articles of Association.*

the following new wording is provided:

*Series A registered shares are preference shares with regard to the right to appoint members of the Supervisory Board including the Chairman of the Supervisory Board within the scope specified in § 12 sec. 2-4 of the Articles of Association.*

- 2) §6 sec. 8 first sentence of the Company's Articles of Association is subject to change in the following manner:

*The shares may be redeemed on the conditions specified in legal regulations. The manner, procedure and deadlines for redemption of shares are set out in a resolution of the General Meeting of Shareholders.*

the following new wording is provided:

*The shares may be redeemed on the conditions specified in legal regulations. The manner, procedure and deadlines for redemption of shares are set out in a resolution of the General Meeting.*

- 3) §7 sec. 14 of the Company's Articles of Association is subject to change in the following manner:



*In the event of disposal of preference registered shares in the manner specified in sec. 13, privileges in relation to these shares shall expire.*

the following new wording is provided:

*In the event of disposal of registered preference shares in the manner specified in sec. 13, privileges in relation to these shares shall expire. The preference for series A and B shares is established provided that the shareholder owns alone or jointly with the entities indicated in sec. 16 shares of the Company representing at least 8% of the share capital of the Company.*

4) §7 sec. 16 of the Company's Articles of Association is subject to change in the following manner:

*Does not require compliance with the obligations arising from sections 1 to 14 disposal of registered preference shares to the descendants and spouses of shareholders holding series A shares and their transfer to a subsidiary of a shareholder holding series A shares, within the meaning of the Code of Commercial Companies.*

the following new wording is provided:

*Does not require compliance with the obligations arising from sections 1 to 14 disposal of registered preference shares to a spouse, descendants, ascendants, stepchildren, siblings, stepfather and stepmother and descendant's spouse.*

5) §10 sec. 1 point 2 of the Company's Articles of Association is subject to change in the following manner:

*The consent of the General Meeting for the purchase or sale of real estate is not required.*

the following new wording is provided:

*The consent of the General Meeting for the purchase or sale of real estate, perpetual usufruct or a share in real estate is not required.*

6) The §10 of the Company's Articles of Association shall be supplemented with section 9 in the following manner:

*The Chairman of the General Meeting is elected by a 3/4 (three quarters) majority. If the resolution on the election of the Chairman of the General Meeting is not adopted, the Chairman of the Supervisory Board shall be the Chairman of the General Meeting.*

7) §12 sec. 16 of the Company's Articles of Association is subject to change in the following manner:

*1. The Supervisory Board is comprised of five to seven members appointed by the General Meeting for a joint three-year term. The number of members of the Supervisory Board is determined by the General Meeting.*

*2. Members of the Supervisory Board are elected by the General Meeting, provided that four members of the Supervisory Board are elected only from among candidates indicated by shareholders holding series A shares, in such a way that for every 25,000 of series A shares give entitlement to indicate a candidate for one member of the Supervisory Board.*

*3. A candidate for a member of the Supervisory Board is appointed by a written statement of the shareholder holding series A shares submitted before the opening of the General Meeting, whose agenda includes appointing or changing the composition of the Supervisory Board.*

*4. The right of shareholders holding series A shares referred to in sec. 2 expires when the shareholders holding series A shares together with their spouses, descendants and subsidiaries, within the meaning*

*of the Code of Commercial Companies, hold jointly a smaller number of shares than corresponding to 35% of the share capital.*

*5. In the event of introducing the Company's shares to public trading, at least 1 (one) member of the Supervisory Board shall be appointed from among the candidates nominated by the shareholders, each of whom represents no more than 5% of the Company's share capital.*

*6. Each shareholder meeting the requirements referred to in sec. 5, has the right to indicate 1 (one) candidate for a member of the Supervisory Board. A candidate for a member of the Supervisory Board is appointed by a written statement of of an authorized shareholder submitted to the Company before the opening of the General Meeting, whose agenda includes appointing or changing the composition of the Supervisory Board.*

*7. If the mandate of a member of the Supervisory Board expires, the Supervisory Board shall still operate in the remaining composition until a new member is elected by the General Meeting.*

*8. Each member of the Supervisory Board may be elected for subsequent terms.*

the following new wording is provided:

*1. The Supervisory Board is comprised of five to seven members appointed by the General Meeting for a joint three-year term subject to the following provisions. The number of members of the Supervisory Board is determined by the General Meeting's resolution adopted by a majority of 3 votes. Should the General Meeting fail to adopt a resolution on the number of members of the Supervisory Board, the Supervisory Board shall be composed of 5 members.*

*2. Members of the Supervisory Board are elected by the General Meeting, provided that three members of the Supervisory Board including the Chairman of the Supervisory Board are elected by shareholders holding series A shares, in such a way that for every 30,000 of series A shares give entitlement to indicate a candidate for one member of the Supervisory Board, including the Chairman of the Supervisory Board. If that preference expires over some series A registered shares, each remaining 20,000 series A shares give entitlement to indicate one Supervisory Board Member, including the Chairman of the Supervisory Board.*

*3. A candidate for a member of the Supervisory Board including the Chairman of the Supervisory Board is appointed by a written statement of the shareholder holding series A shares submitted to the Company before the opening of the General Meeting, whose agenda includes appointing or changing the composition of the Supervisory Board.*

*4. Each shareholder holding series A shares is entitled to nominate a member of the Supervisory Board including the Chairman of the Supervisory Board together with another shareholder or shareholders. In such a situation, the number of shares of these shareholders is added together. These shareholders are entitled to indicate as many members as it results from the total number of their series A shares, with the proviso that for every 30,000 series A shares, they are entitled to nominate one member of the Supervisory Board, and if the preference expires over some series A registered shares, for each remaining 20,000 series A shares they are entitled to appoint one member of the Supervisory Board, including the Chairman of the Supervisory Board.*

*5. The Chairman of the Supervisory Board is elected as a result of internal voting in the group of shareholders holding series A preferred shares. A person who obtained the highest number of votes among the shareholders holding series A preferred shares is elected as the Chairman of the Supervisory Board.*

*6. The right of shareholders holding series A shares referred to in sec. 2 expires when the shareholders holding series A shares together with their spouses, descendants and subsidiaries, within the meaning*

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*of the Code of Commercial Companies, hold jointly a smaller number of shares than corresponding to 35% of the share capital.*

7. *If the mandate of a member of the Supervisory Board expires, the Supervisory Board shall still operate in the remaining composition until a new member is elected.*

8. *Each member of the Supervisory Board may be elected for subsequent terms.*

- 8) §14 sec. 8 point 2 of the Company's Articles of Association is subject to change in the following manner:

*selection of a statutory auditor to audit the Company's financial statements;*

the following new wording is provided:

*selection of an audit firm to audit and review the Company's financial statements and consolidated financial statements of the Śnieżka Group;*

- 9) §14 sec. 10 point 2 (e) of the Company's Articles of Association is subject to change in the following manner:

*acquisition and disposal of real estate or a share in real estate;*

the following new wording is provided:

*acquisition and disposal of real estate, perpetual usufruct or a share in real estate*

### 5.4 General Meeting

The competences of FFIL ŚNIEŻKA SA's General Meeting are set out in § 10 item 1 of the Articles of Association.

The competences of the General Meeting of the Company, apart from issues specified in legal regulations and other provisions of its Articles of Association, include:

- adopting the regulations of the shareholder meeting,
- approving the Regulations of the Supervisory Board,
- determining the rules for remunerating members of the Supervisory Board and members of the Management Board,
- appointing a representative to conclude contracts with board members,
- acquiring of own shares by the Company,
- determining the amount of remuneration for members of the Supervisory Board, delegated to permanent individual performance of supervision.

In addition, pursuant to § 10 item 2 of the Articles of Association, the consent of the general meeting for the purchase or sale of real estate is not required.

Pursuant to the Articles of Association, general meetings of FFIL Śnieżka SA are held in Warsaw (where the Company's registered seat is located), in Brzeźnica or in Dębica.

The manner of operation of the General Meeting, as well as the rights of shareholders and the manner of their implementation are specified in the provisions of the Code of Commercial Companies and Regulations of the General Meeting, available on the Company's website at: [www.sniezka.pl/serwis-korporacyjny/relacje-inwestorskie/dodatkowe-pliki](http://www.sniezka.pl/serwis-korporacyjny/relacje-inwestorskie/dodatkowe-pliki)

## **5.5 Supervisory Board and audit committee**

### 5.5.1 Supervisory Board

#### **The rules for appointing members of the supervisory board**

Pursuant to § 12 of the Company's Articles of Association, a supervisory body consists of five to seven members appointed by the general meeting for a joint three-year term. The number of members of the supervisory board is determined by the general meeting. Members of the Supervisory Board are elected by the General Meeting, provided that three members of the Supervisory Board including the Chairman of the Supervisory Board are elected by shareholders holding series A shares, in such a way that for every 30 000 of series A shares give entitlement to indicate a candidate for one member of the Supervisory Board, including the Chairman of the Supervisory Board. If that preference expires over some series A registered shares, each remaining 20 000 series A shares give entitlement to indicate one Supervisory Board Member, including the Chairman of the Supervisory Board.

At the first meeting, its members elect the Chairman from among the members of the supervisory board holding series A preferred registered shares, whereas the vice-chairman and secretary are elected from the the members of the supervisory board.

The members of the supervisory board of the Company are elected for three-year term of office.

#### **Composition of the Supervisory Board**

In 2019 and as at the date of the Annual Report publication, the Supervisory Board was composed of:

- Stanisław Cymbor - Chairman
- Jerzy Pater - Vice-Chairman
- Jarosław Wojdyła - Secretary
- Zbigniew Łapiński - Member
- Rafał Mikrut - Member
- Dariusz Orłowski - Member

The current Supervisory Board was appointed by the shareholders at the General Meeting of the Company held on May 25, 2018. In 2019, the composition of the Supervisory Board was not subject to change.

Detailed information on the members of the Supervisory Board was included in the current report no. 15/2018.

#### **The duties of the supervisory board**

The chairman of the supervisory board manages the work of the board, chairs the board meetings and coordinates the work of other board members. If the chairman of the board is unable to perform his duties, his duties are performed by the vice-chairman. The chairman convenes board meetings. The management board or a member of the supervisory board may request the convening of the supervisory board, providing a proposed agenda. The supervisory board may adopt resolutions using means of remote communication. The supervisory board holds meetings as needed, but at least three times a year. The supervisory board exercises permanent supervision over the Company's operations in all areas of its operations. In order to perform its duties, the supervisory board may examine all Company documents, request reports and explanations from the management board, and review the Company's assets. The competences of the supervisory board include in particular: adopting the regulations of the

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supervisory board, assessment of management board reports on the Company's operations and financial statements, assessment of management's applications regarding distribution of profit or loss coverage, annual submission to the general meeting a concise assessment of the Company's standing, approval of the plan, work regulations of the Company's management board, appointing the president of the management board and, at the request of the president, other members of the management board, dismissing all or individual members of the management board for important reasons, delegating a member of the supervisory board to temporarily perform the duties of members of the management board, appointing an auditing firm, making statements in all matters that require resolutions of the general meeting, issuing opinions on all matters addressed to it by the management board.

### Remuneration of members of the supervisory board

Table 35. Remuneration of Members of the Supervisory Board of FFiL Śnieżka SA in 2019

	Remuneration and bonuses 2019	Income earned in subsidiaries 2019	Remuneration and bonuses 2018	Income earned in subsidiaries 2018
Stanisław Cymbor	304.3	-	284.4	-
Zbigniew Łapiński	122.6	-	113.7	-
Stanisław Mikrut	-	-	52.9	-
Rafał Mikrut	122.0	-	68.6	-
Dariusz Orłowski	121.7	-	113.7	-
Jerzy Pater	304.3	-	284.4	-
Jarosław Wojdyła	121.7	-	113.7	-
<b>Total</b>	<b>1,096.6</b>	<b>-</b>	<b>1,031.4</b>	<b>-</b>

As at 31 December 2019, supervisory bodies did not have any debts due to loans granted by the Company. In addition, in 2019, the Company did not have any liabilities arising from pensions and similar benefits for former management, supervisory or former members of administrative bodies as well as liabilities incurred in connection with these pensions.

#### 5.5.2 Audit Committee

The Audit Committee operates in the Company, whose operation is regulated by the *Regulations of the Audit Committee of the body of the Supervisory Board of FFiL Śnieżka SA*, adopted by the resolution of the Supervisory Board of 29 September 2017.

The most important tasks of the audit committee include: supervision over the operation and monitoring of the Company's accounting, intermediation between the external auditor and the supervisory board, preparation of recommendations for the supervisory board regarding the financial reporting process in the Company and the Capital Group and selection of an audit company.

The Audit Committee was appointed by the Supervisory Board of the eighth term of office on May 25, 2018.

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In 2019 and as at the date of the Annual Report publication, the Audit Committee was composed of:

- Jarosław Wojdyła - Chairman
- Dariusz Orłowski - Member
- Stanisław Cymbor - Member

In 2019, the composition of the Audit Committee was not subject to change.

Two Members of the Audit Committee Jarosław Wojdyła and Dariusz Orłowski comply with the independence criteria set out in art. 129 section 3 items 1-10 of the Act of May 11, 2017 on statutory auditors, auditing firms and public supervision. The Chairman of the Audit Committee - Jarosław Wojdyła has the knowledge and skills in the field of accounting or auditing of financial statements confirmed by an entry in the list of Polish Chamber of Statutory Auditors under number 10678.

A member of the Audit Committee - Stanisław Cymbor has knowledge and skills in the field of the industry in which the public interest unit operates. He is one of the founders of FFIL Śnieżka SA, has been actively engaged in the paints and varnishes industry since 1992 and has been a member of the Supervisory Board of FFIL Śnieżka SA since 1998.

In 2019 three meetings of the Audit Committee were held.

## 5.6 Management Board

### The rules for appointing members of the management board

Pursuant to § 15 of the Company's Articles of Association, the management board consists of five to seven members appointed for a joint three-year term. The number of board members is determined by the supervisory board. The supervisory board appoints the president of the management board and - at his request - other members of the management board. The president of the board manages the work of the board, chairs its meetings and coordinates the work of other board members. The president has the right to appoint vice presidents from among other members of the board. The appointed vice president of the board substitutes the president during his absence.

### The composition of the Management Board

In 2019 and as at the date of Report publication, the Management Board of FFIL Śnieżka SA was composed of:

- Piotr Mikrut - President of the Management Board,
- Witold Waśko – Vice President of the Management Board, CFO,
- Witold Waśko – Vice President of the Management Board, Sales Director,





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The Management Board in the above composition was appointed for the eighth term of office on April 26, 2019. All members of the Management Board were also members of the Management Board of the previous term of office.

### The duties of members of the management board

Two members of the management board or one board member together with a proxy are required to make declarations of will on behalf of the Company. The board manages the Company's issues. The duties of the Management Board include: organization of the Company's accounting; keeping of the share register; preparation of financial statements and reports on the Company's activities; keeping of the records of the minutes of the General Meeting; presentation of explanations and preparation of reports at the request of the Supervisory Board and the Shareholders present at the General Meeting. The Management Board executes strategic objectives and oversees the execution of the Company's operational objectives. Each member of the Management Board manages directly the organizational divisions and independent organizational units in accordance with the organizational chart.

The obligations of:

- **The President of the Management Board** include: supervision over the work of the directors of organizational divisions who concurrently are Members of the Management Board, i.e. i.e. the Economic and Sales Divisions, and supervision over the work of the following department directors: Human Resources Management Department, Management Board Office, Research and Development Department, Quality Assurance Department, Production Department, Purchasing Department, Digital Transformation and IT Department. The President of the Management Board exercises direct supervision over the matters regarding work safety, data protection and corporate communication;
- **The Vice President of the Management Board - CFO** include: supervision over the work of the following areas: accounting, controlling, technical and investment as well as receivables management;
- **The Vice President of the Management Board - Sales Director** include: supervision over the work of the following areas: sales (domestic and export), new distribution networks, sales of thermal insulation systems marketing communication and strategic marketing.

### Remuneration of members of the management board

Table 36. Remuneration of Members of the Management Board of FFIL Śnieżka SA in 2019

	Remuneration and bonuses 2019	Income earned in subsidiaries 2019	Remuneration and bonuses 2018	Income earned in subsidiaries 2018
Piotr Mikrut	1,141.9	-	1,070.3	-
Witold Waško	1,156.9	81.2	1,054.0	81.2
Joanna Wróbel-Lipa	1,143.1	77.5	1,054.0	81.2
<b>Total</b>	<b>3,441.9</b>	<b>158.7</b>	<b>3,178.3</b>	<b>162.4</b>

As at 31 December 2019, members of the management board did not have any debts due to loans granted by the Company.

The Śnieżka Group does not enter into agreements with members of the management board providing for compensation in the event of resignation or dismissal of such persons, with the exception of compensation in the amount of three-month basic remuneration in the event of dismissal from the function during the given term of the Management Board. No additional compensation is paid in the event of dismissal due to a merger or acquisition.

In 2019, the Company did not have any liabilities arising from pensions and similar benefits for former management, supervisory or former members of administrative bodies as well as liabilities incurred in connection with these pensions.

## **5.7 Shares and shareholding structure**

As at 31 December 2019, FFIL ŚNIEŻKA SA’s share capital was comprised of 12,617,778 shares of nominal value of PLN 1.00 each.

In 2019 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, pursuant to Resolution No. 8/2019 of the General Meeting of April 26, 2019 introducing an amendment to the Company’s Articles of Association - which was registered by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register on June 6, 2019 - series A shares give entitlement to elect three members of the supervisory board, including the chairman of the supervisory board, in such a manner that for every 30,000 shares entitle to appoint one member of the supervisory board, including the chairman of the supervisory board. If that preference expires over some series A registered shares, each remaining 20 000 series A shares give entitlement to indicate one supervisory board member, including the chairman of the supervisory board.

On March 27, 2020, the holders of series A and B shares were:

<b>Holders of series A shares</b>	<b>The number of shares held (items)</b>
Stanisław Cymbor	33,334
Jerzy Pater	33,333
Piotr Mikrut	16,667
Rafał Mikrut	16,666

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Holders of series B shares	The number of shares held (items)
Stanisław Cymbor	133,333
Jerzy Pater	133,334
Piotr Mikrut	133,333

Shares of all series are equally preferred as to dividends and return on equity.

No restrictions on the exercise of voting rights prevail at FFIL Śnieżka SA.

Restrictions regarding the transfer of ownership of the Company's securities concern holders of preferred registered shares of FFIL Śnieżka SA. The transfer of preferred registered shares under any legal title or their conversion into bearer shares requires prior submission of purchase offer to all shareholders holding series A shares by a shareholder interested in transferring or converting into a bearer share.

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 2019.

### Company's shares held by managing and supervising persons

As at March 27, 2020, the Company's shares held by the managing and supervising persons were as follows:

Members of the management board	The number of shares held (items)
Piotr Mikrut	1,270,833
Witold Waško	198

Members of the supervisory board	The number of shares held (items)
Stanisław Cymbor	2,541,667
Jerzy Pater	2,541,667
Rafał Mikrut	1,270,833

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In the period from the date of publication of the last periodical report (for III quarter of 2019), i.e. on November 28, 2019, 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 number of shares held (items)	Share in the share capital (in %)	Number of votes	Share in the total number of votes at GMS (in %)
	2,541,667	20.14	3,208,335	21.95
Jerzy Pater *	including directly 166,667	1.32	833,335	5.7
	2,541,667	20.14	3,208,335	21.95
Stanisław Cymbor **	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
Aviva OFE Aviva Santander	1,461,000	11.58	1,461,000	9.99
Nationale-Nederlanden Open Pension Fund	897,829	7.12	897,829	6.14

\* Jerzy Pater holds the Company's shares indirectly by PPHU Elżbieta i Jerzy Pater Sp. z o.o. (PPHU Elżbieta i Jerzy Pater Sp. z o.o. holds 2,375,000 shares, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

\*\* Stanisław Cymbor holds the Company's shares indirectly by PPHU Iwona i Stanisław Cymbor Sp. z o.o. (PPETU Iwona i Stanisław Cymbor Sp. z o.o. holds 2,375,000 shares, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

In the period from the date of publication the report for III quarter of 2019, i.e. on November 28, 2019, based on information available to the Company, no changes in the significant block of shares issued by the Company occurred.

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Figure 27. Shareholding structure at FFIL ŚNIEŻKA SA – share in the share capital – as at 27.03.2020 (in %)

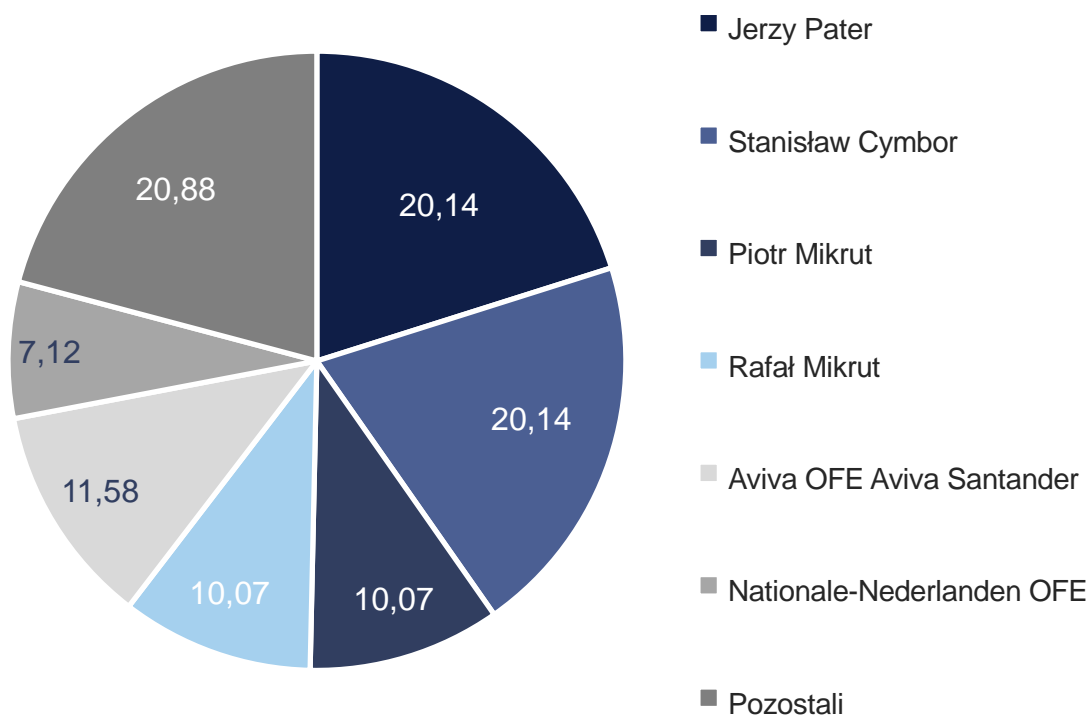
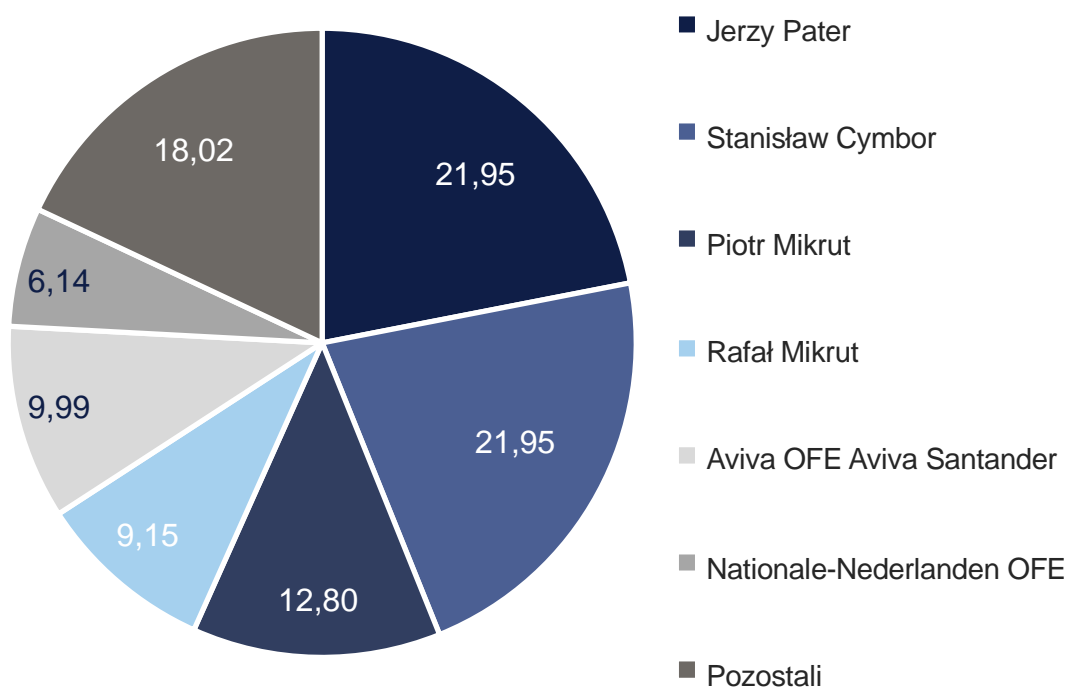


Figure 28. Shareholding structure at FFIL ŚNIEŻKA SA – share in the total number of votes at GMS– as at 27.03.2020 (in %)



## 5.8 FFIL Śnieżka SA at WSE

### 5.8.1 Stock exchange listings

FFIL ŚNIEŻKA SA’s shares have been listed on the Warsaw Stock Exchange since 29 December 2003.

At the end of December 2018, the Company’s shares were included in the following stock exchange indices: WIG, WIG-Poland, WIG-BUDOW, InvestorMS, sWIG80, sWIG80TR, WIGdiv and sWIG80dvp.

In 2019, the price of FFIL Śnieżka SA shares increased by 5.8%. For comparison, the main index of the Warsaw Stock Exchange, WIG, generated 1.1%.

In the past year, the share price of FFIL Śnieżka SA at the WSE at the closing session ranged from from PLN 65 (recorded on September 23) to PLN 98.00 (on April 18).

A the end of 2019, the market value of FFIL Śnieżka SA increased to PLN 1,04 billion (from PLN 977.9 million at the end of 2018). The P/B ratio (price-to-book ratio per share attributable to the shareholders of the parent company) amounted to 3.9 (+0.2 y/y), and P/E (price-to-earnings ratio per ordinary share attributable to shareholders of the parent company) was at the level of 17.4 (+1.5 y/y).

Figure 29. FFIL ŚNIEŻKA SA’s listings at WSE in 2019 (28.12.2018 = 100%)



### 5.8.2 Information activities in the area of investor relations

FFIL Śnieżka SA, as a company listed on the Warsaw Stock Exchange, fulfils all information obligations resulting from the provisions of law. In addition, taking care of transparency and deepening relationships with its stakeholders, it conducts active activities in the area of investor relations.

In 2019 the Company:

- Organized meetings and teleconferences on a regular basis for professional participants of the capital market and media representatives. Following publication of periodic reports (for 2018, the first quarter of 2019, the first half of 2019 and the third quarter of 2019), nine meetings for capital market participants (including one teleconference) as well as three conferences and one teleconference for media representatives were held;
- Organized *the Investor and Analyst Day* combined with a presentation of the bottom line for the first quarter of 2019. During a visit to the Sub-Carpathian province, analysts and fund managers



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met with the Company's Management Board, visited the Śnieżka showroom in Brzeźnica, production facilities, laboratories and finished goods warehouse, as well as met with operational managers of the Company (including the strategic marketing department, R&D, production plant and finished goods warehouse);



Prepared for its stakeholders an annual interactive report entitled Colour matters - available at: <http://raportroczny2018.sniezka.pl> In the report, the Company transparently summarized the activities of the entire Group in 2018 (also in the non-financial area).



- Used FFIL ŚNIEŻKA SA's profile on Twitter (<https://twitter.com/SniezkaSA>) to communicate with its investors and journalists by posting interesting corporation events.

### 5.8.3 Dividend

Since the debut at the Warsaw Stock Exchange FFIL ŚNIEŻKA SA has been regularly distributing dividends (for the first time in 2004 for the 2003 profit).

The Company's shares are included in two dividend indices calculated by the WSE: WIGdiv and sWIG80dvp. The WIGdiv index includes companies that regularly have regularly distributed dividends over the last 5 financial years. The sWIG80dvp index, which was created in December 2018, is calculated solely on the basis of income on cash dividends distributed by companies included in the base indices (for the Company, the sWIG80 base index is sWIG80).

In 2019, FFIL Śnieżka SA continued the distribution of dividends for its shareholders. On April 26, 2019, the Ordinary General Meeting adopted a resolution on the dividend distribution from the 2018 profit in the amount of PLN 2.60 per share, i.e. in the total amount of up to PLN 32,807 thousand. The dividend date was established to May 14, 2019, and the dividend payment was carried out on May 28, 2019.

## 5.9 Diversity policy

FFIL ŚNIEŻKA SA has not developed and does not apply any diversity policy to the company's administrative, management and supervisory bodies.

The main criteria for appointments to administrative, managerial and supervisory positions in the Company are high qualifications (education, competence, professional experience) as well as fulfilment of requirements for a given position. Characteristics such as gender or age do not affect the evaluation of candidates, whereas the Company strives to ensure versatility and diversity in the Company's governing bodies and among its key managers.

At the same time, the Śnieżka Group is implementing a Diversity Policy covering all employees and associates of the Group throughout the entire value chain. The policy is understood as actions aimed at:

- preventing any discrimination on grounds of differences regarding such premises as: sex, racial origin, national or ethnic origin, religion, denomination or lack of denomination, belief, degree and type of disability, health, age, psychosexual orientation or gender identity, as well as family status, lifestyle or any other reasons for discrimination (equal treatment policy);
- promoting and disseminating the principles of equal treatment and preventing all forms of discrimination among all stakeholders of the organization;
- diversity management through development of strategies, policies and programs which shape the work environment in which every employee may feel appreciated, which ultimately contributes to the success of the entire Śnieżka Group.

Further information regarding the diversity policy within the Group is presented in item 3.2.3 herein.

## 5.10 Auditing firm

The Management Board of FFIL Śnieżka SA - based on the statement of the Supervisory Board - presents below information on current and periodic information required by § 70 item 1(7) of the Regulation.

On May 25, 2018, the Supervisory Board made a selection - according to the applicable regulations - of an entity **PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audit 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 2018 and 2019.

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The Company concluded an agreement with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. on June 22, 2019 and an annex to the agreement in question on October 11, 2019.

### **Subject of the agreement**

The subject of the above mentioned agreement with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. is to audit the financial statements of the Company and the Group for the period from January 1, 2018 to December 31, 2018 and January 1, 2019 to December 31, 2019, carried out in accordance with the requirements of the Accounting Act of 29 September 1994 and National Standards on Auditing.

In addition, the subject of the above agreement is to review the Company's interim financial statements and consolidated financial statements for the period from January 1, 2018 to June 30, 2018 and from January 1, 2019 to June 30, 2019, in accordance with the Accounting Act and National Standards on Auditing.

### **Independence and impartiality**

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. was entered by the National Council of Statutory Auditors on the list of auditing firms under no. 144.

The aforementioned auditing firm and members of the audit team of the Company and the Group fulfilled the conditions for preparing an impartial and independent audit report on the annual financial statements in accordance with applicable regulations, professional standards and ethics.

### **Rotation and grace period**

FFiL Śnieżka SA adheres to the applicable regulations related to the rotation of the auditing firms and the key statutory auditor and mandatory grace periods.

The Company has already taken advantage of the PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k.'s services regarding audit and review of financial statements for 2016, 2017 and 2018.

### **Auditing firm's remuneration**

The auditing firm's remuneration, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., due for the annual audit and review of the interim financial statements of the Group and the Company for the financial year ended December 31, 2019 amounts in total PLN 222 thousand:

- PLN 182 thousand for auditing annual financial statements,
- PLN 40 thousand for reviewing interim financial statements.

The above mentioned prices are net. In addition, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. was reimbursed direct costs such as travel, accommodation, etc. up to a maximum of PLN 10,000 net. In view of the additional regulations introduced regarding statutory audits of financial statements of public-interest entities, the remuneration will be increased by 3,29% fee for audit activities i.e. the amount of PLN 7.6 thousand.

The remuneration for the audit and review of financial statements for 2018 amounted to PLN 147 thousand.

VAT tax was added to the above price at the applicable rate. In addition, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. was reimbursed direct costs such as travel, accommodation, etc. up to a maximum of PLN 10,000 net. In view of the additional regulations

introduced regarding statutory audits of financial statements of public-interest entities, the remuneration increased by 5% fee for audit activities performed in 2018 i.e. the amount of PLN 7.4 thousand.

Neither did the Company conclude with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. other agreements, nor did it pay remuneration for auditors other than mentioned above.

### **Policy on selecting an auditing firm**

FFiL Śnieżka SA has a policy on selecting an auditing firm and a policy on providing additional non-audit services by an auditing firm.

Selection of an auditing firm is carried out in accordance with the "Policy on selecting an auditing firm to conduct the audit and review of financial statements" (available at the Company's website: <https://www.serwis-korporacyjny.sniezka.pl/relacje-inwestorskie/dodatkowe-pliki>) adopted by a resolution of the Audit Committee on March 26, 2018. The policy corresponds to the "Procedure on selecting an auditing firm" prepared by the Audit Committee and adopted by a resolution of March 26, 2018.

The policy on selecting an auditing firm to conduct the audit and review of financial statements determines the guidelines and principles that the audit committee should be driven by at the stage of preparing recommendations and the supervisory board by selecting an entity empowered to audit the financial statements of the Company and the Śnieżka Group. They consider the requirements under the Act on Statutory Auditors and in particular:

- the need to maintain the impartiality and independence of the auditing firm and the statutory auditor;
- previous experience of the auditing firm in the audit and review of public interest entities and capital groups;
- potential to perform the scope of services whose performance is to be entrusted to the auditing firm (i.e. statutory audit and review of separate and consolidated financial statements);
- holding (in the appropriate value) an insurance policy against the civil liability by an auditing firm;
- professional qualifications and experience of persons directly involved in audit activities;
- the price proposed by an auditing firm;
- time of conducting the audit and review of the financial statements;
- the maximum period of uninterrupted audit carried out by the same auditing firm and the key statutory auditor or auditing firm associated with the auditing firm or any member of the network operating in the European Union countries which these auditing firms belong to can not exceed 5 years;
- the interval between the conducted statutory audit and review in the same public interest entity for a period of 5 years is at least 4 next years counted from the end of the last audit and review performed.

The policy corresponds to the procedure on selecting an auditing firm, which takes into account cooperation of a member of the management board - the CFO, the audit committee and the supervisory board. The aim of the procedure is to efficiently and effectively collect bids from auditing firms, which are subsequently analysed by the audit committee, in order to submit to the supervisory board an appropriate recommendation on selecting entities authorized to perform the audit. The recommendation covers at least two auditing firms together with the justified preference of the audit committee for one of the presented entities. The final decision regarding the selection of an auditing firm is made by the supervisory board. However, if the supervisory board decides to select another entity than

recommended by the audit committee, it should provide reasons for departing from the audit committee's recommendation and provide such justification to the shareholder meeting of the Company.

Additional services provided by an auditing firm are set out in the *"Policy of providing by an audit firm conducting audits and reviews of financial statements by entities related to this auditing firm and by a member of the auditing firm network of permitted non-audit services"* adopted by the resolution of the Audit Committee of March 26, 2018.

Since 2018 the *"Policy of providing by an audit firm conducting audits and reviews of financial statements by entities related to this auditing firm and by a member of the auditing firm network of permitted non-audit services"* has been in force in FFIL ŚNIEŻKA SA. The core assumption of this document is to minimize the risk that a statutory auditor or an auditing firm conducting audits of the Company's financial statements (or other entities mentioned in the title of this policy) provides directly or indirectly to the audited entity, its parent company or its subsidiaries within the European Union, any prohibited services that are non-audit services. The exceptions are services set out in art. 136 sec. 2 of the act on statutory auditors, auditing firms and public supervision (The act on Statutory Auditors), the provision of which is possible only to the extent not related to the tax policy of FFIL Śnieżka SA, after carrying out by the audit committee an assessment of threats and safeguards of independence and expressing a relevant consent. In addition, if the statutory auditor or auditing firm provides the services referred to above, these entities are obliged to comply with the regulations contained in art. 69-73 of the act on Statutory Auditors determining solutions aimed at ensuring the independence and objectivity of the statutory auditor and the auditing firm.



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Data in PLN thousand



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## A glossary of terms

**Wood stain and varnish** - an agent for colouring wood which penetrates its structure and permanently stains its surface. It preserves the visible grain pattern and allows to level the substrate colour or mask the differences between shades.

**Titanium dioxide (white)** (TiO<sub>2</sub>) - the most widespread, and at the same time one of the most expensive, white inorganic pigment. The core raw material used for the production of paints featuring high coverage efficiency. First of all it is characterized by refractive index, and thus the greatest ability to scatter it. Titanium white is obtained by the sulfate (older) or chloride (latest) method - the latter allows to obtain titanium white of better quality, used in the production of high quality paints. Companies comprising the Śnieżka Group mainly use titanium white for production.

**Construction chemicals** - a group of products used in construction industry as construction, insulation or finishing materials. It includes: products based on mineral and/or organic binders (produced in the form of dry mixes intended for use after mixing with water, or ready-to-use products) and coating materials (paints, varnishes, preservatives, primers, etc.).

**DIY** - "Do It Yourself" - the definition of an idea related to independent, non-commercial performance, usually for one's own needs, of various works without the help of professionals, often as part of a hobby.

The abbreviation "DIY" is also used to describe home-improvement stores, where one can find many products from various fields, with particular emphasis on technical areas (construction, interior finishing, electronics, garden decoration). These are self-service stores with a large area. The DIY market - apart from the independent market - is the second most important distribution channel for products of FFIL Śnieżka SA and other Group companies.

**Acrylic paint** - waterborne paint featuring high covering properties. Depending on the type and quality of the resin used, it is characterized by high resistance to weather conditions and UV radiation. After drying and full curing, it features high resistance to scrubbing or multiple washing.

**Ceramic paint** - a type of latex paint with the addition of ceramic micro particles. The wall painted with this paint is resistant to dirt and scrubbing. It is recommended for all interior rooms within the building, including those exposed to heavy duty use.

**Chlorinated rubber paint** - modified with the addition of chlorinated rubber paint, features faster drying time and higher resistance to water and atmospheric pollution than conventional alkyd paints. Used for decorative and protective painting of steel and cast iron elements used outdoors, especially exposed to external factors.


**Alkyd paint** - a solvent-based paint, whose binder is alkyd resin and a diluent mineral spirits or xylene. Used for decorative and protective painting of interior and exterior wood, wood-based materials, plasters and steel and cast iron elements. It is not suitable for painting underwater elements (it softens when in contact with water).

**Undercoat** - provides adhesion to the substrate for decorative and topcoat paints and levels slight surface irregularities. Its coat is thick enough to break the dark colour of the substrate, which is important when applying light surface coats.

**Latex paint** - high-quality water-borne paint featuring efficient covering properties and high content of binder (resins). It provides a high quality coating, which features high resistance to weather conditions, UV radiation and higher resistance to washing and scrubbing compared to acrylic paint.

**Matt paint** - a paint whose surface reflects light in an irregular and diffuse way, which optically improves the look of the coating, while reducing visual defects and irregularities of the substrate.

**Oil based paint** - used for decorative and protective painting of wood and metal. Generally it is characterized by high resistance to disinfectants, atmospheric and mechanical factors, and also features



a non-flammable coating. Due to its properties, it is recommended for application in living quarters, in health care facilities, schools and areas intended for storing food products (without direct contact with food).

**Satin paint** - a paint containing high-quality resins and pigments. It reflects the light to a large extent, which makes the room bright. It features high resistance to washing and scrubbing.

**Formaldehyde** - volatile organic compound, occurring e.g. in construction materials, furniture, everyday products; toxic in high concentrations. The innovative formula applied in Magnat Ceramic Care paints by FFIL Śnieżka SA contains a formula that reduces the level of formaldehyde in the air, picking and converting it into water vapour molecules during a chemical process.

**Formulation** - is a physical form of the finished product, created in the technological process. It informs about the content of its individual components (recipe) as well as the production method (the order of individual steps taken during the production process).

**Putty** - a construction material whose main binder is gypsum (natural or synthetic). It is used for final finishing of wall and ceiling surfaces by hand or machine.

**Primer** - an acrylic resin formulation that perfectly penetrates the substrate. It binds all loose particles and strengthens its surface. It reduces and levels the substrate absorption, retains water which contributes to proper drying of subsequently applied products including: adhesives, putties and paints.

**Enamel primer** - a product that combines primer, undercoat and topcoat. Applied for anticorrosive painting of steel, cast iron, metal, wood and wood-based materials as well as for restoration of old coatings.

**Stain and varnish** - a product intended for painting interior and exterior wood and wood-based materials combining the features of varnish and stain. It provides a thin flexible protective and decorative coating and stains wood, partially penetrating its structure. Available also in colourless version.

**Varnish** - a solution or suspension of film-forming agents (e.g. oils, natural or synthetic resins) used to cover the surface of objects for decorative and protective purposes.

**Acrylic varnish** - a fast-drying varnish featuring higher resistance to abrasion and mechanical damage. Used for protective and decorative varnishing of interior furniture, panelling, wooden and wood-based objects as well as toys for children.

**Pigments** - substances used for dyeing paints and varnishes. Due to their origin, they are divided into organic and inorganic ones. Generally, the more pigments in the paint the higher covering efficiency. One of the most popular pigments used in the production of paints is titanium white.

**Chlorinated rubber undercoat** - a protective agent intended for anti-corrosive priming of exterior steel and cast iron elements. It features higher resistance to mechanical damage and scratches.

**Sealing and fixing products** - silicones, adhesives and foams.

**Solvent** - an ingredient found in paints and varnishes. Water or a solvent can be a diluent (e.g., mineral spirits, xylene). It is responsible for application properties, such as the thickness of the applied coating using a painting tool, easy application and drying time. Water is used in emulsion paints.

**CRP Regulation** - *Regulation (EU) No 305/2011 of the European Parliament and of the Council of 9 March 2011 laying down harmonized conditions for the marketing of construction products and repealing Council Directive 89/106 / EEC.*

**REACH Regulation** - *Regulation (EC) No 1907/2006 of the European Parliament and of the Council of December 18, 2006 on the Registration, Evaluation, Authorization of Chemicals (REACH) and establishment of the European Chemicals Agency.* The purpose of this Regulation is to ensure a high level of health and environmental protection, including promotion of alternative methods for assessment



of hazards of substances, as well as free circulation of substances in the internal market while supporting competitiveness and innovation.

**Independent market**, a market on which companies operate independently of each other, mainly commercial and service ones, based on handling contractors, investors and final consumers in the local scope of activity. Retail stores are handled indirectly by distributors and are mostly non-affiliated - operate independently.

**Binders (resins)** - natural or synthetic substances that bind pigments and fillers in paints with each other and with the substrate. They ensure paint properties such as: wash and scrub resistance and gloss. Generally, the higher the resin content, the higher the quality and resistance of the paint.

**Thermal insulation system** - a set of construction materials for thermal insulation of a building together with a plaster coating and products for facade renovation. FFIL Śnieżka SA's offer in this scope (within the Foveo Tech brand) includes: adhesive mortars, plasters (renders), paints, primers, undercoats, reinforced mesh, mosaic plasters.

**Decorative systems** - decorative products (paints, adhesives) that provide the decorated surface with a variety of visual and structural effects. Decorative systems made by FFIL Śnieżka SA are sold under the Magnat brand.

**Teflon™ surface protector** - a component used since 2008 in selected products of FFIL Śnieżka SA. It works in such a way that the Teflon™ surface protector particles concentrate at the surface of the coating formed, reducing its surface tension. Thanks to this, the paint features lesser water and dirt absorption and prevents dirt from permanent bond with the substrate.

**Fillers** - substances insoluble in the binder used to modify or affect some of the physical properties of paints. Fillers regulate the viscosity, thickness and structure of the coating, as well as the gloss/matt degree of the paint.

**Washability** - the property of the coating, featuring easy stains and dirt removal according to PN-C-819141: 2002 or PN-EN 13300: 2002. The higher the resistance class, the better the paint's properties to washing and wet scrubbing.

## MANAGEMENT BOARD'S STATEMENT

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

(pursuant to the requirements of § 70 section 1 item 6 of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information provided by the issuer of securities and conditions for recognizing as equivalent information required by the law of a non-member state)

The Management Board of FFIL Śnieżka SA declares that, to the best of its knowledge, the consolidated financial statements of the Śnieżka Group for 2019 and the financial statements of FFIL Śnieżka SA for 2019, as well as comparative data, have been prepared in accordance with the applicable accounting principles and reflect real, reliable and transparent asset and financial situation of the Company and the Group as well as the financial result of the Company and the Group. In addition, the annual report on the activities of the Śnieżka Group, including the report on the activities of FFIL Śnieżka SA, contains a true image of the Group and the Company's development, achievements and standing, including a description of basic risks and threats.

### **Information of the Management Board regarding the selection of an audit firm**

(pursuant to the requirements of § 70 section 1 item 7 and § 71 section 1 of the Regulation of the Minister of Finance of March 29, 2018 regarding current and periodic information provided by the issuer of securities and conditions for recognizing as equivalent information required by the law of a non-member state)

The Management Board of FFIL Śnieżka SA, based on the statement of the Company's Supervisory Board, informs that the Supervisory Board selected an auditor conducting an annual audit of the separate and consolidated financial statements for 2019 in accordance with applicable law, including the selection of an auditing firm and taking into account internal regulations of FFIL Śnieżka SA in this respect.

In addition, the Management Board of the Company informs that:

- an auditing firm PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. and members of the team performing the audit of the annual separate financial statements of the Company and the consolidated financial statements of the Śnieżka Group for the financial year 2019 comply with the conditions for preparing an impartial and independent report on the separate and consolidated annual financial statements in accordance with applicable regulations, professional standards and ethics;
- The Company adheres to the applicable regulations related to the rotation of the auditing firms and the key statutory auditor and mandatory grace periods;
- FFIL Śnieżka SA has a policy on selecting an auditing firm and a policy on providing additional non-audit services by an auditing firm, related entity to the auditing firm or a member of its network, including services conditionally exempted from the prohibition by the auditing firm.



## **Signatures of the Management Board of FFIL ŚNIEŻKA SA**

**Piotr Mikrut**                      President of the Management Board,

**Joanna Wróbel-Lipa**              Vice President of the Management Board,

**Witold Waśko**                      Vice President of the Management Board,

Warsaw 27 March 2020