

Management's report on the activities of the Śnieżka Group in 2018

It contains the Management's Report on the activities of FFIL Śnieżka SA
in 2018



Warsaw 29 March 2019

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LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Sirs,

The Śnieżka Group has been consistently implementing the development strategy, which is based on long-term building of the leader position in the sector of decorative paints on the Central and Eastern European markets. Both the year 2018 and the beginning of this year were sometimes very intense for our Group and in many aspects, landmark.

In February 2019, we finalized negotiations with the owners of Poli-Farbe Vegyipari Kft. - 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. Together with Antal Szabó - the founder and managing director of Poli-Farbe - we devoted a lot of time to work out a cooperation model guaranteeing further dynamic development of both our companies based on mutual understanding and respect. I can say with satisfaction that we have achieved this goal.

The purchase of a majority interest in Poli-Farbe, for approx. PLN 108 million, is the largest capital transaction in the history of our Group and is a "new opening" for it. Not only will the finalization of this transaction change the gradation of markets in the sales structure (as yet the second Ukrainian market will give way to the Hungarian one) but may ultimately be the key to Śnieżka's expansion on the markets of Southern Europe. Importantly, the acquisition of shares in Poli-Farbe diversifies the Group's sales markets, reducing the potential risks associated with the situation in Ukraine and Belarus, which will become our markets number three and four.

Less than a year earlier, we made a smaller transaction on the Polish market, taking over the majority interest in Radomska Fabryka Farb i Lakierów SA - specializing in the manufacture of anticorrosive primers and topcoats.

The year 2018 was record-breaking in terms of investment. The Group's expenditures for this purpose amounted to PLN 69.7 million and were 122.6% higher than a year earlier. In addition to the implementation of strategic transactions, we have consistently invested in the Group's organic development - infrastructure and new management solutions. We've already completed the modernization of colour paint lines and other important automation activities in production facilities. We can also boast about the effects of actions taken in collaboration with SAP in the area of digital transformation. The first implementations - including tools supporting management of cooperation with customers or supporting marketing activities - confirm the legitimacy of the investment made. Further projects scheduled under the Change IT project are a space for designing subsequent competitive advantages of Śnieżka as regards modern methods of management of sales tools and customer relations - both business and final. The accumulation of investments is also connected with the construction of our new Logistics Center, which in 2021 will allow us to more efficiently and more effectively supply the market with our products.

Despite the record high development expenses, we are well prepared to carry out investment tasks scheduled for 2019 and subsequent years. This is reflected by the figures presented in this Statement - the Group's revenues and profits are growing, and debt ratios remain at a safe level. Moreover, Śnieżka intends to proceed with paying dividends to share its success with the shareholders. In 2018, the Company paid almost PLN 27.8 million, and over 15 years of its operation at the WSE, a total of over PLN 336 million in dividends.

In 2018, we celebrated our 15th anniversary at the Stock Exchange, where we remain the only company in our business field. In 2019, Śnieżka is to celebrate the 35th anniversary of its formation. For us, it was a period of intense growth, as well as a long road abundant in bold decisions. It is even more satisfying for us that 2018 is already the second reporting period in the history of our parent company,

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which we finish as the market leader of paints and varnishes in Poland - both in value and quantity terms, in the segment of decorative products.

Today, having over 1,100 employees aboard and being a leader, not only on the Polish market of paints and varnishes, we can proudly summarize the road we have already made over the last 35 years.

Despite our past achievements, we still have ambitious goals ahead of us. First, after closing the transaction, we plan to commence the integration process of Poli-Farbe with our Group. In the course of the above mentioned work, we aim at achieving synergies in the area of purchases (including raw materials and packaging), research and development, as well as in the area of marketing and sales. After completing the integration and achieving the anticipated synergy effects, most likely in the next few years, we will analyse together with the management of Poli-Farbe markets geographically similar to the Hungarian one, to recognize the possibilities of increasing export sales on the Southern European markets.

Thank you very much to everyone who contributed to the development of the Śnieżka Group in the next year of essential challenges. The challenges, we have met together.

Piotr Mikrut
President of the Management
Board

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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 2018	as at / for the period of 12 months ended as at 31 December 2017*	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 2017*
I. Net revenues from sale of products, goods and materials	586 777	564 481	137 518	132 985
II. Profit from operating activities	79 647	73 900	18 666	17 410
III. Gross profit	78 441	70 286	18 384	16 559
IV. Net profit	63 389	56 692	14 856	13 356
- Net profit attributable to shareholders of the parent company	61 632	55 892	14 444	13 167
- Net profit attributable to non-controlling interests	1 757	800	412	188
V. Comprehensive income for the period	67 304	49 115	15 774	11 571
- Comprehensive income for the period attributable to shareholders of the parent company	65 171	49 252	15 274	11 603
- Comprehensive income for the period attributable to non-controlling interests	2 133	(137)	500	(32)
VI. Net cash flows from operating activities	80 715	62 156	18 917	14 643
VII. Net cash flows from investing activities	(56 346)	(27 003)	(13 205)	(6 362)
VIII. Net cash flows from financing activities	(40 322)	(22 326)	(9 450)	(5 260)
IX. Total net cash flows	(15 953)	12 827	(3 739)	3 022
X. Total assets	404 481	369 110	94 065	88 496
XI. Liabilities and provisions	135 569	140 572	31 528	33 703
XII. Long-term liabilities	5 159	3 537	1 200	848
XIII. Short-term liabilities	130 410	137 035	30 328	32 855
XIV. Equity	268 912	228 538	62 538	54 793
- Equity attributable to the shareholders of the parent company	262 484	224 620	61 043	53 854
- Equities attributable to non-controlling interests	6 428	3 918	1 495	939
XV. Share capital	12 618	12 618	2 934	3 025
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	5.02	4.49	1.18	1.06
- Earnings per share attributable to shareholders of the Parent Company	4.88	4.43	1.14	1.04
XVIII. Diluted earnings per ordinary share in PLN/EUR	5.02	4.49	1.18	1.06
- Diluted earnings per ordinary share attributable to shareholders of the Parent Company	4.88	4.43	1.14	1.04
XIX. Carrying amount per share in PLN/EUR	21.31	18.11	4.96	4.34
XX. Diluted carrying amount per share in PLN/EUR	21.31	18.11	4.96	4.34
XXI. Declared or paid dividend per share attributable to shareholders of the Parent Company in PLN/EUR	2.20	3.20	0.51	0.77

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FFIL Śnieżka SA - standalone data

	in PLN '000		in EUR '000	
	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 2017*	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 2017*
I. Net revenues from sale of products, goods and materials	522 271	510 523	122 401	120 273
II. Profit from operating activities	53 737	54 166	12 594	12 761
III. Gross profit	73 509	51 071	17 228	12 032
IV. Net profit	60 588	41 535	14 200	9 785
V. Comprehensive income for the period	61 984	39 878	14 527	9 395
VI. Net cash flows from operating activities	57 015	46 848	13 362	11 037
VII. Net cash flows from investing activities	(30 880)	(23 726)	(7 237)	(5 589)
VIII. Net cash flows from financing activities	(42 987)	(11 294)	(10 074)	(2 661)
IX. Total net cash flows	(16 852)	11 828	(3 949)	2 787
X. Total assets	379 797	356 899	88 325	85 569
XI. Liabilities and provisions	203 888	215 235	47 416	51 604
XII. Long-term liabilities	79 766	82 512	18 550	19 783
XIII. Short-term liabilities	124 122	132 723	28 866	31 821
XIV. Equity	175 909	141 664	40 909	33 965
XV. Share capital	12 618	12 618	2 934	3 025
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	4.80	3.29	1.13	0.78
XVIII. Diluted earnings per ordinary share in PLN/EUR	4.80	3.29	1.13	0.78
XIX. Carrying amount per share in PLN/EUR	13.94	11.23	3.24	2.69
XX. Diluted carrying amount per share in PLN/EUR	13.94	11.23	3.24	2.69
XXI. Declared or paid dividend per share attributable to shareholders of the Parent Company in PLN/EUR	2.20	3.20	0.52	0.75

* converted data - information on converted data has been provided in the financial statements.

The Euro exchange rates applied for conversion the financial statements:

	Average exchange rate in 2018	Average exchange rate in 2017
Particular items of the condensed statement of comprehensive income were translated at the average EURO exchange rate in the period	4.2669	4.2447
	as at 31 December 2018	as at 31 December 2017
Particular items of the financial position statement were translated at the EURO exchange rate at the end of the period	4.3000	4.1709

CONCISE DESCRIPTION OF THE ŚNIEŻKA GROUP

The Śnieżka Groups is...



Market leader of paints and varnishes in **Poland** as well as one of the **leading manufacturers in Ukraine and Belarus**



Own **Research and Development Center**, developing innovative solutions and new technologies. The only research laboratory in the industry accredited by PCA, No. AB 855



A wide range of products for decoration and protection of various internal and external surfaces



The Group built upon **Fabryka Farb i Lakierów Śnieżka SA** – the only company in the industry listed on the WSE

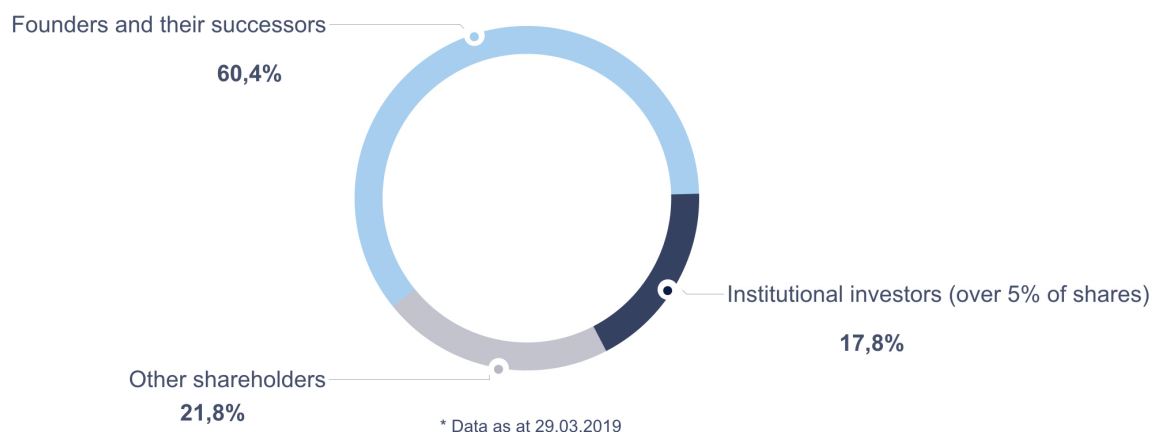


Modern factories producing annually about **150 million kg** of products and goods



A group that has grown from a small business to a company with approximately **1,100 employees**

The shareholder structure of FFIL Śnieżka SA* (share in the share capital in %)



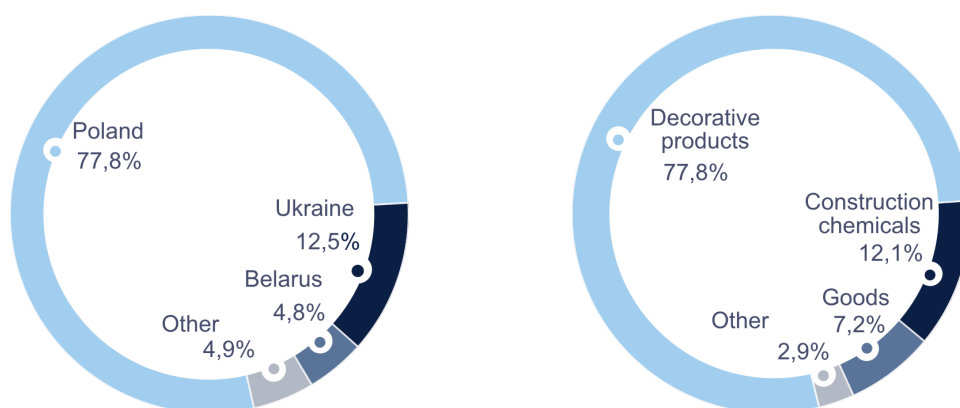
Dividends paid by FFIL Śnieżka SA (year)



Our key brands



Structure of the Group's sales revenues by country and product category *



* Data as at 31.12.2018



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key markets in which
the Capital Group operates

Poland
Ukraine
Belarus
Russia
Moldova
Hungary
Lithuania

Slovakia
Czech Republic
Romania
Kazakhstan
United Kingdom
Armenia
Georgia
Sweden
Latvia
Ireland

Germany
Croatia
Estonia
Italy
Netherlands
Norway
Belgium
France
Denmark

1. Comment to performance in 2018

1.1 Macroeconomic situation

1.1.1 Economic situation

In 2018, the Polish economy recorded high growth dynamics. According to preliminary estimates provided by the Central Statistical Office (GUS), the Gross Domestic Product increased by 4.9% compared to the previous year.

The main driving force of the Polish economy development was private consumption, which was boosted by rising wages. In 2018, the average wages in the national economy amounted to PLN 4,885.03 and increased by 7.3% compared to the previous year. In turn, the average wages in the fourth quarter of 2018 reached PLN 4,863.74.

The economic growth was also affected by the gradual decline in the unemployment rate - to 5.8% in December 2018, compared to 6.6% a year earlier - and higher social transfers. The above factors contributed to increased retail sales by 4.7% compared to the same period of the preceding year.

At the same time, inflation remained at a low level. In 2018, the average annual consumer price index (CPI) amounted to 101.6, which means a 1.6% increase in prices compared to 2017. In addition to high private consumption, the level of investment - mainly local government, financed from EU funds also increased.

The past period was also beneficial for the construction industry. Construction-assembly output, including investment and renovation works, carried out nationally by construction companies employing more than 9 employees, increased by 12.2% in 2018 compared to the same period of the previous year.

In addition to infrastructure investments, a significant revival prevailed in the area of housing and commercial construction. In 2018, 184.8 thousand new apartments were commissioned, i.e. 3.6% higher than in 2017.

Figure 1 Gross Domestic Product Growth in 2017-2018 on an annual basis (in %)




Source: GUS, 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:

Ukraine

According to the information obtained from the National Bank of Ukraine (NBU), after the deep recession of 2014-2015, in Ukraine in 2018 there was a breakthrough to restore macro-financial stability (which prevailed in Ukraine until the annexation of Crimea and armed conflict in Donbas). Last year, the Ukrainian economy recorded the fastest economic growth in seven years. In 2018 GDP in Ukraine

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increased by 3.4% (year-on-year). The rate of economic growth was positively influenced primarily by the increase in internal demand, both consumer and investment. At the same time, according to the NBU data, inflation declined to 9.8%. This was particularly due to the fall in prices of petroleum products as a result of the dynamic fall in oil prices in the last quarter of last year. In 2018, a positive tendency was also observed in the form of the strengthening of the Ukrainian hryvnia.

An important role for strengthening the macro-financial stability of Ukraine is played by cooperation with international financial institutions. International partners (IMF, the European Union and World Bank) earmarked USD 2.4 billion, which increased the country's currency reserves to USD 20.8 billion. A positive aspect in improving the economic situation is that the Ukrainian banking sector demonstrated positive profitability ratios.

In 2018, the average wages in Ukraine amounted to UAH 9,633, which was the equivalent of about PLN 1,307.

Belarus

In 2018, the Belarusian economy recorded an annual GDP growth rate of 3.0%. This result was higher than in 2017 (by 0.6 pp.), which confirms Belarus' recovery from the recession. Economic growth recorded in Belarus can be linked to the improvement of the global economic situation and the increase in the price of oil in the first three quarters of 2018 (petroleum products are one of the main export goods of Belarus). A positive effect on the economic situation of Belarus last year was also the regulation (still in April 2017) of the Russian-Belarusian dispute regarding the terms of supply of energy resources from Russia, yet the prospects for economic relations of these two countries are still not resolved.

The increase in wages and higher demand for consumer loans also had an impact on the Belarusian economy in 2018, which translated into growing domestic demand - one of the main components of economic growth in Belarus. Domestic demand translated into more than 8% increase in turnover in retail trade. In 2018, the average wages amounted to 958.1 BYN, which was the equivalent of about PLN 1,654.

The improvement in the Belarusian economy may also be confirmed by relatively low inflation, which to a large extent is due to the National Bank of the Republic of Belarus. It runs a tough monetary and credit policy aimed at limiting the money supply and excessive growth in wages. In 2018 prices in Belarus increased by 4.9%, and the rate of the Belarusian ruble (BYN) was relatively stable in relation to other currencies.

1.1.2 Raw materials and currencies

Prices of titanium white - which belongs to the basic raw materials in the manufacture of paint - in the first half of 2018 remained in an upward trend. It resulted from strengthening of the bargaining position of the main producers of titanium white due to the concentration of its production, a decline in production in China triggered by tightening environmental protection regulations and the need to incur additional expenses for environmental protection by production facilities. In the second half of 2018, the increase in titanium white prices slowed down slightly and the prices of this raw material stabilized.

In 2018, some other raw materials also slightly increased (e.g. cellulose thickening agents, acrylic dispersion) and packaging (both plastic and metal). This increase can be described as a natural phenomenon after the prices of these raw materials and packaging remained relatively stable over the past few years.

The prices of other raw materials used by the Group companies for production remained stable. At the same time, in 2018, no problems occurred on the market with the availability of raw materials and packaging.

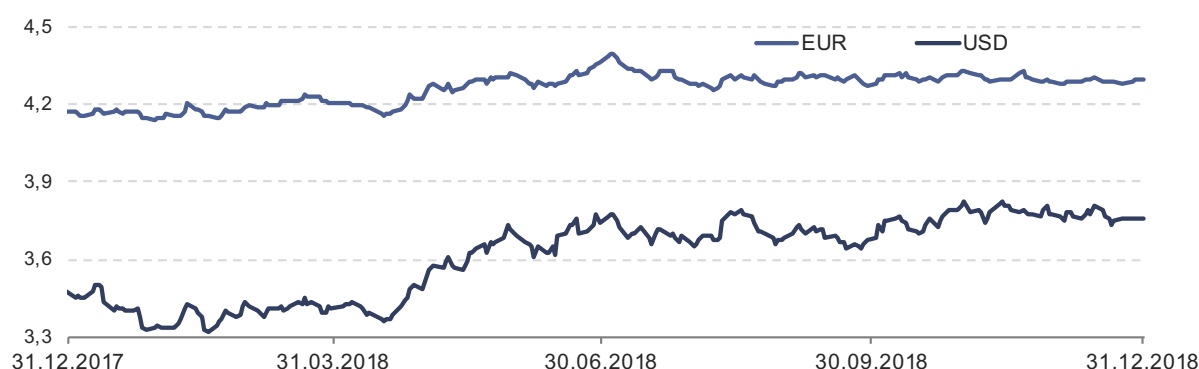
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The currency market in 2018 brought a weakening of the zloty against the main currencies - the euro and the dollar. Among the factors that influenced the value of these currencies, it should be mentioned in first place the policies of central banks (the European Central Bank and the US Federal Reserve), political tensions in Europe (brexit negotiations and the situation in Italy) and the risk of so-called trade war on the US-China line.

As far as the Polish currency is concerned, there was a correlation between the rhetoric adopted by the ECB and the Monetary Policy Council's approach to interest rates. The MPC maintained its lenient attitude, postponing the start of tightening of monetary policy at least until the end of 2019.

At the end of 2018, the Euro currency was approx. 3% more expensive and the USD approx. 7.4% more expensive compared to the end of 2017.

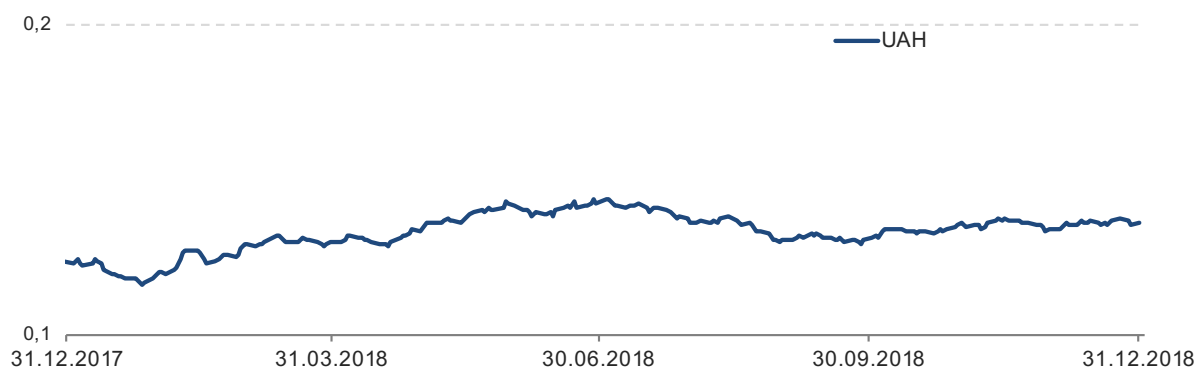
Figure 2 Exchange rate of PLN against EUR an USD



Source: NBP.

In 2018, the situation on the currency market in Ukraine was relatively stable, and the Ukrainian currency strengthened to the zloty by nearly 9%. In the long perspective, however, the hryvnia remains in a long-term downward trend in relation to the Polish currency.

Figure 3. Exchange rate of PLN against UAH



Source: NBP.

1.2 Condition of the sector

The main markets the Group operated on in 2018 were Poland, Ukraine and Belarus. In 2018, the Group's revenues generated on these three markets accounted for 95.1% of consolidated sales revenues.

In 2018, Poland and Ukraine observed a higher demand for products of medium and high price range while the segment of cheaper products shrank. On the other hand, the Belarusian market saw an increased demand for products of the lowest price range, resulting primarily from the low purchasing power of local consumers. At the same time, some part of Belarusian consumers were interested in products of the higher price range.

Poland

Compared to previous years, in 2018 the market of paints and agents for wood protection and decoration in Poland was revived, and the Company observed a trend toward selecting better and more expensive products by Polish consumers. The demand for products of medium and high price range increased while the segment of cheaper products shrank.

The sales volume of paints and agents for wood decoration and protection in 2018 remained at a level similar to 2017, while the gross value of sales to final customers increased by several per cent.

The year 2018 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 around 75%.

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 rest is used for finishing newly erected facilities.

The U&A survey of the Company showed that the renovation trend is subject to shortening. Nearly 60% of Poles declare that they use paints and agents for wood protection and decoration more often than every 5 years. On the other hand, 31% declare that they carry out renovation more often than every 2.5 years.

Ukraine

In spite of the increase in macroeconomic ratios in Ukraine, the year 2018 was demanding for manufacturers of paints and varnishes operating on that market - primarily due to rapid changes in the consumption of paints and varnishes. Throughout the year in Ukraine, periodic increases and decreases in demand were recorded. In addition, for the second consecutive year, due to unfavourable weather conditions, the beginning of the season was delayed. The above factors influenced the bottom line of manufacturers achieved in the entire 2018 - only some companies improved their outcome in relation to 2017, while other manufacturer's results deteriorated.

According to the calculations of the Chem-Courier information and analytical agency, in 2018 the consumption of paints and varnishes in Ukraine decreased by 2% compared to the previous year. The drop in demand was observed in almost all product groups. Only the water-dispersive segment of the paints and varnishes market in Ukraine recorded an increase, which was largely related to the global trend of the growth of the popularity of waterborne products. Such a situation on the Ukrainian market of paints and varnishes, i.e. changes occurring in its structure, can be explained by the constantly changing preferences and requirements of local consumers.

In 2018, Ukrainian consumers became more demanding and painstakingly planned their expenses, before making a purchase they carefully analysed the price/quality ratio of products.

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In the past year, despite high volatility of customer preferences and temporary difficulties (e.g. delayed season), the end consumer's demand for high quality paints and varnishes was observed, i.e. beginning from medium through to premium price ranges.

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

Despite positive symptoms of the economic recovery in Belarus, in 2018 the purchasing power of Belarusian consumers remained low. This resulted in the demand for products of low and middle price ranges. Whereas, an increase for products of higher price ranges was increasingly noticeable. In the Company's opinion, this is due to the fact that a certain proportion of Belarusian consumers is prejudiced against Belarusian and Russian brands, preferring the high quality paints of well-known brands (including those with production facilities in Belarus).

In 2018, protectionism of market protection, manifested in customs policy, application of certification requirements for imported goods and preference for trade within the Eurasian Customs Union, intensified in Belarus. This resulted in increased competition from cheaper products from Russian producers.

In the long-term perspective Belarus, similarly to Ukraine, remains 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.

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 which occurred in 2018 were as follows:

- February 16, 2018 - acquisition of a majority interest in Radomska Fabryka Farb i Lakierów SA ("Rafil"),
- February 28, 2018 - purchase of real estate in Zawada (about 14.95 ha), on which a new Logistics Centre will be erected,
- March 29, 2018 - conclusion of agreements with SAP Polska for development, implementation and maintenance of IT software,
- May 25, 2018 - an Ordinary General Meeting was held, which:
 - approved the Management' report on the activities and the financial statements for 2017;
 - divided the net profit for 2017 in the amount of PLN 41,534 thousand by establishing dividend in the amount of PLN 2.20 per share, i.e. in the total amount of PLN 27,759 thousand. The remaining part of the profit in the amount of PLN 13,775 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 2017;
 - granted a vote of acceptance to the members of the Company's bodies for performing their duties in 2017;
 - elected members of the Supervisory Board for the duration of the eighth term;

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Data in PLN thousand



- approved the Regulations of the Supervisory Board.

The Company informed about it in reports no. 14/2018 i 15/2018 of May 25, 2018.

- June 1, 2018 - disposal of real estate in Zawada (about 5.3 ha),
- June 28, 2018 - obtaining the status of parent company toward Radomska Fabryka Farb i Lakierów SA
- September 28, 2018 - liquidation of Śnieżka EastTrade Sp. z o.o.,
- December 17, 2018 - signing of an annex to the loan agreement with Bank Pekao,
- December 17, 2018 - signing of an annex to the loan agreement with PKO BP,
- December 20, 2018 - signing of an annex to the loan agreement with ING Bank Śląski,
- December 20, 2018 - signing of an annex to the loan agreement with Bank Handlowy,

The most important agreements concluded by the Company in 2018 are described in item 1.7.1 of the report, excluding agreements with Radomska Fabryka Farb i Lakierów, whose details are presented in item 3.1.2.

After the end of the financial year, February 11, 2019, the Company concluded an agreement to acquire 80% of shares in the Hungarian company Poli-Farbe Vegyipari Kft., which is one of the most well-known producers on the Hungarian market of decorative paints. Poli-Farbe Vegyipari Kft. has one of the most recognizable paint brands on the market in its portfolio such as: Platinum and Inntaler (premium segment brands), and Cellkolor and Boróka (*value for money* segment brands). The company is also a producer of insulating systems, enamels and wood preservatives.

In addition, the Company signed an annex to the loan agreement with Bank Handlowy.

The both agreements are described in item 1.7.2 of the report.

1.4 Sales volumes

1.4.1 The Śnieżka Group

In 2018 the Śnieżka Group generated consolidated sales revenues in the amount of PLN 586,777 thousand, i.e. 3.9% higher than in 2017.

The dominant share in the total sales revenues of the Group (77.8%) in 2018 was on the Polish market, which in comparison to the previous year increased by 5.9%, to PLN 455,797 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 margin, and higher demand for products of medium price range. The level of revenues achieved was influenced by a properly formed pricing policy, including the adjustment of FFIL Śnieżka SA's product prices in the first part of 2018, being a response to the growing prices of titanium white.

The Group's revenues generated on foreign markets accounted for 22.2% of total revenues. In Ukraine - which in 2018 was the Group's key export market with a share of 12.5% - the Group achieved sales revenues of PLN 73 453 thousand. A slight decrease in revenues from the Ukrainian market compared to 2017 (-0.3%) is primarily the result of a slight decrease in the consumption of paints and varnishes in Ukraine (with the exception of waterborne paints) and unfavourable weather conditions, which delayed the beginning of the renovation season. At the same time, the demand for higher quality paints and varnishes was observed, i.e. medium and premium price ranges, which had a positive impact on the Group's bottom line achieved in Ukraine.

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Data in PLN thousand

In Belarus - which in 2018 was the third most important sales market for the Group, with a share of 4.8% - the Group generated sales revenues in the amount of PLN 28 374 thousand, i.e. by 5.2% less compared to 2017. 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.

The Group's sales results achieved on other foreign markets are strongly correlated with the results achieved by the parent company - FFIL Śnieżka SA.

In 2018, the Group's sales revenues in the Moldovan market increased by 8.3% to PLN 8,984 thousand. The higher sales achieved in Moldova is a result of the long-term presence of the Group's brands on the local market, constant adaptation of the offer to the recipients' requirements as well as sales and marketing support from local distributors. In addition, in Moldova, as in Poland and Ukraine, an increase in consumer interest in premium products was observed.

On other export markets, the Group generated lower sales revenues than in 2017. In the case of Russia, this is the result of limiting the Group's operations on that market. In the case of other markets, the reason is an on-going process of optimizing the management of brands and products, as well as recognizing the chances of increasing sales.

Table 1 Sales revenues of the Śnieżka Group by countries

	Year 2018	Structure	Year 2017 converted data*	Change
Poland	455 797	77.8%	430 255	5.9%
Ukraine	73 453	12.5%	73 655	-0.3%
Belarus	28 374	4.8%	29 945	-5.2%
Moldova	8 984	1.5%	8 299	8.3%
Russia	7 823	1.3%	8 460	-7.5%
Other countries	12 346	2.1%	13 867	-11.0%
Total sales	586 777	100.0%	564 481	3.9%

*Information on converted data has been provided in the consolidated financial statements in note 7.

In terms of value, the sales structure of the Group was dominated by decorative products, whose share in the consolidated sales revenues amounted to 77.8%. In 2018, the Group generated PLN 456,590 thousand from the sales of decorative products- i.e. PLN 18,693 thousand and 4.3% more than in the same period of 2017. The second highest share in the Group's sales structure, at the level of 12.1%, was construction chemicals. The Group's sales revenues from this segment amounted to PLN 70,936 thousand and were 3.8% higher than a year earlier.

Table 2 Sales revenues of the Śnieżka Group by product categories

	Year 2018	Structure	Year 2017 converted data*	Change
Decorative products	456 590	77.8%	437 897	4.3%
Construction chemicals	70 936	12.1%	68 352	3.8%
Industrial products	6 646	1.1%	4 024	65.2%
Goods	42 032	7.2%	42 576	-1.3%
Other revenues	5 111	0.9%	4 943	3.4%
Materials	5 462	0.9%	6 689	-18.3%
Total sales	586 777	100.0%	564 481	3.9%

*Information on converted data has been provided in the consolidated financial statements in note 7.

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In terms of volume, the sales of the Group's products amounted to 121,3 million l/kg and was by 7% lower compared to 2017. The lower number of products sold did not have a negative impact on the Group's revenues, as the sales structure was increased by the share of products of higher price ranges.

In 2018, the Group sold 64.2 million l/kg of decorative goods (-7% y/y), 56.6 million l/kg of construction chemicals (-7% y/y) and 0.5 million l/kg of other industrial products (-19% y/y). The sales of goods, materials and services in terms of volume are not given 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 2018 FFIL Śnieżka SA generated sales revenues in the amount of PLN 522,271 thousand, i.e. 2.3% higher than in 2017.

The dominant share in the total sales revenues of the Company (86.1%) in 2018 was on the Polish market, which in comparison to the previous year increased by 4.4%, to PLN 449,434 thousand. The increase in the value of sales in Poland resulted from the progressive migration of customers towards premium products, higher demand for products of medium price ranges and properly formed pricing policy.

The Company's revenues from exports accounted for 13.9% of its total revenues. On the Ukrainian market, the Company generated sales revenues in the amount of PLN 23,855 thousand, i.e. 16.4% lower than in 2017.

Company's sales revenues generated on the Belarusian market, amounted to PLN 19,829 thousand, i.e. 5.8% lower than in 2017. 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.

In 2018, the Company achieved better sales results in Moldova, and lower on other export markets, including Russia. These results were influenced by the factors described in the comment on the Group's revenues in item 1.4.1 of the report. The results achieved on these foreign markets by the parent company, FFIL Śnieżka SA, strongly determine the results of the entire Group on these markets.

Table 3 Sales revenues of the FFIL Śnieżka SA by countries

	Year 2018	Structure	Year 2017 converted data*	Change
Poland	449 434	86%	430 326	4.4%
Ukraine	23 855	4.6%	28 520	-16.4%
Belarus	19 829	3.8%	21 052	-5.8%
Moldova	8 984	1.7%	8 299	8.3%
Russia	7 823	1.5%	8 460	-7.5%
Other countries	12 346	2.4%	13 866	-11.0%
Total sales	522 271	100.0%	510 523	2.3%

*Information on converted data has been provided in the financial statements in note 8.

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 78.1%. In 2018, the Company generated PLN 408,091 thousand from the sales of decorative products- i.e. PLN 10,337 thousand and 2.6% more than in the same period of 2017. The second highest share in the Company's sales structure, at the level of 9.0%, was construction chemicals. The Group's sales revenues from this segment amounted to PLN 46,914 thousand and were 4.9% higher than a year earlier.

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Data in PLN thousand

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

	Year 2018	Structure	Year 2017 converted data*	Change
Decorative products	408 091	78.1%	397 754	2.6%
Construction chemicals	46 914	9.0%	44 718	4.9%
Industrial products	1 051	0.2%	3 828	-72.5%
Goods	44 350	8.5%	41 058	8.0%
Other revenues	5 736	1.1%	5 462	5.0%
Materials	16 129	3.1%	17 703	-8.9%
Total sales	522 271	100.0%	510 523	2.3%

*Information on converted data has been provided in the financial statements in note 8.

In terms of volume, the sales of the Company's products amounted to 84,1 million l/kg and was by 6,4% lower compared to 2017. Similarly, to the results of the entire Group, 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.

In 2018, the Company sold 53.1 million l/kg of decorative goods (-7% y/y), 30.8 million l/kg of construction chemicals (-5% y/y) and 0.2 million l/kg of other industrial products (-66% y/y). The sales of goods, materials and services in terms of volume are not given 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

The Śnieżka Group ended 2018 with a net profit of PLN 63,389 thousand. PLN, which is 12% higher than in 2017. Net profit attributable to shareholders of the parent company amounted to PLN 61,632 thousand (an increase of 10.3% y/y).

The main factors forming the Group's financial result in 2018 are as follows:

- An increase in consolidated sales revenues to PLN 586,777 thousand (by 3.9% y/y), with higher sales revenues achieved on the Polish and Moldovan markets, stabilization of revenues in Ukraine, as well as lower sales on other export markets (reasons for the increase and decrease in sales revenues were described in item 1.4.1 of the report). The parent company, FFIL Śnieżka SA, had the largest share in the Group's revenues.
- An increase in the sales structure of premium products characterized by a higher margin as well as products of the medium price range (mainstream segment).
- Properly formed pricing policy, including the adjustment of FFIL Śnieżka SA's product prices in

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the first part of 2018, being a response to the growing prices of titanium white.

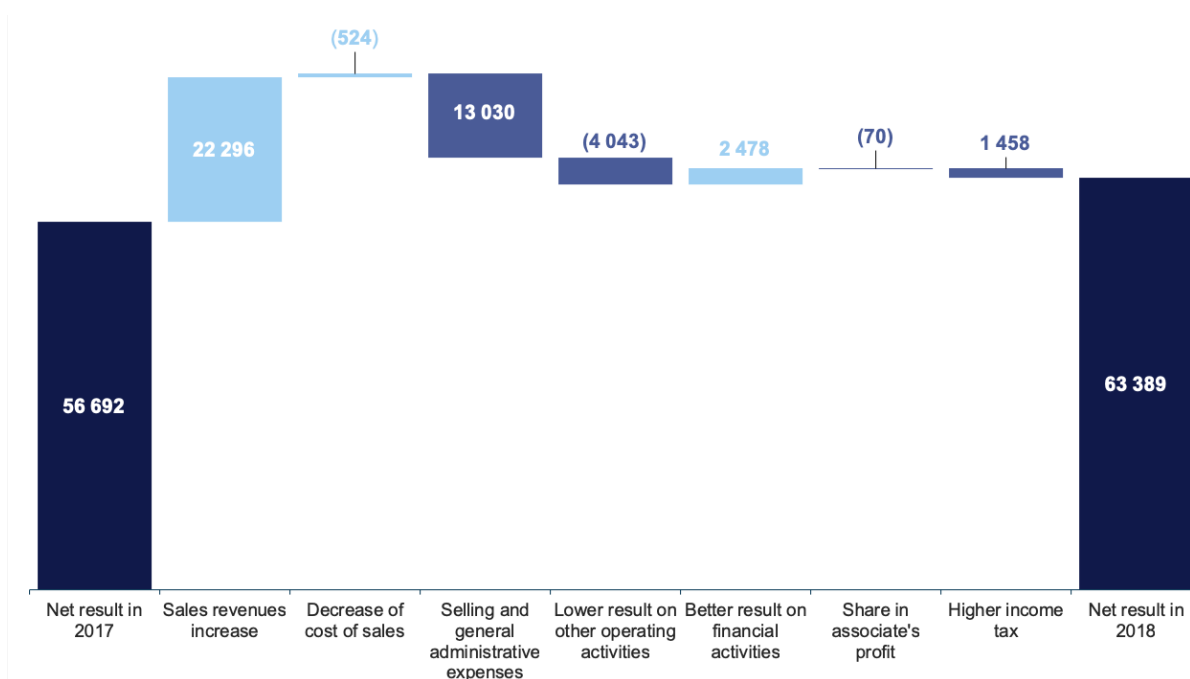
- An increase in general administrative expenses (by 30.2% y/y to PLN 57,799 thousand), mainly due to the consolidation of Radomska Fabryka Farb i Lakierów SA and restructuring activities carried out in it. In addition, the scheduled increases in wages were implemented as well as expenditures for HR activities were incurred.
- Higher income tax resulting from better financial results achieved by the Group.
- Lower loss on financial activity in the amount of PLN -1,432 thousand to PLN -3,910 thousand in 2017 (due to foreign exchange losses).

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

	Year 2018	Year 2017 converted data*	Change (y/y)
Sales revenues	586 777	564 481	3.9%
Cost of sales	341 059	341 583	-0.2%
Selling costs	104 928	105 306	-0.4%
General administrative expenses	57 799	44 391	30.2%
Profit on other operating activities	(3 344)	699	-
Profit on financial activities	(1 432)	(3 910)	-
Share in associate's profit	226	296	-23.6%
Gross profit	78 441	70 286	11.6%
Profit on operating activities (EBIT)	79 647	73 900	7.8%
Profit on operating activities + depreciation (EBITDA)	98 370	89 833	9.5%
Income tax	15 052	13 594	10.7%
Net profit, including:	63 389	56 692	12%
<i>profit attributable to shareholders of the parent company</i>	<i>61 632</i>	<i>55 892</i>	<i>10.3%</i>

*Information on converted data has been provided in the consolidated financial statements in note 7.

Figure 4 The impact of individual items on the net results of the Śnieżka Group



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The Group's results for 2018 were not affected by any unusual factors and events.

The Management Board of FFIL Śnieżka SA did not publish forecasts of financial results for 2018, either on a consolidated or standalone basis.

Fabryka Farb i Lakierów Śnieżka SA

In 2018 FFIL Śnieżka SA, the parent company within the Group, generated very high net profit in the amount of PLN 60,588 thousand, i.e. 45.9% higher than in 2017.

The main factors forming the Company's financial result in 2018 are as follows:

- An increase in sales revenues to PLN 522,271 thousand (by 2.3% y/y), with higher sales revenues achieved on the Polish and Moldovan markets as well as lower sales on other export markets (reasons for the increase and decrease in sales revenues were described in item 1.4.2 of the report).
- An increase in the sales structure of premium products characterized by a higher margin as well as products of the medium price range (mainstream segment).
- Properly formed pricing policy, including the adjustment of FFIL Śnieżka SA's product prices in the first part of 2018, being a response to the growing prices of titanium white.
- An increase in general administrative expenses (by 21.1% to PLN 46,582 thousand) caused by implementing the scheduled increases in wages in the Company and incurring expenditure on activities related to the HR area.
- An increase in other operating expenses resulting from write-offs on inventories in the amount of PLN 3.3 million.
- Better result on financial activities resulting from receiving dividends paid by: TM Investment Sp. z o.o. (PLN 21 million) and Śnieżka-Ukraina Sp. z o.o. (PLN 1.6 million).

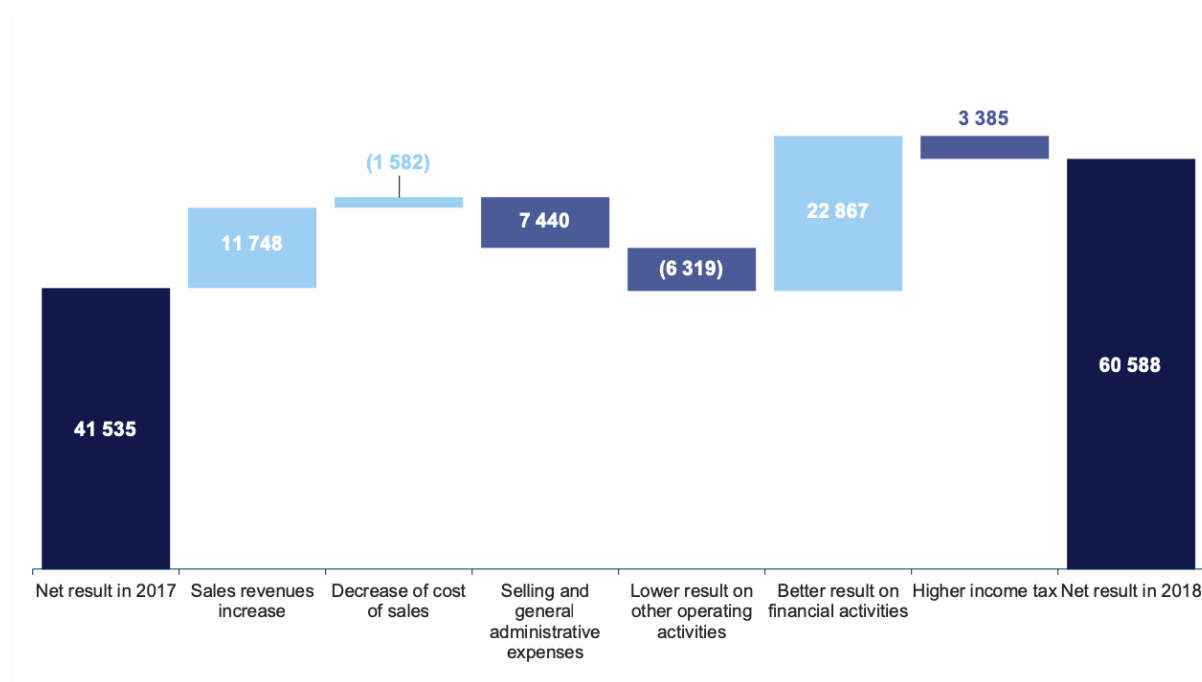
Table 6 The basic elements of the profit and loss account of FFIL Śnieżka SA

	Year 2018	Year 2017 converted data*	Change (y/y)
Sales revenues	522 271	510 523	2.3%
Cost of sales	310 402	311 984	-0.5%
Selling costs	105 744	106 421	-0.6%
General administrative expenses	46 582	38 465	21.1%
Profit on other operating activities	(5 806)	513	-
Profit on financial activities	19 772	(3 095)	-
Gross profit	73 509	51 071	43.9%
Profit on operating activities (EBIT)	53 737	54 166	-0.8%
Profit on operating activities + depreciation (EBITDA)	70 625	68 962	2.4%
Income tax	12 921	9 536	35.5%
Net profit	60 588	41 535	45.9%

*Information on converted data has been provided in the financial statements in note 8.

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Data in PLN thousand

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



The Company's results for 2018 were not affected by any unusual factors and events.

1.6.2 Financial standing

The Śnieżka Group

The condition of the Group's balance sheet items is affected by the seasonality phenomenon. It is described in detail in item 1.5 of the report.

While analysing the Group's balance sheet figures for 2018 (compared to the end of the previous year), the inclusion of Radomska Fabryka Farb i Lakierów SA into the Group ought to be additionally taken into consideration. Information regarding this is presented in item 3.1.2 of the report.

Table 7 The Group's assets

Group's assets	31.12.2018	31.12.2017	Change (y/y)
Fixed assets, including:	234 952	182 680	28.6%
- Tangible fixed assets	218 433	166 034	31.6%
- other fixed assets	16 519	16 646	-0.8%
Current assets, including:	169 529	181 057	-6.4%
- Inventory	84 129	79 468	5.9%
- Trade and other receivables	77 235	77 711	-0.6%
- Cash and cash equivalents	5 563	21 444	-74.1%
- other current assets	2 602	2 434	6.9%
Non-current assets classified as held for sale	-	5 373	-
Total	404 481	369 110	9.6%

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As at 31 December 2018, the value of assets of the Śnieżka Group amounted to PLN 404,481 thousand and was by 9.6% higher than at the end of 2017 - mainly due to the increase in the value of non-current assets.

At the end of 2018, the Group's fixed assets amounted to PLN 234,952 thousand. (which accounted for 58.1% of total assets). Their increase by 28.6% in 2018 results mainly from investments made in production facilities of the Group companies (mainly in FFiL Śnieżka SA), as well as the purchase of a new, larger real estate for the erection of a new Logistics Centre.

The value of the Group's current assets at the end of the reporting period decreased to PLN 169,529 thousand (-6.4% y/y). The main part of the Group's current assets were inventories valued at PLN 84,129 thousand (increase in inventories by 5.9% y/y), which in particular consisted of finished products and materials. The Group's trade and other receivables as well as other receivables amounted to PLN 77,235 thousand and were close to the level as at the end of 2017.

A significant impact on the value of the Group's current assets was a decrease in the value of cash and cash equivalents resulting from the allocation of part of the funds for investments in production facilities.

Table 8 The Group's liabilities

Group's liabilities	31.12.2018	31.12.2017	Change (y/y)
Total equity, including:	268 912	228 538	17.7%
- Equity (attributable to the shareholders of the parent company)	262 484	224 620	16.9%
- Equity of non-controlling interests	6 428	3 918	64.1%
Total liabilities	135 569	140 572	-3.6%
Long-term liabilities	5 159	3 537	45.9%
Short-term liabilities, including:	130 410	137 035	-4.8%
- Trade and other liabilities	57 226	54 377	5.2%
- Short-term liabilities on loans and borrowings	65 492	75 241	-13.0%
- Other short-term liabilities	7 692	7 417	3.7%
Total	404 481	369 110	9.6%

At the end of 2018, the Group financed 66.5% (ratio of equity to total assets) from its own resources. It indicates an improvement of this ratio by 4.6% compared to the end of 2017. The Group's equity amounted to PLN 268,912 thousand and was by 17.7% higher than at the end of December 2017, which results from the increase in retained earnings and net income from hedging instruments.

As at 31 December 2018, the Group's long-term liabilities amounted to PLN 5,159 thousand (an increase of 45.9% compared to the end of 2017), which resulted from including provisions for employee benefits and deferred income tax provisions in this item.

At the end of December 2018, the Group's short-term liabilities decreased (accounting for 32.2% of the balance sheet total). Their value decreased by 4.8% to PLN 130,410 thousand.

The main component of the Group's short-term liabilities (50.2%) were liabilities on loans and borrowings in the amount of PLN 65,492 thousand, which as a result of partial repayment of debt decreased by 13% compared to the end of 2017. The second largest component (43.9%) were the Group's liabilities on deliveries and services and other liabilities, the value of which amounted to PLN 57,226 thousand. (+5.2% y/y).

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The financial plan of the Group for 2019 envisages an increase in the balance sheet total. In 2019, the Group intends to implement a financing strategy consisting in financing fixed assets, primarily with equity. The Group intends to finance current assets with liabilities towards suppliers and interest debt.

In 2018 and as at the date of publication of the Report, the Group continued to meet its obligations on an on-going basis and there are no significant threats for the Group to meet their liabilities in the future.

Fabryka Farb i Lakierów Śnieżka SA

The condition of the Company's balance sheet items is affected by the seasonality phenomenon. It is described in detail in item 1.5 of the report.

Table 9 FFIL Śnieżka SA's assets

Company's assets	31.12.2018	31.12.2017	Change (y/y)
Fixed assets, including:	233 498	185 865	25.6%
- Tangible fixed assets	196 746	153 031	28.6%
- Shares and stocks in other entities	23 800	19 246	23.7%
- other fixed assets	12 952	13 588	-4.7%
Current assets, including:	146 299	165 661	-11.7%
- Inventory	67 932	70 085	-3.1%
- Trade and other receivables	72 742	73 261	-0.7%
- Cash and cash equivalents	3 877	20 729	-81.3%
- other current assets	1 748	1 586	10.2%
Non-current assets classified as held for sale	-	5 373	-
Total	379 797	356 899	6.4%

As at 31 December 2018, the value of Company's assets amounted to PLN 379,797 thousand and was by 6.4% higher than at the end of 2017.

The value of fixed assets of the Company (constituting 61.5% of its total assets) over the year increased by 25.6% to PLN 233,498 thousand, mainly due to increased investments related to the Company's development plans. The Company also recorded an increase in the value of shares and stocks as a result of the acquisition of shares in Radomska Fabryka Farb i Lakierów SA.

The value of the Company's current assets amounted to PLN 146,299 thousand and their main components were trade and other receivables (-0.7% y/y) and inventories (-3.1% y/y). A significant impact on the value of the Company's current assets was the allocation of part of cash and cash equivalents for investments in production facilities.

Table 10 FFIL Śnieżka SA's liabilities

Company's liabilities	31.12.2018	31.12.2017	Change (y/y)
Equity	175 909	141 664	24.2%
Total liabilities	203 888	215 235	-5.3%
Long-term liabilities, including:	79 766	82 512	-3.3%
- Long-term interest-bearing loans and borrowings	75 170	79 270	-5.2%
- Other long-term liabilities	4 596	3 242	41.8%
Short-term liabilities, including:	124 122	132 723	-6.5%
- Trade and other liabilities	55 544	53 969	2.9%

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Data in PLN thousand

- Current portion of interest-bearing loans and borrowings	62 628	72 045	-13.1%
- Other short-term liabilities	5 950	6 709	-11.3%
Total	379 797	356 899	6.4%

At the end of 2018 FFIL Śnieżka SA financed 46.3% of its activities from its own resources. It indicates an improvement of this ratio by 6.6% compared to the end of 2017. Its equity amounted to PLN 175,909 thousand and were 24.2% higher than at the end of 2017, mainly due to the high net profit generated by the Company and dividends received from subsidiaries.

In the reporting period both short-term liabilities (-6.5% y/y to PLN 124,122 thousand) and long-term liabilities (by -3.3% y/y to PLN 79,766 thousand) decreased. It resulted mainly from the partial repayment of the Company's debt. At the end of 2018, short-term liabilities accounted for 32.7%, and long-term liabilities 21.0% of the Company's liabilities.

1.6.3 Cash flows

The Śnieżka Group

In 2018, the Group recorded negative cash flows in the amount of PLN -15,953 thousand (against positive cash flows of PLN 12,827 thousand in 2017). They were a result of:

- **Positive cash flows on operating activities of PLN 80,715 thousand.**

The level of cash generated by the Group companies (PLN 93,916 thousand) had a positive impact on their amount, whereas the income tax paid (PLN 13,201 thousand) reversely.

- **Negative cash flows on investing activities in the amount of PLN 56,346 thousand.**

In the reporting period, the Group - and primarily the parent company, FFIL Śnieżka SA - incurred significant investment expenses (PLN 69,681 thousand), i.a. in connection with the expansion and modernization of production lines, extension of the warehouse and research and development facility, purchase of a land (plot) in Zawada for the erection of a new Logistics Centre and development and commencement of the process of implementing the new IT software in the Company.

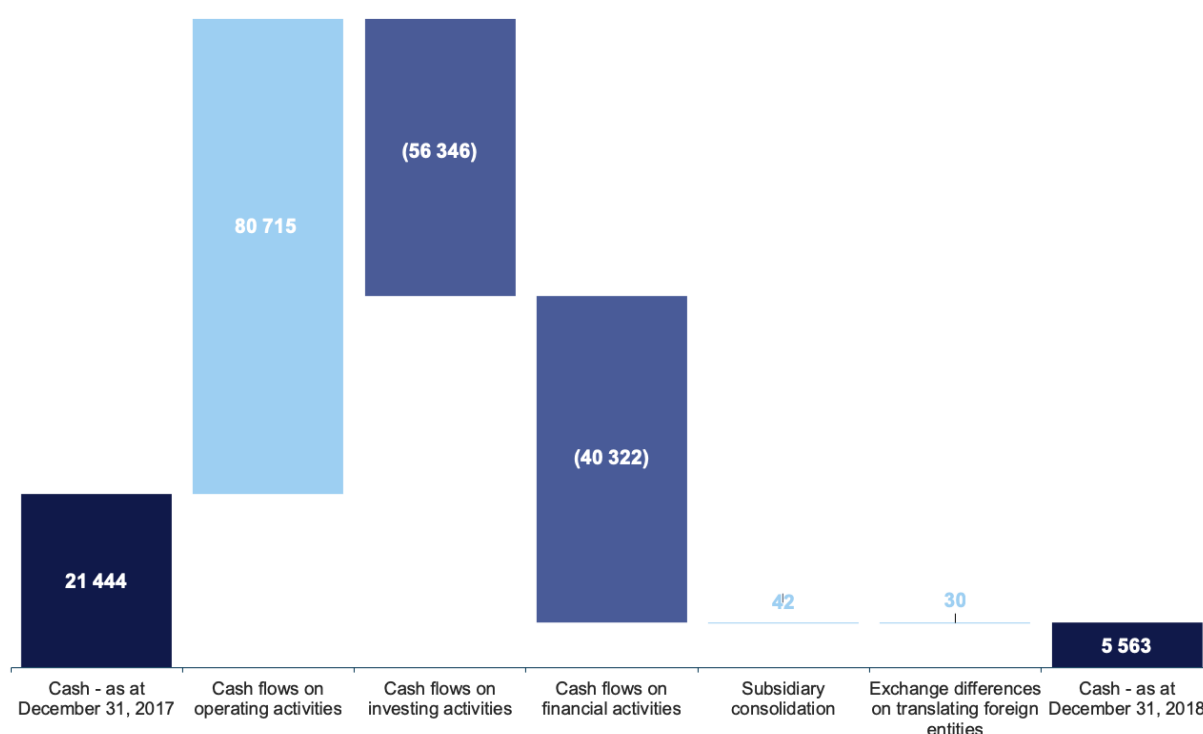
At the same time, the Group acquired PLN 17,423 thousand from the sale of property, plant and equipment and intangible assets. The largest proportion in this amount was the sale of real estate in Chojnice and the plot in Zawada, which was originally planned to be used for the erection of the Logistics Centre.

- **Negative flows on financial activities at the level of PLN 40,322 thousand.**

Apart from incurring new loans and borrowings (PLN 28,298 thousand), resulting from the Group's investment needs as well as current operating activities, repayment of loans and borrowings (-PLN 37,875 thousand) and payment of dividends (-27,785 thousand) had a significant impact on these flows.

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Data in PLN thousand

Figure 6 The Group's cash flows in 2018



Fabryka Farb i Lakierów Śnieżka SA

In 2018, the Company recorded negative cash flows in the amount of PLN 16,852 thousand (against positive cash flows of PLN 11,828 thousand in 2017). They were a result of:

- **Positive cash flows on investing activities in the amount of PLN 57,015 thousand.**

The level of cash generated by the Company (PLN 68,112 thousand) had a positive impact on their amount, whereas the income tax paid (PLN 11,097 thousand) reversely.

- **Negative cash flows on investing activities in the amount of PLN 30,880 thousand.**

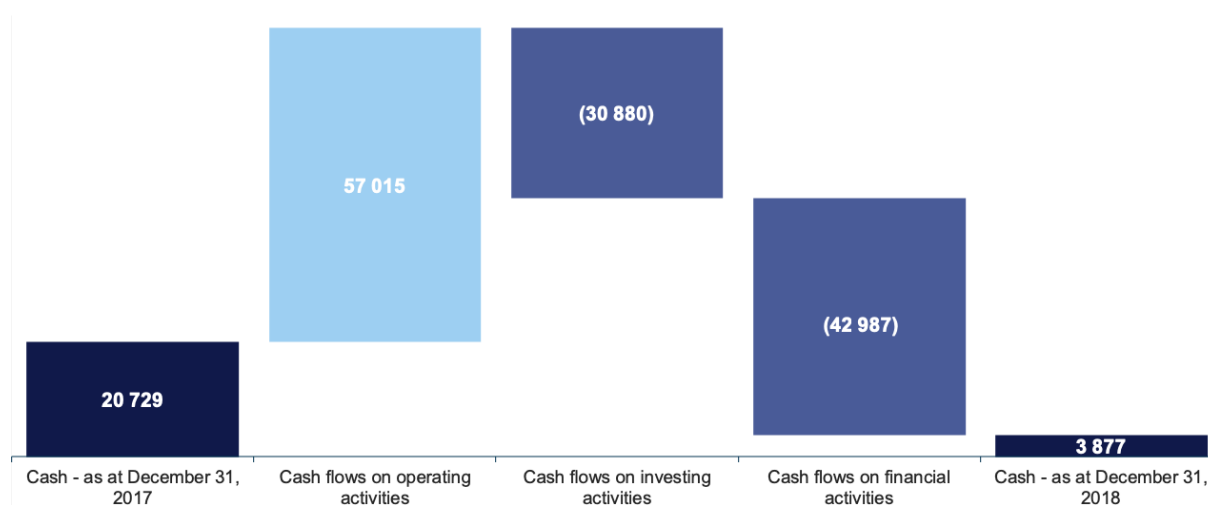
As a result of large development investments (described in detail in the item on cash flows on the Group's investment activities and item 1.7.1 of the report), the Company incurred capital expenditures in the amount of PLN 66,336 thousand. At the same time, the Company received dividends from subsidiaries (PLN 22,887 thousand).

- **Negative cash flows on financing activities in the amount of PLN 42,987 thousand.**

Apart from proceeds from new loans and borrowings (PLN 35,932 thousand), taken out to finance the Company's investment needs, as well as financing of on-going operations, the repayment of loans and borrowings (PLN -46,706 thousand) and payment of dividends (PLN -27,759 thousand) had impact on these flows.

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Data in PLN thousand

Figure 7 FFIL Śnieżka SA's cash flows in 2018



1.6.4 Financial indicators

The Śnieżka Group

In 2018 the Śnieżka Group improved nearly all profitability ratios in relation to the values achieved in 2017. The Group recorded the largest growth at the level of gross margin on sales, which was 2.4% higher than a year earlier - mainly due to the increase in the sales structure of products featuring higher price ranges and price increases of products implemented in response to the increasing prices of raw materials used for production.

Table 11 The Group's profitability ratios

	Year 2018	Year 2017
EBIT margin in % (EBIT / Sales revenues) x 100%	13.6%	13.1%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	16.8%	15.9%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	41.9%	39.5%
Net profit (loss) in % (Net profit / Sales revenues) x 100%	10.8%	10.0%
Return on assets (ROA) * (Net profit / Total assets *) x 100%	14.5%	14.0%
Return on equity (ROE) ** (Net profit / equity - attributable to the shareholders of the parent company) x 100%	25.2%	25.4%

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

** 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.

At the end of 2018, the Group's current liquidity ratio remained at the same level as in the previous year, and the Group had no problems with timely settlement of its liabilities. At the same time, the level of financing the Group's operations with debt decreased, which resulted from the repayment of some loans and borrowings. The general debt ratio of the Group amounted to 33.5% and was 4.6 % lower than the year before.

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At the end of 2018, the fixed-assets-to-equity ratio decreased by 10.6 %, which resulted from significant Group's investments made over the year, as a result of which non-current assets increased by 28.6% (equity increased by 17.7%).

In addition, in 2018 the Group's cash liquidity ratio decreased, which resulted from significant expenditures incurred by the Group companies (mainly FFIL Śnieżka SA) for investments in production facilities.

Table 12 The Group's liquidity and debt ratios

	31.12.2018	31.12.2017
Current liquidity ratio (Current assets / Short-term liabilities)	1.3	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%	4.3%	15.6%
Total debt ratio (Total liabilities / Total assets) x 100%	33.5%	38.1%
Fixed-assets-to-equity ratio (Equity/Fixed assets) x 100%	114.5%	125.1%

In 2018, the cash conversion cycle in the Group was less than 76 days, similar to the previous year. In the reporting period, the period of inflow of receivables on trade and other receivables decreased. The stock rotation cycle increased for a few days. In comparison with 2017, the cycle of settling the current liabilities of the Group companies also increased, which means that the merchant's credit was managed efficiently.

Table 13 The Group's rotation ratios

	Year 2018	Year 2017
Inventory cycle (Inventory x360 / Cost of sales) in days	88.8	83.8
Receivables cycle (Trade and other receivables x 360 / Sales revenues) in days	47.4	49.6
Current liabilities cycle (Trade and other liabilities x 360 / Cost of sales) in days	60.4	57.3
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	75.8	76.0

Fabryka Farb i Lakierów Śnieżka SA

In 2018, the Company generated a higher net profit margin (+3.5% y/y) and a gross margin on sales (+ 1.7% y/y) - mainly due to the increase in the sales structure of products featuring higher price ranges and price increases of products.

The company also significantly improved ROA (reflecting the level of net profit generated in relation to its assets) and ROE (showing return on equity). In comparison with 2017, ROA increased by 4.8% and ROE by 8.9%.

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Data in PLN thousand

Table 14 FFIL Śnieżka SA's profitability ratios

	Year 2018	Year 2017
EBIT margin in % (EBIT / Sales revenues) x 100%	10.3%	10.6%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	13.5%	13.5%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	40.6%	38.9%
Net profit (loss) in % (Net profit / Sales revenues) x 100%	11.6%	8.1%
Return on assets (ROA) * (Net profit / Total assets *) x 100%	16.4%	11.6%
Return on equity (ROE) (Net profit / equity**) x 100%	38.2%	29.3%

* 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 31 December 2018, the Company's current liquidity ratio remained at the same level as in the previous year, i.e. 1.2%, which indicates that the Company was capable of settling its liabilities on an on-going basis.

A decrease in the value of current assets (as a result of release of a portion of cash and cash equivalents for development investments) had an impact on a slight decrease in the quick liquidity ratio and a decrease in the Company's cash liquidity ratio.

At the end of 2018, the Company's standing in terms of total debt improved, which resulted from the repayment of some loans and borrowings. In comparison with the end of 2017, the total debt ratio of the Company declined by 6.6%.

Table 15 The FFIL Śnieżka SA's liquidity and debt ratios

	31.12.2018	31.12.2017
Current liquidity ratio (Current assets / Short-term liabilities)	1.2	1.2
Quick liquidity ratio (Current assets - inventories)/Short-term liabilities	0.6	0.7
Cash liquidity ratio (Cash and cash equivalents / Short-term liabilities)	3.1%	15.6%
Total debt ratio (Total liabilities / Total assets) x 100%	53.7%	60.3%
Fixed-assets-to-equity ratio (Equity/Fixed assets) x 100%	75.3%	76.2%

In 2018, the cash conversion cycle in the Company was shortened by almost 6 days compared to the previous year. This is the result of the shortening of the inventory turnover cycle and a slightly faster settlement of receivables by customers.

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Table 16 FFIL Śnieżka SA's rotation ratio

	Year 2018	Year 2017
Inventory cycle (Inventory x 360 / Cost of sales) in days	78.8	80.9
Receivables cycle (Trade and other receivables x 360 / Sales revenues) in days	50.1	51.7
Current liabilities cycle (Trade and other liabilities x 360 / Cost of sales) in days	64.4	62.3
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	64.5	70.3

1.7 Other information

1.7.1 Investments

In 2018, the total capital expenditure in the Śnieżka Group amounted to PLN 69,681 thousand and were by 122.6% (PLN 38,372 thousand) higher than in the previous year. The Group used its own funds to finance the investments.

The total expenditure on investments in FFIL Śnieżka SA amounted to PLN 66,336 thousand and were by 121.3% (PLN 36,360 thousand) higher than a year earlier. As far as the source of financing the investments is concerned, the Company used both its own funds as well as loans and borrowings.

The investment policy pursued in the Śnieżka Group in 2018 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 investments performed by the Group in 2018 focused primarily on improving the quality of products, increasing production capacity (extension and modernization of production lines) and optimizing the manufacturing costs. The Group also put great emphasis on streamlining logistics processes and on increasing work efficiency.

The majority of the Group's investment expenditures were outlays on the purposes of FFIL Śnieżka SA. In 2018 in the Company:

- a new production line was built,
- the equipment of production lines was modernized,
- warehouse facilities were modernized and expanded,
- the technical infrastructure accompanying production and storage was modernized,
- the R&D facilities were modernized.

The Śnieżka Group does not anticipate problems with financing the investment plans for 2019, including capital investments. The Group's own funds and signed loan agreements with banks allow to finance the investment plans safely scheduled for 2019. The total value of investments in the Group in 2019, including capital investments, may amount to approx. PLN 200 million.



1.7.2 The most important agreements concluded in 2018

Acquisition of a majority interest in Radomska Fabryka Farb i Lakierów SA ("Rafil")

The details are presented in item 3.1.2 of the report.

Purchase of a real estate in Zawada

On 28 February 2018 FFiL Śnieżka SA concluded a notarial deed for the purchase of a non-agricultural property located in the Dębica District 0014 Zawada, Dębica county, Podkarpackie province, designated in the land register as plot No. 14/20, area 14,9544 ha. FFiL Śnieżka SA was able to acquire the said property as "Agencja Rozwoju Przemysłu S.A" did not take advantage of the pre-emption right to acquire the property in question, as the entitled institution to manage „Euro-Park Mielec” - a special economic zone. "Agencja Rozwoju Przemysłu S.A" made a statement of resignation from the pre-emption right. The Company acquired the property from the Agricultural Property Agency of the State Treasury for the price of PLN 17,864 thousand, including VAT 23%.

FFiL Śnieżka SA acquired the property in question in order to erect a new Logistics Centre.

The Company informed about it in report no. 4/2018 of February 28, 2018.

Conclusion of agreements for development and implementation of IT software

On March 29, 2018 FFiL Śnieżka SA and SAP Polska Sp. z o.o. concluded a set of related agreements, whose subject is development and implementation of IT software within the Company, acquisition of licenses and services necessary for development, implementation and maintenance of the implemented software and provision of a guarantee for the implemented software.

The purpose of the agreements signed is the exchange and improvement of IT systems and tools used in the Company. The implementation period of the project agreed by the parties covers 3 years. The total value of the provider's remuneration for the 3-year-period project is PLN 22.6 million net. The amount of remuneration may be subject to change in the course of the project implementation, if the scope or manner of implementation by the provider changes or FFiL Śnieżka SA commissions additional tasks.

The Company informed about it in report no. 7/2018 of March 29, 2018.

Disposal of a real estate in Zawada

On June 1, 2018 FFiL Śnieżka SA concluded a sales agreement with DL Invest Group XXII Sp. z o.o. of a non-agricultural property located in the Dębica District 0014 Zawada, Dębica county, Podkarpackie province, designated in the land register as plot No. 1338 of area 5,2973 ha. The agreed price by the parties for the property in question amounted to PLN 6,602 thousand, including 23% VAT.

The Company informed about it in report no. 18/2018 of June 1, 2018.

An annex to the loan agreement with Bank Pekao

On December 17, 2018 FFiL Śnieżka SA concluded with Bank Polska Kasa Opieki S.A. with its registered seat in Warsaw, Annex no. 13 to the loan agreement no. 12/2006 on multicurrency overdraft facility of June 22, 2005 ("Annex").

Under the Annex:

- a) the current loan amount was increased from PLN 50 million to PLN 75 million,
- b) the current sublimit amount was increased for fixed credit tranches in PLN and in an additional EUR currency from PLN 20 million to PLN 65 million,
- c) the loan will be available for the period from its approval to 18 December 2023.

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Data in PLN thousand

The purpose of increasing the overdraft is to obtain financing for the investment activity of the Company in 2019.

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 and the Bank's margin (for the loan in PLN) and the reference rate EURIBOR 1M and Bank's margin (for the loan in EUR).

The loan collateral was based on: registered pledge on movable property owned by the Company along with the assignment of rights under the insurance policy, joint contractual mortgage on the property of the Company located in Pustków together with the assignment of rights under the insurance policy and power of attorney to the Company's accounts at Bank Polska Kasa Opieki S.A.

The Company informed about it in report no. 22/2018 of December 17, 2018.

An annex to the loan agreement with PKO BP

On December 17, 2018 FFIL Śnieżka SA concluded Annex no. 16 to the loan agreement on multipurpose overdraft facility of January 22, 2007 with Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna („Annex”).

Under the Annex the loan amount was increased from PLN 60 million to PLN 65 million, which can be used in PLN, EUR and USD. At the same time, the Annex allowed to use 40% of the loan amount, i.e. PLN 26 million in an additional currency - Hungarian forints. The loan will be available for the period from its approval to 16 December 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 1M) and the Bank's margin. The loan collateral was based on a joint contractual mortgage on the property of the Company located in Brzeźnica together with the assignment of rights under the insurance policy.

The Company informed about it in report no. 2/2019 of February 11, 2019.

An annex to the loan agreement with ING Bank Śląski

On December 20, 2018 FFIL Śnieżka SA concluded an annex to multiproduct agreement of 27 April 2009 with ING Bank Śląski Spółka Akcyjna („Annex”).

Under the Annex the loan amount in the amount of PLN 30 million was renewed. At the same time, the Annex allowed to use the loan amount in an additional currency - Hungarian forints. The loan will be available for the period from its approval to 31 December 2021.

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 Hungarian forints) and Bank's margin. The loan collateral was based on 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 Company informed about it in report no. 2/2019 of February 11, 2019.

An annex to the loan agreement with Bank Handlowy

On 20 December 2018 FFIL Śnieżka SA concluded an annex to the agreement on overdraft facility of 10 June 2005 with Bank Handlowy („Annex”).

Under the Annex the loan amount was increased from PLN 30 million to PLN 50 million, which can be used in PLN, EUR and USD. At the same time, the Annex allowed to use the loan amount in an additional currency - Hungarian forints up to HUF 3,090 thousand calculated according to the exchange rate as of the day of its use. The loan will be available for the period from its approval to 10 December 2021.

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Data in PLN thousand

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 3M, EURIBOR / LIBOR / BUBOR 3M) and the Bank's margin. The loan collateral was based on capped mortgage on the real estate of the Company located in Lubzin together with the assignment of rights under the insurance policy, 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 Company informed about it in report no. 2/2019 of February 11, 2019.

Insurance agreements

In 2018, 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 1 October 2018 and 30 September 2019.
- 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 was concluded for the period between 1 October 2018 and 30 September 2019.
- 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 1 October 2018 and 30 September 2019.
- 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 was concluded for the period between 1 October 2018 and 30 September 2019.

1.7.3 The most important agreements concluded after the end of the financial year

Conclusion of an agreement for the acquisition of 80% of 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").

- 1) The agreement envisages two stages:
 - a) During the I stage the Company will acquire 80% of shares in Poli-Farbe.

To the best knowledge of the Company of 11 February 2019, the final price for the above-mentioned shares will amount to approximately HUF 8 billion, i.e. approximately PLN 108 million. The final price depends on the amount of subsidies obtained in the past by Poli-Farbe, which will be retained in Poli-Farbe, and on the EBITDA for 2018, and may increase by a maximum of one billion HUF, i.e. approximately PLN 13.5 million.

The acquisition price of 80% of Poli-Farbe shares during the first stage of the Transaction was based on the EV base value, which the Issuer estimates as at 11 February 2019 at 8 to 8.6 times the average of Poli-Farbe EBITDA from the last two years preceding the Transaction, less the net financial standing (understood as the debt amount less the cash amount).

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Data in PLN thousand

The transfer of ownership of 80% of shares will take place on the day of closing the 1st stage of the Transaction, however not later than on April 30, 2019.

The transaction will be settled in Hungarian forints, and the abovementioned amounts expressed in PLN - calculated according to the average exchange rate of the National Bank of Poland of February 11, 2019 - were provided only for presentation purposes.

- 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. Antal 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,

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Data in PLN thousand

- 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 will be the source of financing the first stage of the Transaction by FFIL Śnieżka SA. The consent of the competition authority is not required to perform the Transaction.

The Company informed about it in report no. 2/2019 of February 11, 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 credit agreement no. KRA / KRB/0044/05 of 10 June 2005 ("Annex").

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 5,346,000,000.00 (from previously available loan in HUF of 3,090,000,000.00) 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 10 December 2021.

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Data in PLN thousand

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, except for the change in the amount secured by the joint mortgage, resulting from the increase in the loan amount.

The Company informed about the said Annex in report no. 4/2019 of February 28, 2019.

1.7.4 Other

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

No other factors or events occurred in 2018 than those described in the report, 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 2018 - i.e. with Bank Pekao, PKO BP, ING Bank Śląski and Bank Handlowy - is described in item 1.7.2 of the report. A significant agreement with Bank Handlowy, concluded after the end of the financial year, is described in item 1.7.3 of the report.

The handling costs of loans and borrowings in 2018 charged the financial result:

- in the amount of PLN 3,511 thousand in FFIL Śnieżka SA's statements,
- in the amount of PLN 1,994 thousand in the Group's statements.

As at 31 December 2018, the Company had agreements concluded with the following banks: Pekao, PKO BP, Bank Handlowy, ING Bank Śląski.

As at 31 December 2018, Śnieżka -BelPol had agreements concluded with the following banks: PriorBank, Bank Moskwa-Minsk.

As at 31 December 2018, Śnieżka-Ukraine had agreements concluded with the following banks: Oszczadbank, Kredobank, Credit Agricole.

Granted sureties

As at 31 December 2018 the Company, the parent company, did not grant any guarantees or sureties to a single entity.

Significant proceedings

In 2018 were no significant proceedings were 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 2018 the Company or its subsidiaries did not conclude any transactions with related entities other than arm's length transactions. All transactions with related entities are described in the consolidated financial statements for 2018, in note 37.

2. Prospects and development plans of the Group

2.1 Prospects and essential factors for Group's performance

In the opinion of the Company's Management Board, the main factors that will affect the results achieved by the Group in the following years are as follows:

- increasing the Group's presence on the Hungarian market by acquiring shares in Poli-Farbe Vegyipari Kft. - the Hungarian market will be the second (after the Polish market) market of the Group in terms of the volume sales and revenues;
- macroeconomic situation on the main markets (Poland, Hungary, Ukraine, Belarus) - including the economic situation in the construction sector;
- changes in demand for paints and varnishes on the main markets;
- changes in the prices of raw materials used for production;
- changes in exchange rates (in particular EUR/USD, EUR/PLN, USD/PLN, UAH/PLN, BYN/PLN) - including possible devaluation of the Ukrainian hryvnia and the Belarusian ruble;
- sales dynamics of all companies comprising the Śnieżka Group.

The market

In 2019, the Company's Management Board anticipates that the value of the paints and varnishes market will increase in Poland and Ukraine – even in the case of sales volumes remaining at similar levels.

The anticipated increase in the value of the paints and varnishes market in Poland and Ukraine is based on the assumption that in the future the trend of selecting more expensive products by customers (*value for money* and premium segments), featuring higher quality, will be sustained. If this trend continues, even if the value of the paints and varnishes market increases, small changes in sales volumes are possible since premium products are characterized by higher efficiency and thus fewer litres of product are needed to paint a particular surface, and the effect is more durable.

On the Belarusian market, the Company anticipates the trends observed in 2018 to continue, i.e. the increased demand for low-cost products (due to the low purchasing power of a significant number of local consumers) and the selection of premium products by wealthier Belarusian consumers.

On the Hungarian market of paints and varnishes, which in 2019 (after the assumed acquisition of shares in Poli-Farbe Vegyipari Kft.) will generate a significant part of the Group's sales revenues, the Company anticipates the continuation of trends from the past year. Customer preferences in Hungary are similar to those in Poland and Ukraine, i.e. there is an increase in demand for high quality products sold under premium brands.

Raw materials

As a result of new European Parliament regulations, which aim at increasing the level of health and environmental protection, there is a need to change selected raw materials needed for the production of paints and varnishes. It is necessary for the producers to find new, usually more expensive substitutes that are more environmentally friendly.

The Company assumes that in 2019 the prices of titanium white will be stable.

In 2019, however, electricity prices are to be risen. However, they will not have a significant impact on the costs incurred by the Company and its subsidiaries, as their business is relatively energy-efficient. In addition, the Company has already contracted energy prices for 2019.

2.2 Strategic objectives

The Group consistently implements a long-term development strategy consisting in the concentration of operations in selected countries of Central, Eastern and Western Europe and building the leader position on those markets as regards the decorative paints segment.

The most important strategic objectives of the Group for 2019 and subsequent years are as follows:

- **Strengthening the position of the market leader in Poland**

By implementing objectives described in item 2.3 of the report.

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

The new Logistics Centre will be built on a 15-hectare plot purchased in 2018 in Zawada near Dębica. It will be a warehouse and office facility with an area of over 44 thousand m², which will allow the Company to provide its business partners and customers with a great deal better service. The ability to handle distribution from one location (compared to several locations currently) will ultimately contribute to greater efficiency and lower costs incurred by the Company.

The Logistics Centre will be fully adapted to handle various types of shipments - both low and high-volume as well as fragmented in terms of different types of products in one shipment. The new warehouse will take over the functions of the existing warehouse of finished products in Brzeźnica, Lubzina and Pustków. As far as the organization of working time is concerned, the investment will enable Śnieżka to perform tasks in the 3-shift pattern system and to skip weekends. The dimensions of the facility will allow to combine the teams from three existing locations and to divide the current four teams into three larger ones.

The commissioning of the Logistics Centre in Zawada is scheduled for 2021.

- **Integration with Poli-Farbe Vegyipari Kft.**

FFiL Śnieżka SA and Poli-Farbe Vegyipari Kft. intend to achieve synergy benefits in the area of purchases - including raw materials and packaging - research and development (and thus in the production area, including formulation optimization, i.e. processes of development and improving product recipes) as well as in the area of marketing and sales. After completing the acquisition of shares in Poli-Farbe Vegyipari Kft., the Company will take steps to integrate Poli-Farbe Vegyipari Kft. within the Śnieżka Group. The objective of these steps will be primarily to obtain the abovementioned synergy effects.

After completing the integration and achieving the anticipated synergy effects, most likely in the next few years, the Company will analyse together with the management of Poli-Farbe markets geographically similar to the Hungarian one, to recognize the possibilities of increasing export sales on the Southern European markets.

2.3 Development plans 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 2018 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 2018 in the independent market channel was preceded by extensive market research of individual distribution links. As a result of the research, the Company introduced a new cooperation model with distributors (including a new incentive program) and implemented it in commercial contracts.

The new 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 delivery time of a wide range of products to retailers and to build more advantageous service for the end customer.

The process of changes adopted by the Company in 2018 included the following elements:

- use of pricing tools and focus on consumer needs,
- promotions that were based mainly on stimulating the purchase of the end user by analysing its decision path,
- constant improvement of the level of business customer service through accuracy, delivery 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 2019 will be based on the continuation of the solutions implemented in 2018. 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 plans, 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). Furthermore, the Company is to develop cooperation

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with Leroy Merlin, Castorama, which, according to the previous assumptions, envisage an increase in the number of branches, and Obi (which, according to the new strategy, also plans expansion in smaller cities).

Additionally, each participant of the DIY market develops an e-commerce channel (online sales), which can reflect 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.

Development plans of the Group in 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. 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 in Ukraine and Belarus are:

- 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 (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.

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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 of the report.

3. Statement on non-financial information

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 three countries (Poland, Ukraine and Belarus) approximately 150 million kg of various types of construction chemicals are manufactured on an annual basis. The Group's products are sold on nearly thirty foreign markets. At the end of 2018, the Group employed 1,112 employees - detailed information on this subject is presented in item 3.3.1 of the report.

The Śnieżka Group is the leader on the paints and varnishes market in Poland in the segment of decorative products, the market leader in the segment of water-based paints in Ukraine, and also one of the leading producers of putties in Belarus.

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.

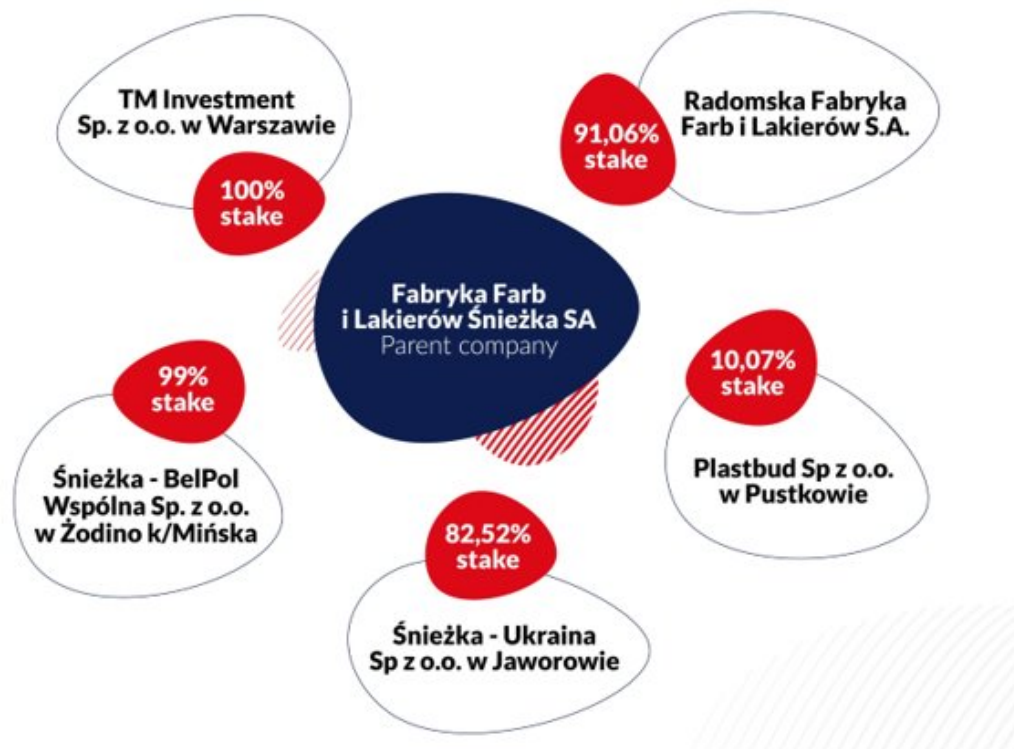
3.1.2 Organization and structure of the Group

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.

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Diagram 1 The Śnieżka Group's structure (as at 31 December 2018)



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

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;

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Table 17 A list of entities comprising the Group consolidated or valued using the equity method (as at 31.12.2018).

Name	Seat	Scope of activity	Consolidation (and % in the share capital)
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 (82.52%)
Śnieżka-BelPol Wspólna Sp. z o.o.	Belarus Zhodino, Dorożnaja 3/1,	production of putties and preservatives	Full consolidation (99%)
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 (91.06%)
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 2018 the Śnieżka Group's structure was affected by the following changes:

- **Acquisition of a majority interest in Radomska Fabryka Farb i Lakierów SA ("Rafil") and obtaining the status of a parent company toward Rafil**

On 16 February 2018 the Management Board of FFIL Śnieżka SA accepted the offer submitted by Radomska Fabryka Farb i Lakierów S.A. to subscribe all the shares of E series through private subscription. As a result of the signed agreement, the Company acquired 2,500,000 shares in the share capital of Radomska Fabryka Farb i Lakierów SA of PLN 1.00 each - preference with a voting right, where each share entitles to two votes at the general meeting - at the issue price equal to the nominal price. At the same time, the Company's Management Board decided to offer the shareholders of Radomska Fabryka Farb i Lakierów SA the purchase of shares of A, B, C and D series in the amount of 1,601,580 shares by 31 December 2018 - in order to obtain the largest possible share in the company's share capital until the end of 2018.

The Company informed about it in report no. 3/2018 of February 16, 2018.

After registering the share capital increase on 28 March 2018, the E series shares belonging to the Issuer corresponded to 60.95% of the share capital of Radomska Fabryka Farb i Lakierów SA. As a result of the E shares acquired, the Company was entitled to 36.57% of votes at the general meeting of Radomska Fabryka Farb i Lakierów SA, as at the day of the share capital increase.

In the Company's opinion it has exercised control over the above-mentioned entity since the registration of the share capital increase on 28 March 2018, due to the fact that it exercises control over the entity (including the option of independently managing its financial and operational policy and is exposed to its variable financial results and may influence them). Since the control was taken over, the Company

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consolidated the financial statements of Radomska Fabryka Farb i Lakierów SA.

On June 28, 2018 the Company obtained the status of parent company toward Radomska Fabryka Farb i Lakierów SA. The Company informed about it in report no. 19/2018 of February 28, 2018.

As at December 31, 2018 and the day of publishing the report, the shares owned by the Company provided 89.44% of votes at the general meeting of Radomska Fabryka Farb i Lakierów SA and corresponded to 91.06% of its share capital.

- **Liquidation completion of Śnieżka EastTrade Sp. z o.o. with its seat in Moscow**

September 28, 2018 - based on the entry in the Register of Legal Persons of the Russian Federation maintained by the Federal Tax Service - the liquidation process of Śnieżka EastTrade Sp. z o.o. was completed.

The Company informed about it in report no. 21/2018 of October 31, 2018.

The scope of activity of Śnieżka EastTrade Sp. z o.o. was to promote the Company's products as well as conduct advertising and marketing activities on the Russian market. Due to insignificant scale of operations, Śnieżka EastTrade Sp. z o.o. was not subject to consolidation in the Śnieżka Group's financial statements.

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

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

On February 15, 2019, the Company acquired 0.96% shares in Śnieżka-Ukraine Sp. z o.o. in Yavoriv, for a price negotiated on the basis of an accounting value of USD 117,150 (one hundred seventeen thousand one hundred and fifty US dollars) from a partner - Żanna S. Kardasz. After acquisition of the shares, as at the date of publishing the Report, FFIL Śnieżka SA held 83.48% of shares in Śnieżka-Ukraine Sp. z o.o. in Yavoriv.

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 Podkarpackie 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 Śnieżka brand 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

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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.

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, 2018, the Company employed 773 employees (731 at the end of 2017), which accounted for nearly 70% of the entire Group's team.

3.1.4 Activities of other companies of the Group

Śnieżka-Ukraina Sp. z o.o.

Śnieżka-Ukraina Sp. z o.o. is a manufacturer of paints and putties as well as the market leader in the segment of the waterborne paints in Ukraine. Its products are sold under the Śnieżka brands.

Śnieżka Ukraina Sp. z o.o. is the main distributor of FFIL Śnieżka SA's products on the local market. The Company sells products mainly through an independent channel (wholesalers, retail outlets) and a DIY channel - local DIY chains, such as Epicentr, Nowa Linia, and Leroy Merlin.

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

On December 31, 2018, the Company's share capital amounted to UAH 415,7 thousand and was not subject to change compared to the end of 2017.

On December 31, 2018, the Company employed 213 employees (207 at the end of 2017).

Śnieżka-BelPol Wspólna Sp. z o.o.

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

Śnieżka Ukraina Sp. z o.o. with its seat in Zhodino near Minsk was established in 2003.

On December 31, 2018, the company's share capital amounted to BYN 293,9 thousand and was not subject to change compared to the end of 2017.

On December 31, 2018, the company employed 53 employees (55 at the end of 2017).

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TM Investment Sp. z o.o.

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 registered by trademarks by 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, 2018 the company's share capital amounted to PLN 168,558 thousand.

At the end of 2018 the company employed 7 employees (no changes compared to the end of 2017).

Radomska Fabryka Farb i Lakierów SA

Radomska Fabryka Farb i Lakierów SA is a company with 100 years of tradition. It 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" and Raftalux.

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

In the first half of 2018, restructuring activities were initiated at Radomska Fabryka Farb i Lakierów SA aimed at optimizing costs (including purchase costs of raw materials and employee costs). A group layoff plan was announced, reducing the number of full-time jobs from 120 as at the beginning of 2018 to 66 as at the end of 2018. The company is also working on changing the product portfolio.

Radomska Fabryka Farb i Lakierów SA was established in 1995.

As at December 31, 2018 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 February 10, 2018, the company's share capital was increased from PLN 1,602 thousand to PLN 4,102 thousand, i.e. by PLN 2,500 thousand by issuing 2,500,000 (in words: two and a half million) registered shares of E series of a nominal value of PLN 1.00 each. The share capital was increased under private placement.

On December 31, 2018, the company employed 66 employees.

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 Fabryka Farb i Lakierów Śnieżka SA were sold under the following commercial brands:

- **Śnieżka** - being the core brand of the Company - which offers a wide range of products. Its portfolio is comprised of products for protection and decoration of various substrates, both for internal and external applications (i.a. paints for walls and facades, products for painting metal and wood as well as putties for smoothening walls). It is a comprehensive offer meeting customers' needs at every stage of a flat or house finishing or renovating.
- **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.
- **Vidarón** - is a top quality brand for wood protection and decoration. The brand's offer has been prepared for all of those who are willing to take care of wood used both indoors or outdoors in a comprehensive manner. The brand portfolio includes, inter alia, high-quality preservatives ensuring comprehensive wood protection, both from the inside (priming agent) and from the outside (topcoat agent), as well as renovation agent intended for pre-painted wood, stain and varnish as well as oils and varnishes.
- **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.

In addition, the Group's offer in 2018 included the **Flair** brand - operating on several export markets in Western Europe (its offer includes equivalents of the Śnieżka brand products).



3.1.6 Description of the Śnieżka Group's industry and markets

In 2018, the Śnieżka Group sold its products on 26 key export markets.

The main markets the Śnieżka Group operates on are as follows: Poland, Ukraine and Belarus. In 2018, the Group's revenues generated on these three markets accounted for 95.1% of consolidated sales revenues.

The leading sales market (for products and goods) of the Śnieżka Group in 2018 was the Polish market with a 77.8% share (by 1.6% compared with 2017). The other essential countries, where the companies comprising the Group operate, are Ukraine (share of 12.5%, -0.6% y/y) and Belarus (share of 4.8%, -0.5% y/y).

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 biggest players present on the domestic market are FFIL Śnieżka, PPG Deco Polska (Dekorol, Bondex, Sigma, Malfarb, Domalux and Drewnochron brands), AkzoNobel (Sadolin, Dulux, Nobiles, Sikkens, Dyna and Hammerite brands) and Tikkurila (Tikkurila, Jedylnka, Beckers and Polifarb Dębica). These entities represent approximately 75% of total sales. The remaining manufacturers hold the remaining 25% of market share.

According to FFIL Śnieżka, the sales of decorative products on the Polish market is held at the following distribution points of sale:

- around 100 1st degree warehouses (redistributing products purchased directly from the manufacturer);
- around 700 DIY stores;
- around 6,000 retail stores with paints in stock;
- around 700 specialist 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 Ukraine

The Ukrainian market is operated by approximately 200 manufacturers of paints and varnishes, of which only about 30 are stable entities. According to the Transparency Market Research (TMR) research group, the leaders in the production of decorative paints on the Ukrainian market are as follows: Śnieżka-Ukraina, Meffert Hansa Farben, ZIP, Kaparol Dniepr, Eskaro, Faydal UA, Polysan and PE Olejnikov.

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

The market of paints and varnishes in Belarus

The Belarusian paint market is an arena for large players such as: DAW (Caparol/Alpina brands), Eskaro (Condor brand), MAW, Tajfun, Ilmax, Ceresit and Knauf.

Śnieżka Group is one a significant manufacturers of paints and varnishes on the Belarusian market with a predominant position in the segment of putties. On this market, the Group competes with both international and domestic producers - also with Russian brands, which thanks to the free flow of goods

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under the Eurasian Economic Union (Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan) are becoming more and more competitive. On the demanding Belarusian market, the Group is present both in the B2C channel, being the main player through the DIY network and retail outlets of the Group's distributors as well as in the B2B channel (to a lesser extent).

The remaining markets where the Group operates

In Moldova, the Śnieżka's brands have been present for many years. The Group optimizes and adapts its offers to the requirements of the local market. On this market, it can also rely on the distributors' sales and marketing support. The main competition on the Moldovan market are Supraten and Cheton Grup. Dutek - an importer operating on the said market - is a leading Romanian manufacturer of paints and varnishes (acquired in 2016 by the PPG concern). As far as competitive entities are concerned, Dufa also needs to be mentioned. Sales are carried out through wholesalers that supply the Group's products to retailers. In terms of the market share of emulsion products, Śnieżka's products take the second place.

The Group sells its products mainly in the Kaliningrad and Moscow regions as well as in southern Russia on the territory of the Russian Federation. On the market in question, the Group competes with the following companies: Tikkurila, Caparol, AkzoNobel, Lakra, Empils, Jaroslawskie Kraski, Ruskije Kraski, VGT, Ptimit, Knauf and Prestiż.

Other markets where the Group conducts sales include: Hungary, Lithuania, Slovakia, Czech Republic, Romania, Kazakhstan and United Kingdom.

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

Macroeconomic factors

From the point of view of the Śnieżka Group's revenues, the Polish market is key. Its condition is best illustrated by the value and dynamics of GDP, whose main driving force is private consumption. The consumption of goods and services by individual consumers is 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 will 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.) on other major markets - in particular in Ukraine and Belarus. In addition, assuming the completion of the acquisition of shares in Poli-Fabre Vegyiparki Kft., also the situation prevailing in Hungary (which may become the Group's main export market).

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The macroeconomic factor affecting the pace of the Group's development will also be the trend in exchange rates (in particular EUR/USD, EUR/PLN, USD/PLN, UAH/ PLN, BYN/PLN), including possible devaluation of 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

In the years to come changes in the demand for paints and varnishes will impact the Group's development and the entire industry. In addition the consumers' trends will be critical.

The Company's Management Board anticipates an increase in the value of the paints and varnishes market in Poland and Ukraine based on the assumption that in the future the trend of selecting more expensive products by customers (*value for money* and premium segments), featuring higher quality, will be sustained.

On the Belarusian market, the Company anticipates the trends observed in 2018 to continue, i.e. the increased demand for low-cost products (due to the low purchasing power of a significant number of local consumers) and the selection of premium products by wealthier Belarusian consumers.

On the Hungarian market of paints and varnishes, which in 2019 (after the assumed acquisition of shares in Poli-Farbe Vegyipari Kft.) will generate a significant part of the Group's sales revenues, the Company anticipates the continuation of trends from the past year. Customer preferences in Hungary are similar to those in Poland and Ukraine, i.e. there is an increase in demand for high quality products sold under premium brands.

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 the Western Europe and building a leading position in the sector of decorative paints. 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 among others as development of R&D, building quality advantage and significant openness to change;
- 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 offer under Śnieżka, Magnat, Vidaron, Foveo-Tech and Beston brands. Within the framework of its development strategy, the Group is interested in organic growth but also growth through equity investments. The Management Board of the parent company has set a goal to build strong and permanent relations both with its trading partners, employees, shareholders and consumers. The Group will continue to support its trading partners, distributors and retailers 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 Group to achieve the leading position on its key markets.

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The Group's strategic goals for the coming years are described in item 2.2 of the report.

Diagram 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.

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Diagram 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.

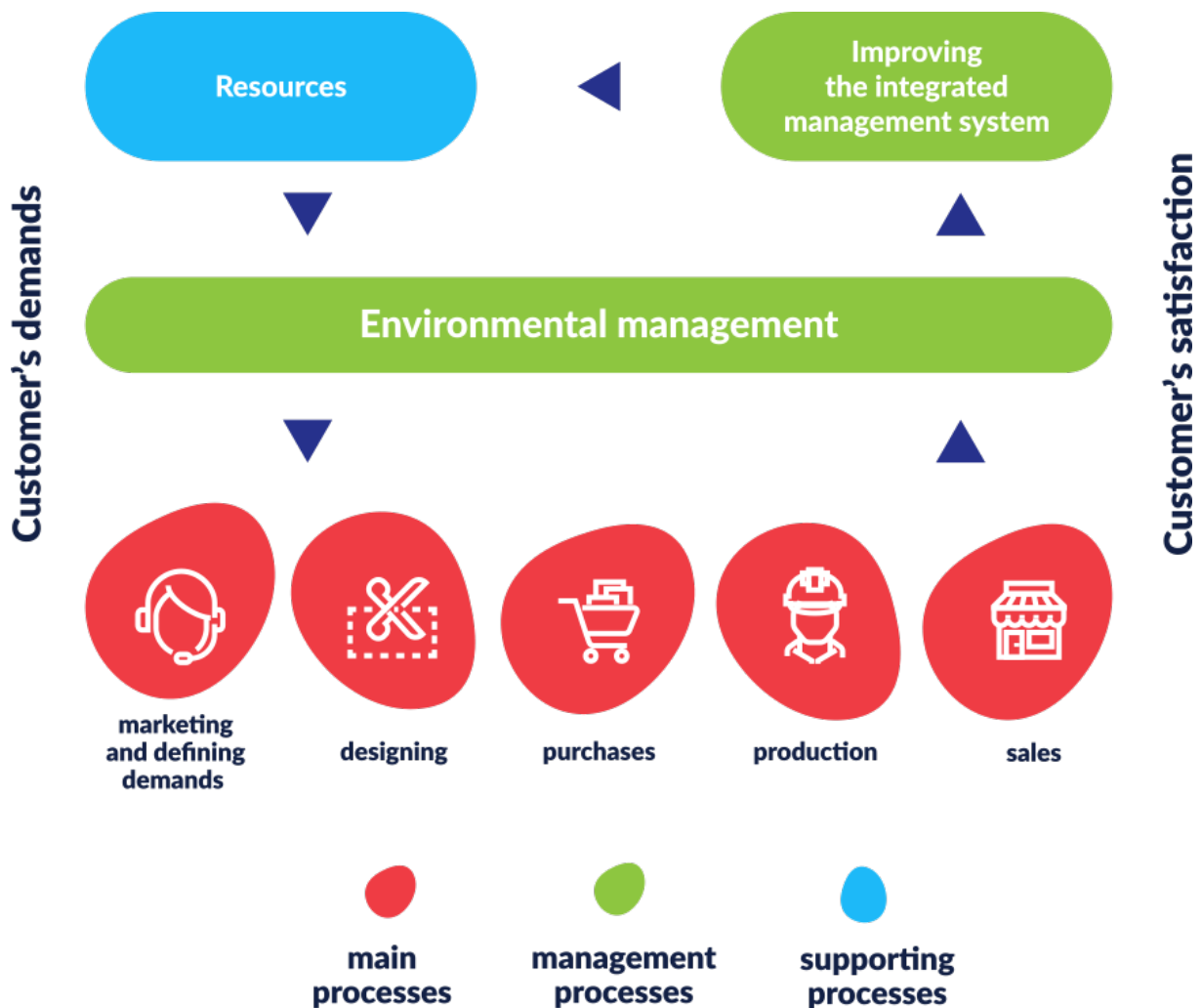
3.1.10 The value chain

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.

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Diagram 4 Key processes („the value chain“)



PROCESSES RELATED TO PRODUCT IMPLEMENTATION: MAIN PROCESSES

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);

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- 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, efforts were made to include clauses on the protection of human rights and diversity in agreements with suppliers. This area was identified as important from the point of view of the applicable policies at the Śnieżka Group and a decision was made to gradually implement key clauses for 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 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 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. The completion of works and implementation is scheduled in 2019.

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 2018

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

- **25 top manufacturers of paints and varnishes in Europe**

The Group, on the list of Vincentz Networks Coating including 25 top companies in the sector of paints and varnishes in Europe in 2018, was placed on the 22nd position, while being the only representative of the Central and Eastern part of the continent.

Vincentz Networks Coating is an association that connects suppliers and manufacturers of varnishes and coatings, and the list prepared by them is based on the results of the annual sales of paints and varnishes.

- **Ranking of the most valuable Polish brands**

In the 14th edition of the "Ranking of the Most Valuable Polish Brands" published at the beginning of 2018, the Śnieżka brand took 103rd place, which means a promotion compared to the previous year, when Śnieżka took the 110th place, as well as in comparison with 2016 when it took 113th place.

Śnieżka was also found in the group of 100 strongest brands and in individual mini rankings of brands that achieved the best results in relation to various indicators that contribute to their strength. As regards the classification of brands with the highest reference rate (an indicator determining the percentage of users' willingness of a given brand to recommend it to others) the Śnieżka brand was promoted to 35th place (from 58th). In a ranking of the brand's value perception, Śnieżka went up 15 places, being placed on 44th place.

Also, Śnieżka recorded a very good result in mini ranking presenting the brand's familiarity with consumers. On the list of "Brand awareness" Śnieżka was promoted from 20th to 15th place, while on the list "Priority of awareness" (the brand's priority in conscious takes place when it is mentioned in the first place by a respondent during the test on the brand's memory) won high position - 12th, which also means improvement with respect to last year's, 14th place. Śnieżka was also found on the list of the most popular brands and brands most recognizable by customers.

- **Ranking of the 200 largest Polish companies**

The Company, in the ranking of the Wprost weekly, including Polish companies controlled by domestic entrepreneurs, the State Treasury or municipal property - placed 185th. Currently, Fabryka Farb i Lakierów Śnieżka SA is the only manufacturer of paints and varnishes found in the said ranking. The place in the ranking was determined by the value of sales revenues obtained in 2017.

- **1000 largest companies in Poland**

The report has been prepared for a dozen or so years by the "Gazeta Finansowa" team, which compiles a list based on the volume of sales revenues generated in the previous year. This time, the Śnieżka Group was placed 491th, thanks to the revenues, which according to the report for 2017 amounted to approx. PLN 567 million.

Regional and local awards

- **„Wprost” Eagles**

For the second time in history, Śnieżka was awarded the "Wprost Eagles" statuette, given to enterprises that achieved the highest average net profit or the most dynamically increased their net profit over the last three years. The leaders of the Podkarpackie province were awarded during the gala in Rzeszów. In 2018, the project was under the patronage of: Ministry of Enterprise and Technology, Ministry of Investment and Development and Ministry of Agriculture and Rural Development. The list was compiled by the editors of the "Wprost" weekly and Bisnode business intelligence.

- **The Golden Hundred Rating**

The Golden Hundred Ranking of the Podkarpackie province published by the Nowiny Daily Newspaper has been prepared since 2007 and includes the most dynamically operating companies, which significantly contribute to economic development and improvement of inhabitants' quality of life in the region. Śnieżka was ranked high on the 17th place with revenues of PLN 567 million. Our company was also placed fourth on the list of public companies from Podkarpackie and was found in the top ten companies that achieved the highest net sales profitability in 2017. This time, the persons behind the list also prepared special rankings on the occasion of the 100th anniversary of Poland's independence. In the ranking "100 Companies from Podkarpackie of the Century" („100 Podkarpackich Firm 100-lecia") building the economic position of the region, Śnieżka was ranked 8th. Also, our company was found on the list of "Dębica County Quarter of the Century" („Dębicki Powiatowy Kwartet 100-lecia"), distinguishing the four most deserved companies of the Dębica county.

- **Economic Award of the Podkarpackie Region**

In the 17th edition of the competition - Economic Award of the Podkarpackie Region, the jury awarded Śnieżka a laurel in the "Service" category for the Mobile Training Centre project, under which our company offers a free package of theoretical and practical training for professionals. Over the 2 years of the project's existence, the instructors of Śnieżka travelled nearly 50,000 km, providing training for about 1300 contractors in 13 provinces. The Mobile Training Centre in the form of a modern and multimedia-equipped vehicle is designed to carry out training both inside and outside.

- **Prize of the Podkarpackie Business Club (PKB)**

During the 14th edition of the PKB Gala, Śnieżka was honoured with the statuette in the "Podkarpackie Promotion in Poland and abroad" category. PKB is a voluntary organization comprising over 800 entrepreneurs and representatives of companies from the entire Podkarpackie region, which has been operating for 18 years to integrate this environment. The Council of PKB Prize awarded four statuettes and one distinction to appreciate companies and individuals who make a particular contribution to development of the region.

Prizes for company publications

- **Social Reports Competition**

The 12th edition of the prestigious Social Reports Competition turned out to be fortunate for the debut publication of Śnieżka, which in 2018 published its report on non-financial information for the first time. The jury appreciated our online report for 2017 awarding distinction from journalists, among others for a transparent form of presentation of impact areas. This is the first report in the history of the company that presented so extensively non-financial aspects of the company's operations. The report was prepared by a team composed of representatives from various departments of Śnieżka. 49 publications were sent to the 12th edition of the competition, which were evaluated by experts in the field of environmental protection, social issues as well as journalists and Internet users.

- **Power of Content Marketing Awards**

The "Power of Content Marketing Awards" competition has been known so far as "Columns of the Year" ("Słpalty Roku"). In 2018, Śnieżka was found among the finalists and won a silver statuette in the Content Marketing category of the Construction Home & Garden Sector category for the portal "Dekoratorium". The jury of the competition recognised the Dekoratorium for "maintaining communication standards and continuous enrichment of the content", as well as for the "standing out Home Staging tab and displaying a mobile application, making the portal not only a source of inspiration, but also a practical guide in the implementation of projects." For many years, "Dekoratorium" has inspired readers with the latest trends in the world of design, practical advice and interesting proposals for interior design.

- **Corporate Bulletin Competition 2018**

Śnieżka's magazine "In Colour" won the second placed on the podium in 18th edition of Corporate Bulletin Competition organized by Agape Custom Publishing agency, whose aim is to select the most professional "custom publishing" projects. The jury pays attention to projects representing the highest visual, editorial and journalistic standards. The "In Colour" quarterly, awarded silver in the "Printed publications, internal bulletin" category, is addressed to employees of Śnieżka and describes the Company's news in an interesting way. The magazine stands out from other company magazines in Poland, as evidenced by the other two awards: in June 2017, "In Colour" was awarded the prestigious "Columns of the Year", while in October 2017, the prize in the national Corporate Bulletin Competition.

Awards for Group companies

- **Success leaders**

"Success leaders" is a ranking presenting the results of independent research carried out in Ukraine, whose main goal is to determine the popularity of brands. Out of 44 brands in the paint and varnish sector, Śnieżka was considered the undisputed winner in the "Paint" category.

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 2017, no significant changes to the Group's business model occurred.

In 2018 and later on, the following may affect the Group's business model:

- Acquisition of a majority interest in Radomska Fabryka Farb i Lakierów SA ("Rafil") and obtaining the status of a parent company toward Rafil;

- Conclusion of an agreement for the acquisition of 80% of shares in the Hungarian company Poli-Farbe Vegyipari Kft (and integration of this company with the Group);
- Analysis regarding expansion into Southern Europe markets (scheduled after completing the integration and achieving the assumed synergy effects with Poli-Farbe Vegyipari Kft.);
- Erection of a Logistics Centre (a warehouse and office facility with an area of over 44,000 m², which will be built on a 15-hectare plot purchased in 2018 in Zawada near Dębica).

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. In the case of documents considered to be of key importance, the employees are obligated to confirm their knowledge of such documents with a signature or a confirmation 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 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 duration of the project implementation within the scope of software development and implementation established by the parties is expected to last 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

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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.

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 Parent Company 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 for the company's operations 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. These intense development processes take place in the atmosphere 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 operations.

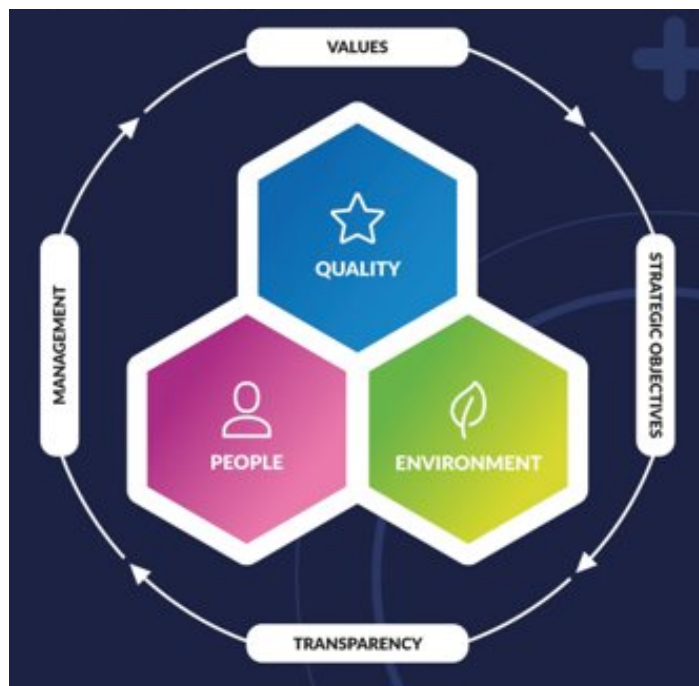
In the context of our activities, the aspects of sustainable development are reflected in the policies and indicators described further in this document. The Group's key policies are described in the following chapter. Their implementation is monitored and they are subject to periodic reviews, also as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

In 2017, a materiality assessment identified key areas of operations, which – after the selection of relevant ratios – have been discussed in detail herein and in Non-Financial Report for 2017.

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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.

Diagram 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 due diligence policies and procedures applied by the Company in reference to employee issues

The HR policy of the Śnieżka Group is the basic document that regulates the matters related to employment. It is based on the assumption that the success of an organization depends on the people who work for its benefit. The employees are our most valuable resource. Thanks to their commitment, passion, skills and attitudes supporting organizational values, we have been able to set ever more ambitious objectives and, by achieving them, become a benchmark for the competition. As a continuously learning organization, we put emphasis on making sure that both our achievements and possible failures build up our experience and provide energy for walking the road to success.

Our HR policy is strongly connected with the organizational values which determine the conduct of the employees and form a basis for all business relations. As far as HR management is concerned, the most important values include "People", "Cooperation, respect and trust" as well as "Responsibility and commitment" which mean that we are all committed to development of ourselves and of other people, we set ourselves ambitious goals and behave in a manner that shows how to create an atmosphere that favours cooperation and development of a culture of high engagement. Each of us takes personal responsibility for his/her actions and how they are undertaken.

As the HR policy is an integral and inherent element of the Company's policy and development strategy, the Śnieżka Group has included in this document the undertaking to formulate it with a view to:

- establishing the position of the Śnieżka Group as an attractive employer, and thus ensuring attraction and maintenance of valuable employees;
- permitting development of the employees' attitudes and skills, contributing thereby to the development of a culture of high engagement;
- motivating and inciting the employees to provide quality and efficient work so as to build an effective and innovative organization;
- ensuring establishment of long-term relationships between the employees and the specific Companies as well as the entire Group.

In the area of HR management, the due diligence procedures include the documents such as, inter alia: The Labour Bylaws, the Compensation Bylaws of FFil Śnieżka SA, and the Organizational Bylaws, which pertain to the basic issues related with employment by the Company. All the activities concerning the human resources management are conducted in accordance with the applicable law, pursuant to the Labour Code. At the Company, this area is also regulated more precisely by the Human Resources

Management procedure. Furthermore, the employee matters are defined in other internal bylaws and documents, such as e.g. the Bylaws of the Company Social Benefit Fund.

Transparency and clarity of HR activities are a priority for us. We believe that it is essential to clearly and precisely define the roles and responsibilities of the specific divisions and positions, by reason both of the expected process improvement and the resulting foundation for the construction of an efficient payroll policy, where the approach to rules and amounts of remuneration is kept up-to-date. This provides a basis for the implementation of further initiatives including advanced development and incentive solutions that support efficient leadership and long-term career prospects for the present and future employees. Transparency of principles is applied also with respect to termination of employment contracts which is always carried out in accordance with the provisions of the Labor Code.

According to the Group's payroll policy, the remuneration paid to an employee should be appropriate to his/her position, responsibilities and skills. The Company's remuneration systems are based on benchmarks, and data from reports and market payroll information. The median for the whole of Poland is the main factor taken into account. Comparison of positions and data in the reports is performed on the basis of position mapping and valuation which makes it possible to ensure consistency and relevance of the decisions concerning wages and salaries. The remuneration amounts are not affected by gender. While assessing the remuneration amount, we take into account the evaluation of the scope of responsibilities assigned to a given position and the skills of the person working on such position.

The HR policy is carried out on the basis of appropriate plans, programs and tools used in the staff-related and HR processes. These include, inter alia, evaluation of staffing needs and annual employment planning, defining training needs and formulating the annual training plan, adjusting the ongoing training and development projects to the needs of the specific areas, a non-wage compensation program as well as incentive systems, pay raises and promotions.

The Company has a predominant role in the achievement of the Śnieżka Group's HR Policy objectives. The proposed solutions are implemented in the subsidiary companies gradually which makes it possible to transfer the Polish market models abroad on a regular basis.

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

As far as the Diversity policy is concerned, the "People" and "Cooperation, respect and trust" values are the key ones. In our day-to-day operations, we show our appreciation to every person and treat every person with appropriate dignity. We establish trust in ourselves and our company by respecting our commitments and acting fairly.

The Diversity policy of the Śnieżka Group is understood as the actions aimed at:

- preventing any discrimination based on: 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);
- establishing the diversity management through the development of strategies, policies and programs which shape the work environment in which every employee may feel appreciated, which ultimately contributes to the success of the entire Śnieżka Group.

We consider the equal treatment policy to be the first step on the path to build the diversity management within the Śnieżka Group.

We believe that thanks to ensuring the employee diversity we create a work environment which improves the employees' creativity, efficiency and loyalty, and gives the capacity to expand our markets and the

customer portfolio. It also increases our opportunities of attracting new talents and stimulating the team's innovative approach which translates into the Group's business effectiveness. The objective of the Śnieżka Group's diversity policy is to fully deploy the employees' potential, skills, experience and talents in an atmosphere of respect and support.

The performance of the actions promoting the culture of diversity is supported by the activities of the Anti-Harassment Commission of the Company. Information on this body is presented later in this document.

3.2.4 Description of due diligence policies and procedures applied by the Company in reference to respect for human rights

We understand a good company management as creation of safe jobs, compliance with the corporate governance principles, respect for the environment and dialog with local communities. While implementing the business strategies, we do not forget the global idea of sustainable development and corporate responsibility which are built on respect for human rights in the entire value chain.

An efficient performance of the assumptions for the Group's strategies is possible only in an environment of trust and respect, based on respect for human rights. The Group endeavours to ensure respect for human rights in a universal dimension, pursuant to the fundamental legal norms. In accordance with Polish law, the key legal acts that address the issues of respect for the employee diversity include the Constitution of the Republic of Poland and the Labor Code (Journal of Laws of 1974 No. 24 Item 141). The internal documents regulating the work of the specific companies were created on the basis of these two acts. 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 Policy of Respect for Human Rights is the most important document that regulates the issues of respect for human rights at the Śnieżka Group. It is understood as a presentation of due diligence principles with respect to violation of rights of other persons, preventing such violations and counteracting any adverse impact on execution of human rights (remedial measures) in the case of a potential violation of such rights, directly or indirectly, by any of the Group companies.

As far as the Policy of Respect for Human Rights is concerned, the "People" and "Cooperation, respect and trust" values are the key ones. In our day-to-day operations, we show our appreciation to every person and treat every person with appropriate dignity. We establish trust in ourselves and our company by respecting our commitments and acting fairly.

We are aware that the Group's potential negative impact on human rights may be caused not only directly by our operations, products or services, but also as a result of the business relations we enter into. We undertake to take remedial measures in the case of a violation (either directly or indirectly) of human rights provided for in the international, generally binding documents by any of the Group Companies.

We acknowledge that responsibility for respect for human rights is a global standard to be applied by all entrepreneurs regardless of the place of operations. It applies irrespective of the state ability and/or willingness to perform its obligations in the area of human rights and does not result in any limitation of such obligations. This responsibility exists beyond and regardless of the obligation to comply with the domestic laws and regulations on human rights protection (United Nations Guiding Principles on Business and Human Rights).

- **With respect to employees** – we undertake to respect human rights of our employees and to enhance their awareness of such rights on an on-going basis.
- **With respect to business partners** – we take any and all efforts to respect and promote human rights in the relations with our business partners.

- **With respect to local communities** – we endeavour to respect human rights and take efforts to understand the needs, culture, customs and values of the local communities in which we conduct our operations, either directly or indirectly.

The Book of Organizational Values is an important document setting out the principles of due diligence in reference to human rights and diversity. The Book devotes a lot of space to the values such as "Cooperation, respect and trust" which refer to the respect of rights of persons within an organization, as well as the respect for such rights with reference to the persons cooperating or related with the Group.

3.2.5 Description of due diligence policies and procedures applied by the Company in reference to natural environment

The Group's "Quality, Environment and Safety and Health Policy" is the document encompassing the issues of environmental protection and quality. With this respect, the following values are considered to be the key ones: "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 ongoing 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 Environment Quality 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.

Environmental protection.

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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.

Ecological activities in the Parent Company are carried out in accordance with the applicable legal requirements and developed procedures and instructions of conduct.

As part of the integrated ecological strategy and quality management, FFIL Śnieżka SA places particular emphasis on:

- implementation of production and technological processes in accordance with legal regulations and based on modern recipe and technical solutions;
- applying high quality components only from qualified suppliers;
- 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.

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.

The Śnieżka Group has obtained the necessary environmental decisions, regularly pays its environmental fees and fulfils its reporting obligations. FFIL Śnieżka SA monitors its impact on the environment on an on-going basis, keeping records of energy and water consumption, emissions of pollutants, generation of waste and packaging. Also, it participates in creating a system for the collection, transport, recovery and disposal of packaging waste and participates in conducting educational campaigns.

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 Description of due diligence policies and procedures applied by the Company in reference to anti-corruption

From the perspective of anti-corruption activities, the most important values include: "People", "Cooperation, respect and trust" as well as "Responsibility and commitment" which mean that we all behave in a manner that shows how to create an atmosphere that favors 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 about issues connected with this policy;
- encouraging employees and collaborators to report violations of the organization's policy and unethical behaviours;
- notifying law enforcement authorities about any violations of binding laws.

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 care in force at the Company to the extent to which such procedures are included as, among others, Procurement, or instructions, including: the Instruction on Selecting a Bidder of Vendor 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 Description of due diligence policies and procedures applied by the Company in reference to social issues

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 equalling 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

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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 of three key companies: Fabryka Farb i Lakierów Śnieżka SA, Śnieżka-Ukraina Sp. z o.o., Śnieżka-BelPol Wspólna Sp. z o.o.

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.

3.3.1 Employee issues

Operating in dynamically changing realities of the labour market, maintaining the rapid pace of organizational changes and going through the process of business transformation, the Śnieżka Group puts great emphasis on the efficiency of processes related to human resource management. Thanks to it, the current and constantly developed human and intellectual capital remains one of the most important elements of building competitive advantages. Strategic directions defined in the Personnel Policy of the Śnieżka Group are focused on increasing the Group's ability to acquire, maintain and effectively implement employees to the organization, identify talents, develop and purposely address employee development needs, and quickly diagnose and remove organizational barriers that affect motivation, and thus the employees' efficiency.

The Company devoted 2018, o a large extent, to the optimize current HR processes.

We have improved the recruitment and selection process by introducing standard work (i.e. a set of process tools resulting from the process instructions, tool standards used depending on the type of process, competency profiles, etc.), thanks to which we were able to reduce recruitment risks and maximize the accuracy of selections. We have included non-standard forms of acquiring, building and maintaining relationships with potential candidates. We have measured various stages of the process and implemented tools for efficient monitoring. We have introduced a satisfaction survey on the recruitment and selection process, both for candidates who were offered a job and for those who were not taken on. Owing to this feedback, we were able to optimize our activities in order to build a positive Candidate Experience.

We have redefined the employment, onboarding and adaptation process. We have implemented facilitations that allowed managers to plan new positions earlier, making recruitments more cyclical and repetitive. We have established the framework for creating implementation and adaptation plans, thanks to which both the manager and the new employee are aware of what elements affect the assessment and decision to continue cooperation. We have established a "buddy" function, i.e. a colleague, who helps a new employee to enter the organization efficiently, and for the buddy, it is the opportunity to develop new competences. We have also introduced a number of standardizations in this process, bearing in mind the nature of particular areas. Continuous optimization of this process is possible due to the feedback we collect from all of its participants.

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In 2018, we also painstakingly dealt with defining the responsibilities of individual departments and positions. The outcome of this was to prepare standardized job descriptions, which served as a basis for conducting another process, affecting changes in the payroll policy and introducing a new bonus system, inter alia. We have gone through evaluation of job positions, we have updated wage category for individual positions and payment schemes, and developed a new remuneration system.

Also, a lot of effort was put into the continuation of work related to building the employer's brand. Based on the concept of creating a strong Śnieżka's image as an employer, developed in 2017 within the Company, we have translated the Employer Branding strategy into concrete actions. By engaging our employees - brand ambassadors - we have prepared a campaign, the effects of which were not only presented in social media, but also during direct meetings with students and graduates, including job fairs. The main element of the campaign was the Company's presentation through the profiles of five employees whose work, attitude and commitment are valuable to the Company. The representatives of the Company selected on this basis were appointed brand ambassadors. Each of them represents one of the areas of the Company's operations (Finished Product Warehouse, Production Department, Research and Development Department, IT Department and Communication Marketing).

The conceptual work on the EB campaign was preceded by an external study of Śnieżka's perception as an employer in May 2018, which was carried out by the research house. The survey was conducted locally, within a radius of several dozen kilometres from the Company's registered seat. The group of respondents was divided into specialists and manual workers. Not only did the research findings allow to get to know Śnieżka's brand perception as an employer, but also became a substantive basis for building the message of the Employer Branding campaign. Together with the campaign a new website was launched: www.kariera.sniezka.pl and new brand channels on Facebook, LinkedIn and Twitter.

At the same time, the activities on the EB campaign were for us an impulse for developing a broad concept of cooperation with schools and universities, defining potential forms of such cooperation and outlining the initial work schedule. Our goal for 2019 is to implement the activities within this area.

In HR activities we also bore in mind all the time about development of our employees. We have conducted several development projects dedicated to selected areas of the organization, as well as we have provided our team with permanent access to a wide range of development activities based on the blended learning concept. Being convinced that the development of competences is the most effective by gaining experience in practice, we continued work on the implementation of project management methodologies in the organization and we engaged employees to participate in projects. We have also conducted a series of workshops in this field. Based on the developed assumptions and principles of work with the projects, in 2018 we implemented several pilot projects according to the adopted methodology. We have established functions related to the management of the project portfolio and the projects themselves. Further development in this area is our goal for the next year.

Core information an employment

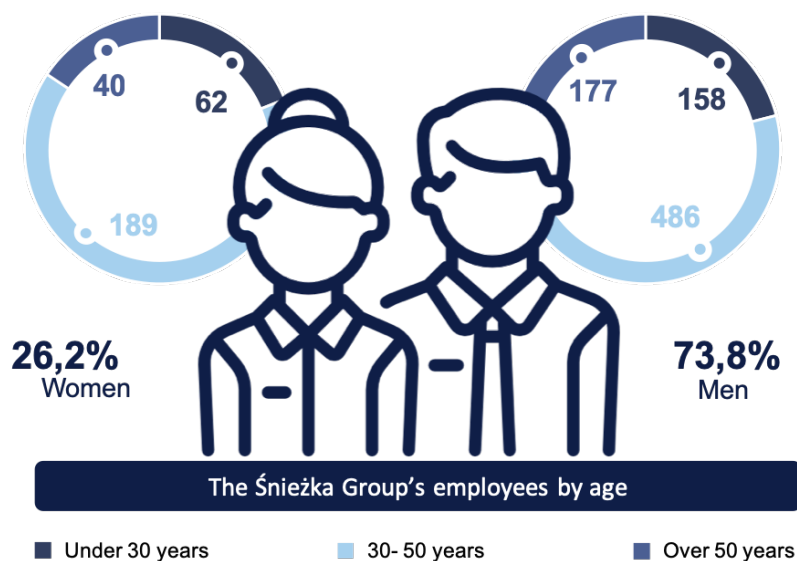
In the reporting period up to 31 December 2018 the headcount in the Śnieżka Group increased to 1,112 (as at 31 December 2017 the Group employed 1,000 persons). The headcount in FFIL Śnieżka SA increased from 731 persons as at 31 December 2017 to 773 persons as at 31 December 2018.

The increase in the number of employees in the Group resulted mainly from the acquisition of Radomska Fabryka Farb i Lakierów SA and the increase in employment in FFIL Śnieżka SA.

In 2018, the Śnieżka Group hired on a yearly average, in full-time equivalents, 1,114 persons, i.e. by 9.4% more than in the corresponding period of 2017, when the headcount amounted to 1,018 persons.

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Figure 8 The Śnieżka Group's employees broken down by age



The dominating part of the Group's employees (60.7%) was aged 30-50. 65% of employed women and 59.2% 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 21.3% (under 30 years) and 13.7% (over 50 years), and for men 19.2% (under 30 years) and 21.6% (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 2018, 821 men were employed, who accounted for 73.8% of the total number of employees (which results, inter alia, 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 1.9%.

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

	31.12.2017		31.12.2018	
	Women	Men	Women	Men
FFIL Śnieżka SA	186	545	220	553
Śnieżka-Ukraina Sp. z o.o.	37	170	39	174
Śnieżka-Bel pol, Wspólna Sp. z o.o.	18	37	16	37
TM INVESTMENT Sp. z o.o.	2	5	3	4
Rafil	0	0	13	53
Total broken down by gender	243	757	291	821

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Total the Śnieżka Group	1 000	1 112
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The majority of the Group's employees held employment contracts for an indefinite period - 64.2% as at 31 December 2018 (including 60.5% of employed women and 65.5% of employed men). Employees with employment contracts for a definite period were mainly employed in companies with production facilities.

Figure 9 The Śnieżka Group's employees by employment contract

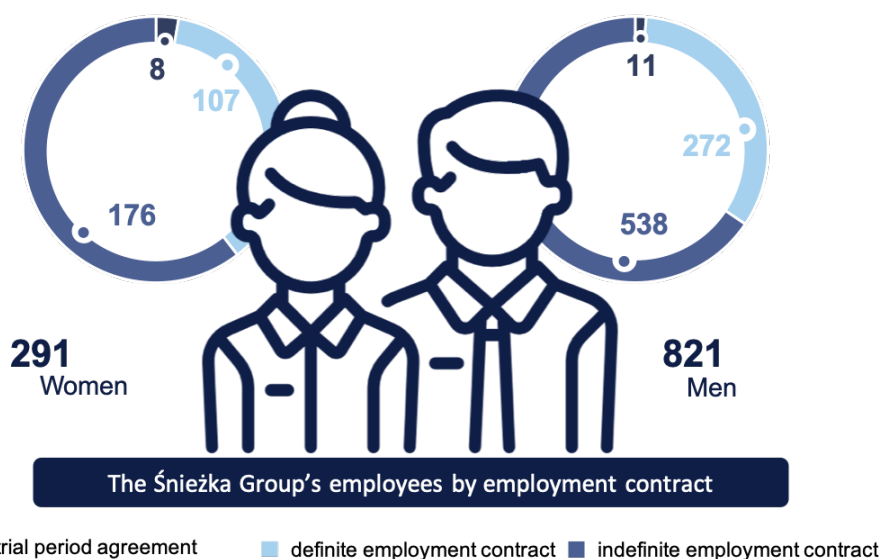


Table 19 The Śnieżka Group's employees broken down by employment contract

	31.12.2017		31.12.2018	
	Women	Men	Women	Men
FFIL Śnieżka SA				
indefinite employment contract	148	452	160	477
definite employment contract	32	88	52	65
trial period agreement	6	5	8	11
Total broken down by gender	186	545	220	553
Total	731		773	

	31.12.2017		31.12.2018	
	Women	Men	Women	Men

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Śnieżka-Ukraina Sp. z o.o.				
indefinite employment contract	0	5	0	6
definite employment contract	35	164	39	168
trial period agreement	2	1	0	0
Total broken down by gender	37	170	39	174
Total	207		213	
	31.12.2017		31.12.2018	
	Women	Men	Women	Men
Śnieżka-BelPol Wspólna Sp. z o.o.				
indefinite employment contract	2	0	0	0
definite employment contract	16	35	16	37
trial period agreement	0	2	0	0
Total broken down by gender	18	37	16	37
Total	55		53	
	31.12.2017		31.12.2018	
	Women	Men	Women	Men
TM INVESTMENT Sp. z o.o.				
indefinite employment contract	2	4	3	3
definite employment contract	0	1	0	1
trial period agreement	0	0	0	0
Total broken down by gender	2	5	3	4
Total	7		7	
	31.12.2017		31.12.2018	
	Women	Men	Women	Men

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	Women	Men	Women	Men
Rafil				
indefinite employment contract	0	0	13	52
definite employment contract	0	0	0	1
trial period agreement	0	0	0	0
Total broken down by gender	0	0	13	53
Total	0		66	
Total the Śnieżka Group	243	757	291	821

The managerial positions were held by 164 persons, i.e. accounted for 14.7% of all employed within the Group. The managerial positions were comprised of 48 women.

Table 20 Breakdown of the Śnieżka Group's employees by positions (as at 31.12.2018)

position/gender	FFIL Śnieżka SA		Śnieżka Ukraina Sp. z o.o.		Śnieżka-BelPol Wspólna Sp. z o.o.		TM Investment Sp. z o.o.		Rafil		Total	
	F	M	F	M	F	M	F	M	F	M	F	M
managerial	32	74	7	21	3	6	1	3	5	12	48	116
other	188	479	32	153	13	31	2	1	8	41	243	705
Total broken down by gender	220	553	39	174	16	37	3	4	13	53	291	821
Total	773	213	53	7	66	1112						

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

	31.12.2017			31.12.2018		
	Women	Men	Total	Women	Men	Total
Brzeźnica	161	354	515	184	349	533
Lubzina	13	81	94	11	80	91
Pustków	11	106	117	12	116	128
Mielec	1	3	4	2	2	4
Warsaw	0	1	1	0	1	1
Radom	0	0	0	11	5	16
Yavoriv - Ukraine	37	170	207	39	174	213
Zhodino and Minsk (Belarus)	18	37	55	16	37	53
TM INVESTMENT						
- Brzeźnica	2	4	6	3	3	6
- Warsaw	0	1	1	0	1	1
Radom (Rafil)	0	0	0	13	53	66
Total	243	757	1000	291	821	1112

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

	aged below 30	aged 30-50	aged above 50	Total
FFIL Śnieżka SA				
Managerial positions	2	88	16	106
of which women	1	30	1	32
others	160	399	108	667

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of which women	44	140	20	204
Śnieżka-Ukraina Sp. z o.o.				
Managerial positions	1	17	10	28
of which women	0	5	2	7
others	42	102	41	185
of which women	11	14	7	32
Śnieżka-BelPol Wspólna Sp. z o.o.				
Managerial positions	0	7	2	9
of which women	0	3	0	3
others	12	27	5	44
of which women	6	4	3	13
TM Investment Sp. z o.o.				
Managerial positions	0	3	1	4
of which women	0	1	0	1
others	0	3	0	3
of which women	0	2	0	2
Rafil				
Managerial positions	0	7	10	17
of which women	0	3	2	5
others	3	22	24	49

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of which women	0	3	5	8
Total				
Managerial positions	3	122	39	164
of which women	1	26	5	32
others	217	553	178	948
of which women	61	163	35	259

3.3.1.2 Indicators associated with development and assessment

Data about employee training and assessment - FFIL Śnieżka SA

In the reporting period, at the Company, 430 persons (56% of the employees) participated in training. In the group, there were 206 women (93.6% of female employees) and 224 men (40.5% of male employees).

The number of training hours completed at the Company in 2018 was 9,191, which in comparison with 2017 accounts for the increase of 260 hours. 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 about the value and cost of training at FFIL Śnieżka SA

	2017	2018
Value of scheduled training [PLN thousand]	490.5	660.5
Cost of completed training [PLN thousand]	492.5	493.2

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Data regarding training - subsidiaries

Table 24 Training performed in subsidiaries of the Śnieżka Group (as at 31 December 2018)

	Number of completed training courses	Number of training participants	
		total	of which women
Śnieżka-Ukraina Sp. z o.o.	41	163	27
Śnieżka-BelPol Wspólna Sp. z o.o.	1	1	0

Data about employee assessment - FFIL Śnieżka SA

In 2018, we closed the next edition of the Development Talks process, which is a form of both assessment of the employee's work and efficiency, as well as opportunity to talk, analyse and plan further development in the organization. By promoting a culture of continuous feedback and providing employees with feedback on a regular basis throughout the year, Development Talks are a form of verification, summary and closure of the annual stage in the continuous process of employee development.

Participation in the Development Talks process in 2018:

- The number of employees assessed: 747 (25% women, 75% men);
- The number of persons who had the right to be assessed: 727 (25% women, 75% men) - those who did not have such a right were persons employed for a period shorter than 3 months.
- The number of persons assessed: 629 (87% of all the employees who had the right to be assessed);
- The number of persons not assessed: 98 (13% of all the employees who had the right to be assessed).

Reasons for not assessing: absence for a period longer than 3 months (sick leave, maternity/child-rearing leave), organizational changes.

Both the assessment and the activities included in the development plan are based on organizational values. The process is standardized - the Book of Organizational Values, textbooks for the supervisor and employee, and forms corresponding to a type of position - are documents that help in a uniform way to prepare and conduct the process.

Table 25 The number of assessed employees broken down by gender

	Number	Percentage
Women	139	22%
Men	490	78%

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

	Number	Percentage (as % of the assessed having a right to be assessed in a given group)
Directors	14	67%
Managers	28	88%
Foremen	31	100%
Specialists	125	69%
Production line employees	431	93%

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 observed to be stable, which is shown 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

Company	Percentage share of persons dismissed at the employer's initiative who left the Group
FFIL Śnieżka SA	9.68%
Śnieżka-Ukraina Sp. z o.o.	0%
Sp. z o.o.	0%
Rafil	53.5% (collective redundancies)
TM Investment Sp. z o.o.	0%
Total the Śnieżka Group	22.47%

In the case of Rafil, dismissals at the employer's initiative were carried out as part of the collective redundancy procedure. The reason for the decision to reduce employment was first of all the need to restructure Rafil due to the current, excessive level of employment, inadequate to the production status and needs of the employer. The liquidation of production-related positions has translated into the simultaneous need to reduce employment in other organizational units of the company. The reduction was necessary to restore the proper functioning of the company and regain profitability.

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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 2018, the amount of the payer's contributions was PLN 7,449,47. In foreign Companies, 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.

In 2018, 13 female employees at the Company took advantage of maternity and parental leaves after a childbirth, while 27 employees who are 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	40	13
Śnieżka-Ukraina Sp. z o.o.	6	5
Sp. z o.o.	4	4
Rafil	1	0
TM Investment Sp. z o.o.	1	1
Total	52	23

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 Parent 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 2018 the commission did not review any case related to violation of the principles of respect for human rights.

In all the plants of the Parent Company, anti-harassment rules and regulations are in force. 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 on 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.

The environmental objectives in the Company are addressed in accordance with the applicable legal requirements as well as the procedures and instructions. Environmental protection management covers processes related to the Parent 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

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achieved by way of continuous formal and legal oversight and implementation of the obligations specified in environmental decisions.

The Company's strategic objectives regarding environmental protection included:

- 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;
- reduction of VOC emissions into the air;
- protection of 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 objective is 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:

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- 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.

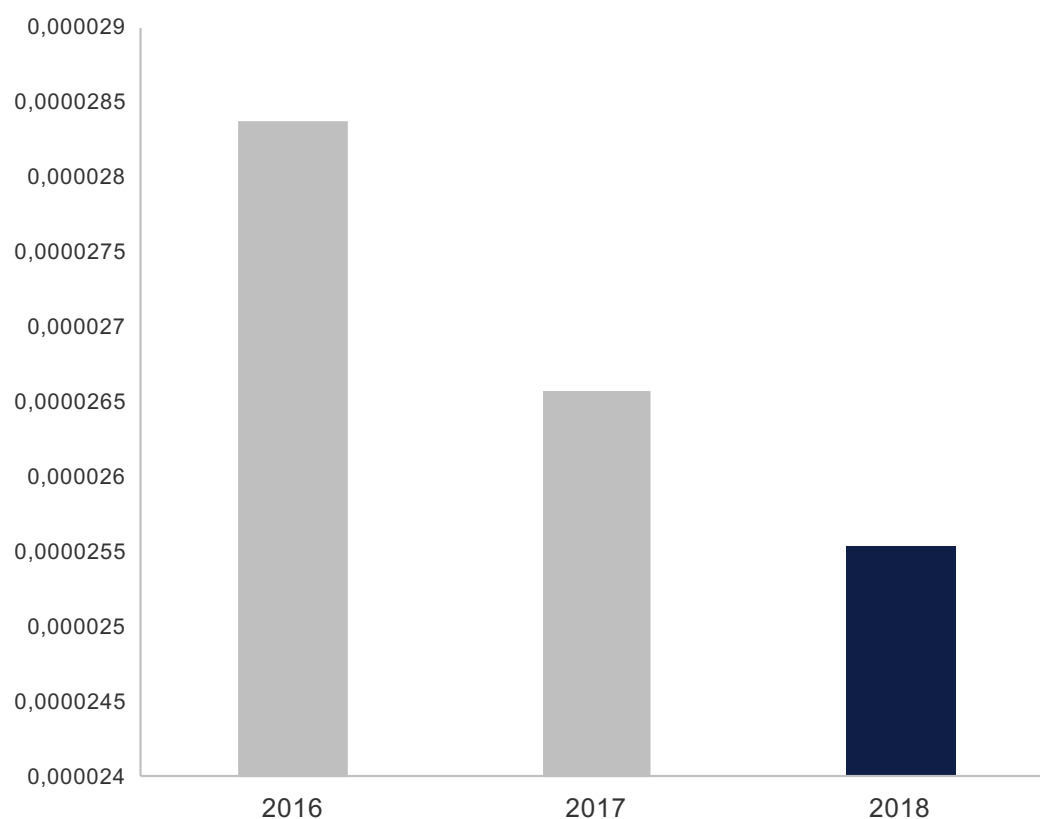
The device used with a very high efficiency of air purification allows it to be recirculated into the interior of the facility without deterioration of working conditions. Air filtration products - contaminants considered as waste are collected in containers and fully utilized, processed, used, etc. 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.

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



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Figure 11 Emissions of Volatile Organic Compounds and dust into air from technological processes and accompanying processes compared to production volume [ton/ton] – Śnieżka-Ukraina

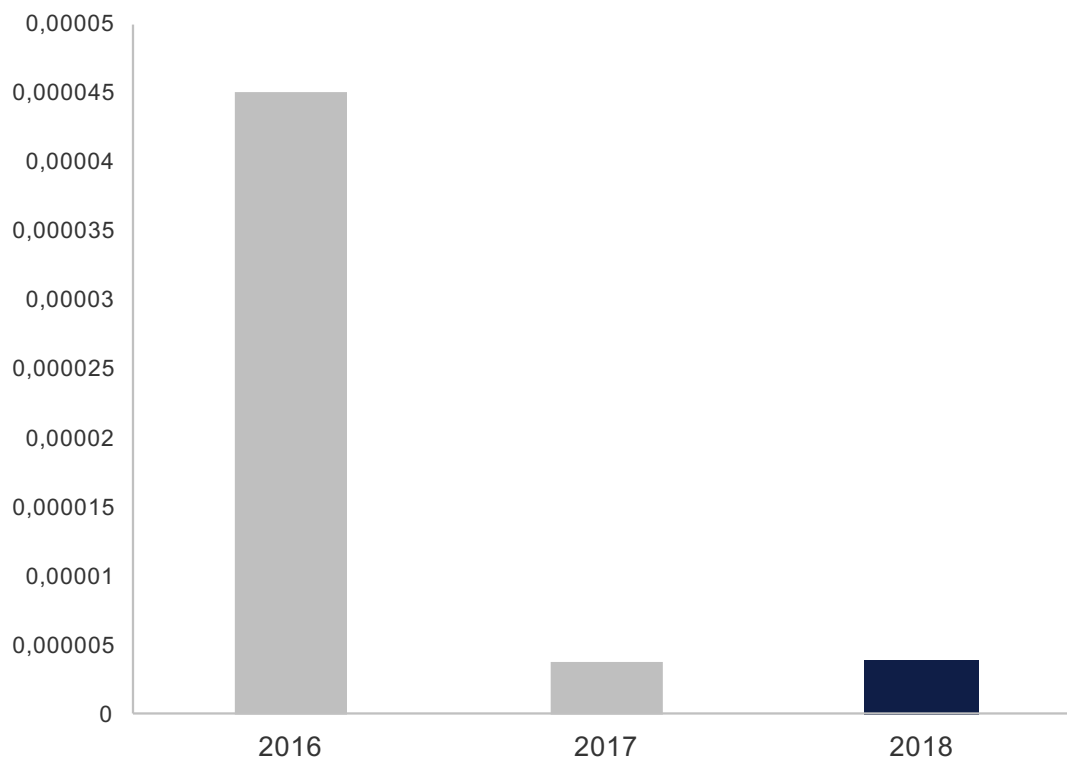
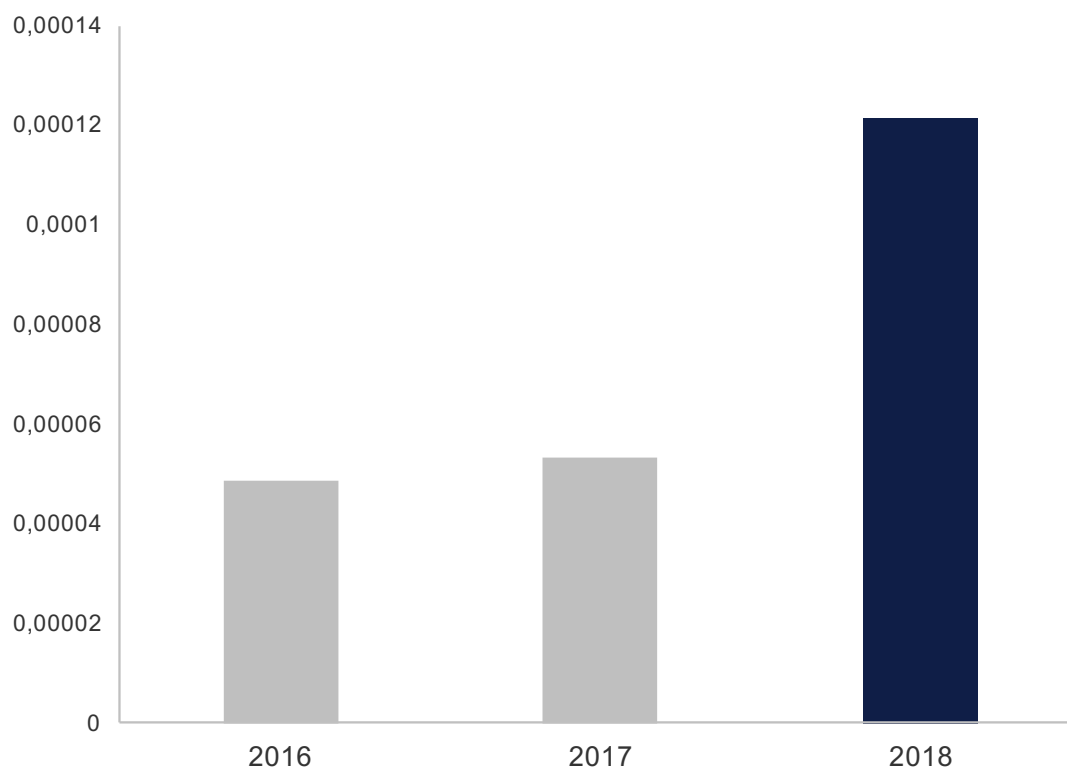


Figure 12 Emissions of Volatile Organic Compounds and dust into air from technological processes and accompanying processes compared to production volume [ton/ton] – Śnieżka-Belpol

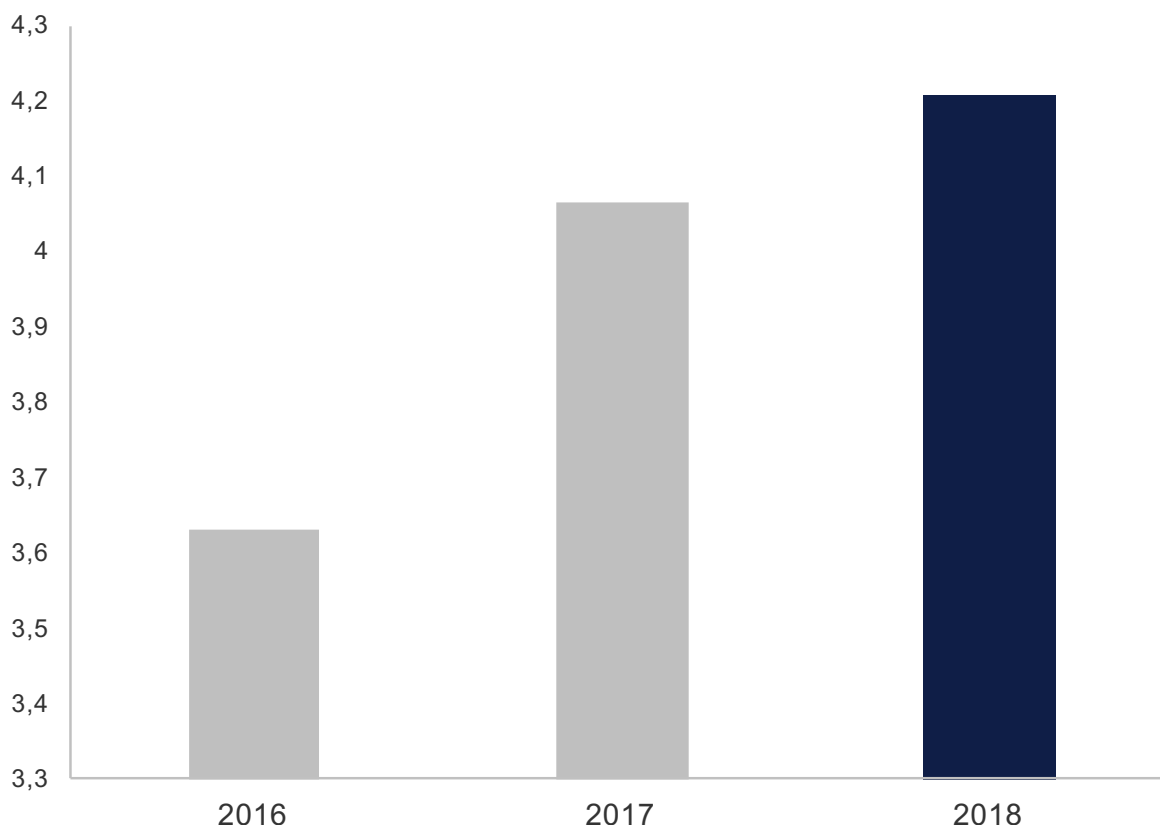


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The quantity of volatile compounds emitted into the air depends on the production volume, which in 2018 was lower y/y at the Company. In the Ukrainian subsidiary, there was an insignificant increase in the value of this indicator. Whereas in the Belarusian subsidiary the indicator increased as a result of higher fuel consumption for heating production facilities and warehouses.

In reference to B

Figure 13. Emissions of gas – gas consumption in FFIL Śnieżka SA compared to the production volume [m³/ton]



The Group's plants emit, directly and indirectly, greenhouse gases to the environment. The major sources of direct emissions (CO₂, N₂O) 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 CO₂ and small amounts of CH₄ and N₂O;
- personal transport (cars).

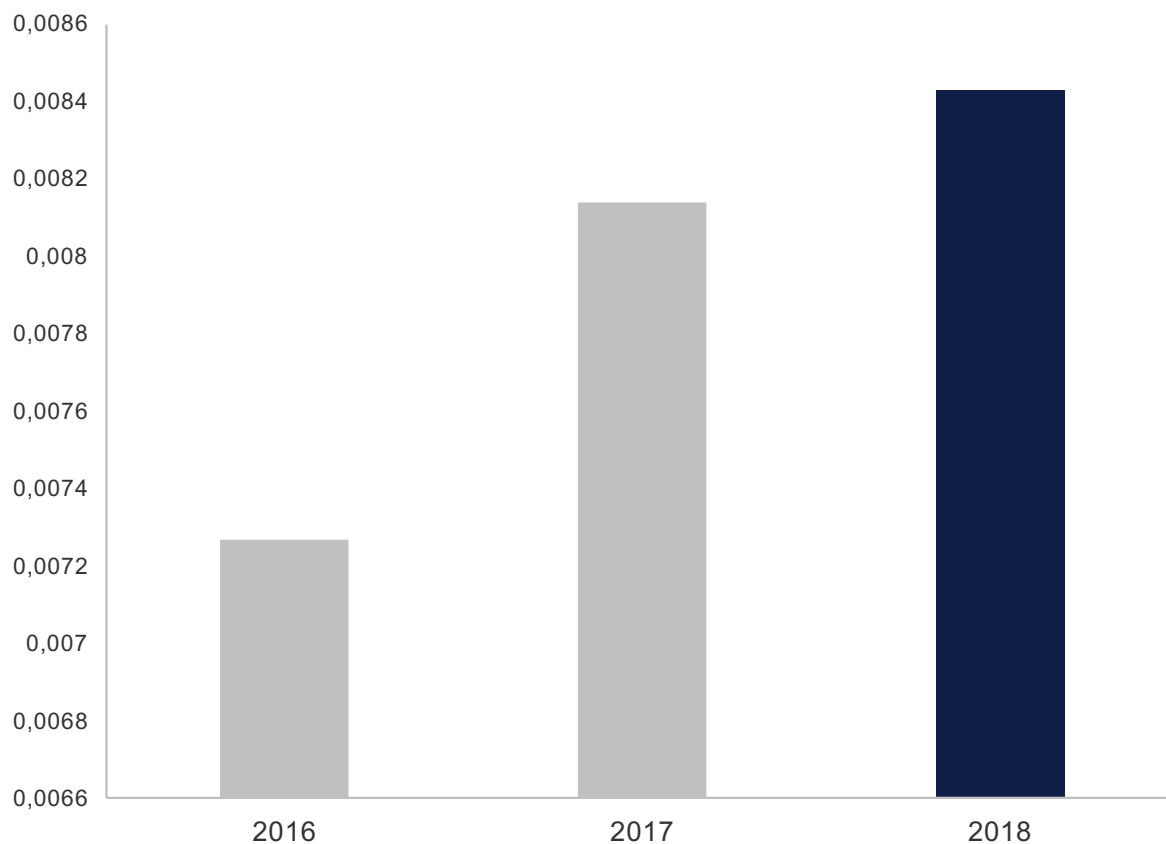
The Group's plants, by using electricity from the grid, also contribute to indirect emissions of greenhouse gases generated during the electricity production.

FFIL Śnieżka SA:

- Quantity of CO₂ emissions in 2018 – **896.774 tons** (i.e. a decrease compared to 2017, when the emission amounted to 925.334 tons);
- Quantity of nitrate oxide emissions in 2018 – **0.754 tons** (i.e. a decrease compared to 2017, when the emission amounted to 0.783 tons).

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Figure 14 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]
Engines in vehicles with documents confirming compliance with EURO 5* requirements	gasoline	7.84	3.677	35.705
	oil	291.819	278.462	254.219
Engines in vehicles with documents confirming compliance with EURO 3* requirements	oil	10.945	12.413	12.24
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

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	gasoline	0.363	0.335	0.299
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
	oil	2.891	1.017	0.946
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

* 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.

In FFIL Śnieżka SA, the vehicle fleet used for transporting employees is replaced systematically. The process is divided into timeframes of 3-year use of a given car 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 5, and in one group, Euro 3, 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

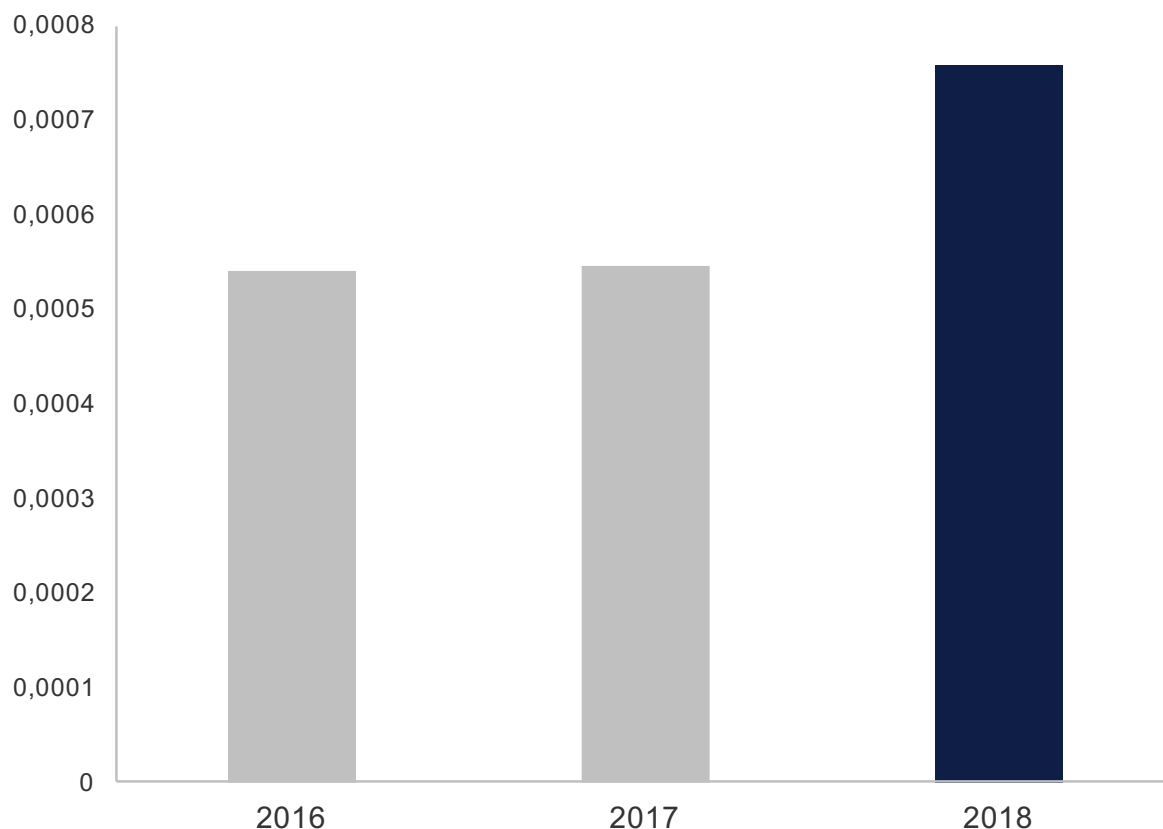
Wastes generated by the Group companies are segregated according to the waste type and code in compliance with the Polish laws in force.

The Company does not process waste on its own; all the waste is sent to be disposed of, processed, used, etc. by other business entities providing waste management services.

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Figure 15 Amount of generated hazardous waste compared to the production volume [ton/ton]



In the Company, the volume ratio for hazardous waste compared to production volume in 2018 increased in relation to 2017 as a result of generating a larger amount of hazardous waste, particularly defective goods and products resulting from their non-compliance.

In Śnieżka Ukraina, the level of the ratio in 2018 was 0.0000097, which was lower by 25% as compared to the previous year; this was connected with, which indicates the pro-ecological activity of this company.

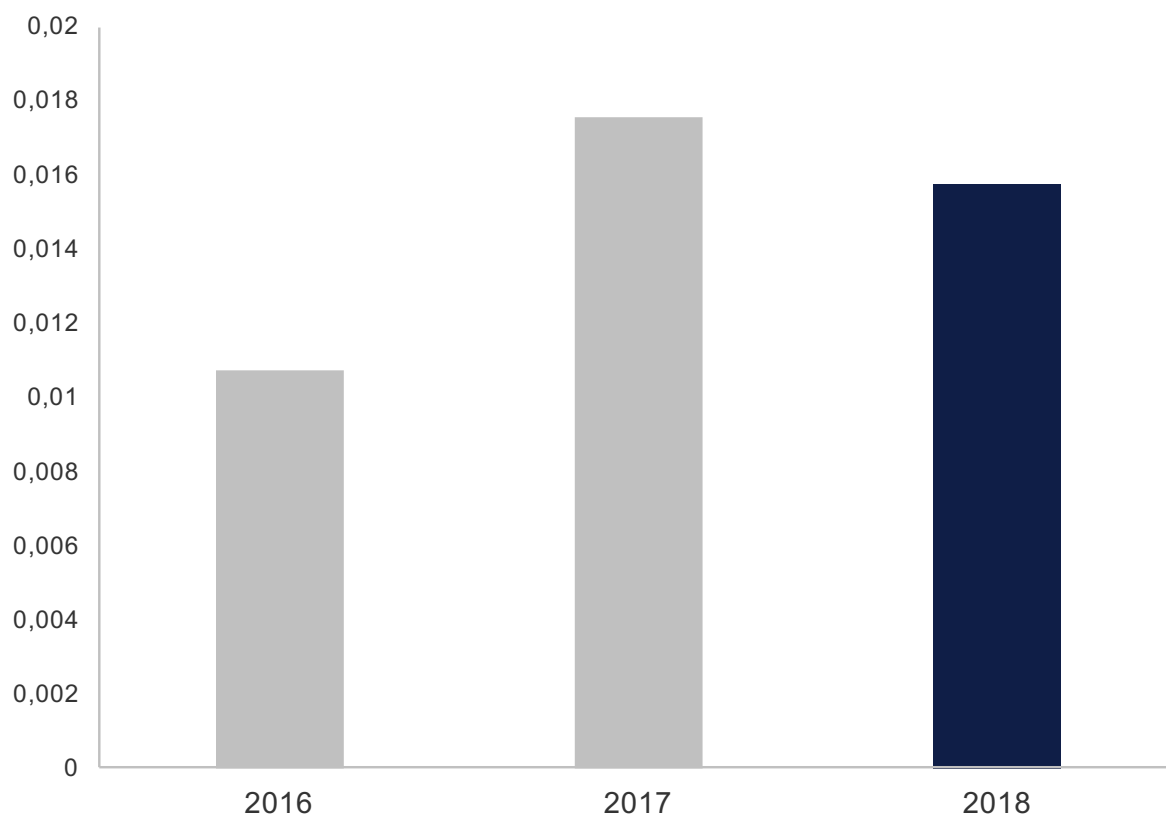
In the Belarusian company, the level of the ratio was 0.0021, and increased by 4.9% compared to 2017. It should be emphasised that in this company, 4.83 tones were segregated from all of the hazardous waste generated and recycled, which is an example of taking pro-ecological activities.

The production processes of finished products in the Group's plants do not cause 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).

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In reference to D

Figure 16 Amount of generated non-hazardous waste compared to the production volume [ton/ton], FFIL Śnieżka SA

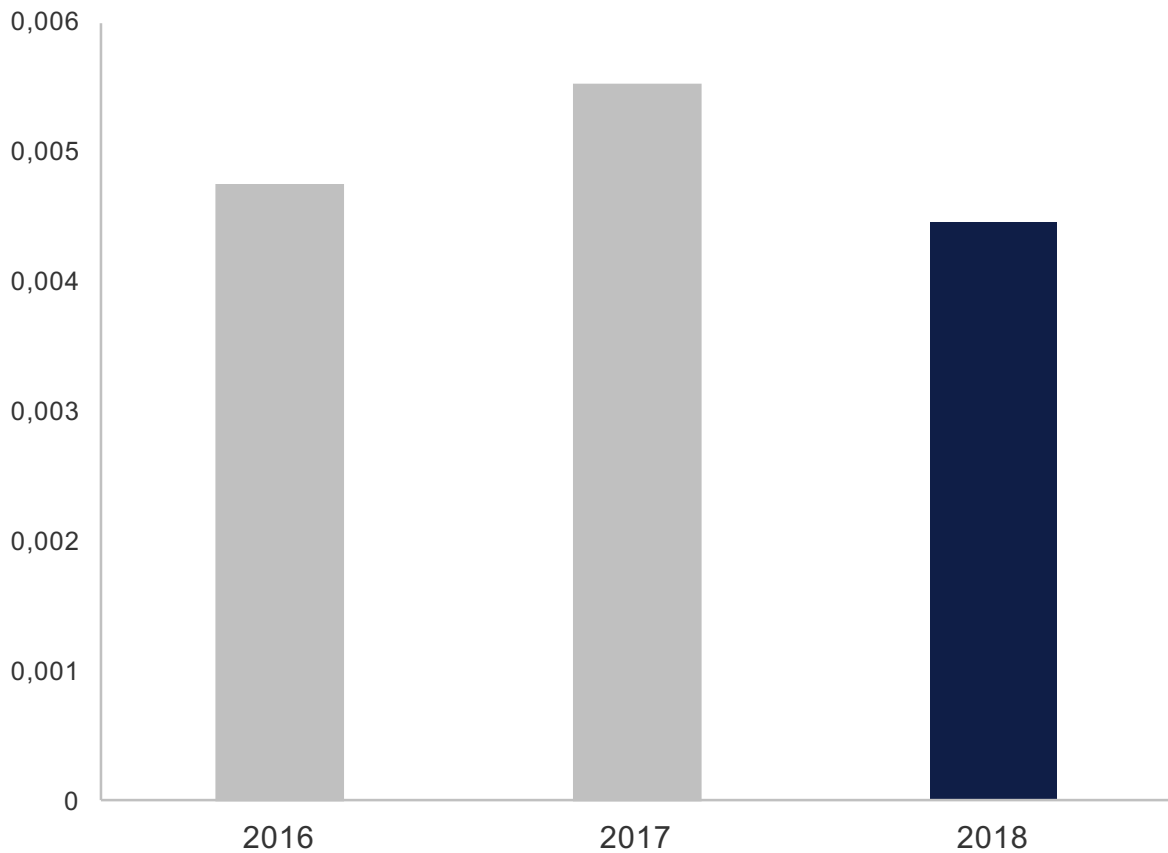


The Company generated less non-hazardous waste than in 2017, which was the result of a planned production work. In Śnieżka Ukraina, the volume ratio in 2017-2018 remained at a similar level, with an increase by 11%. In 2018 in the Belarusian company the ratio increased by 309% compared to 2017, as utilization of raw materials identified as substandard was performed.

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In reference to E

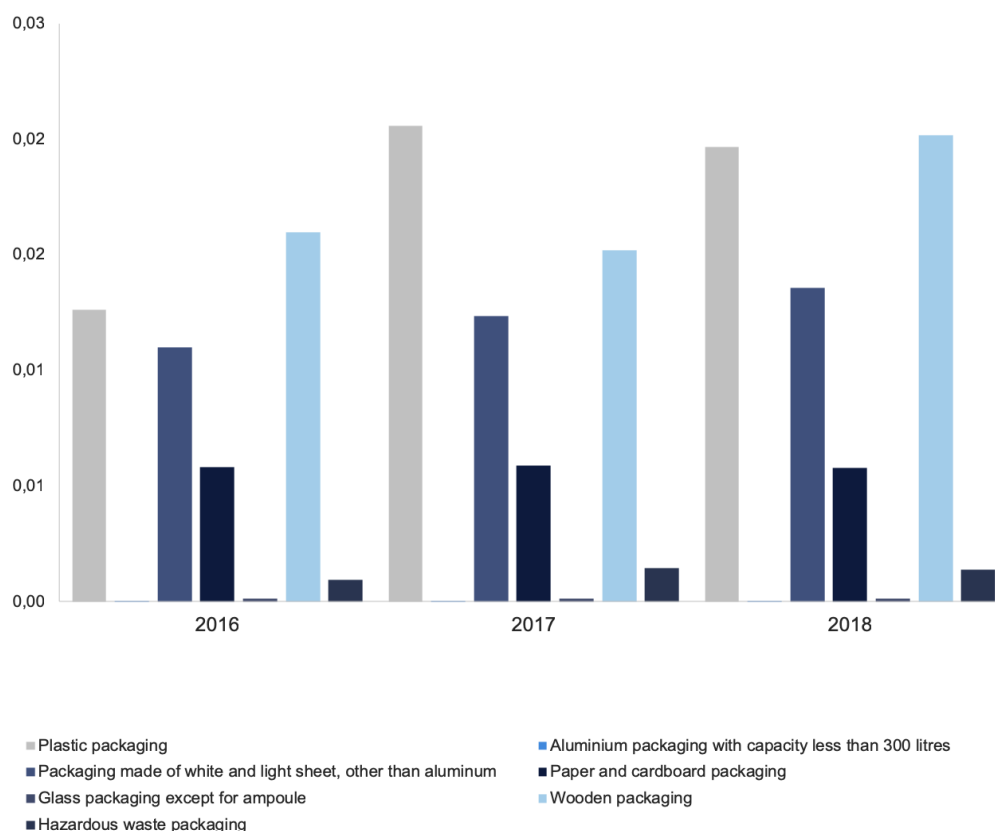
Figure 17 Amount of generated non-hazardous packaging waste compared to the production volume [ton/ton], FFIL Śnieżka SA



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. Their production, although less than in 2017, is a result of the implementing innovative investment solutions in the scope of expanding the storage facilities of raw materials with bulk raw materials, which streamlined cistern transport, and excluded the transport of individual units of raw materials.

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Figure 18 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.

- Employee training on amendments to environmental protection laws 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 that generation increases the Company's prestige and creates competitive advantages. Employee training was conducted on raising awareness on 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, as well as the benefits of minimizing that generation. In 2018, 237 underwent training, representing a 19% growth over 2017.
- There is a continuous technological supervision of properties of raw materials used for production and supervision of properties of finished products with respect to fulfillment of the requirements of the Ecolabel system. For each finished product, the following procedures are



conducted: Compliance Assessment, Employee Exposure Monitoring and Environmental Impact Monitoring, in compliance with provisions of the REACH Regulation in the form of Inspection Records.

In 2018 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 Group's companies 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, the Parent Company uses the environment and pays charges for using it. 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 2018, 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.

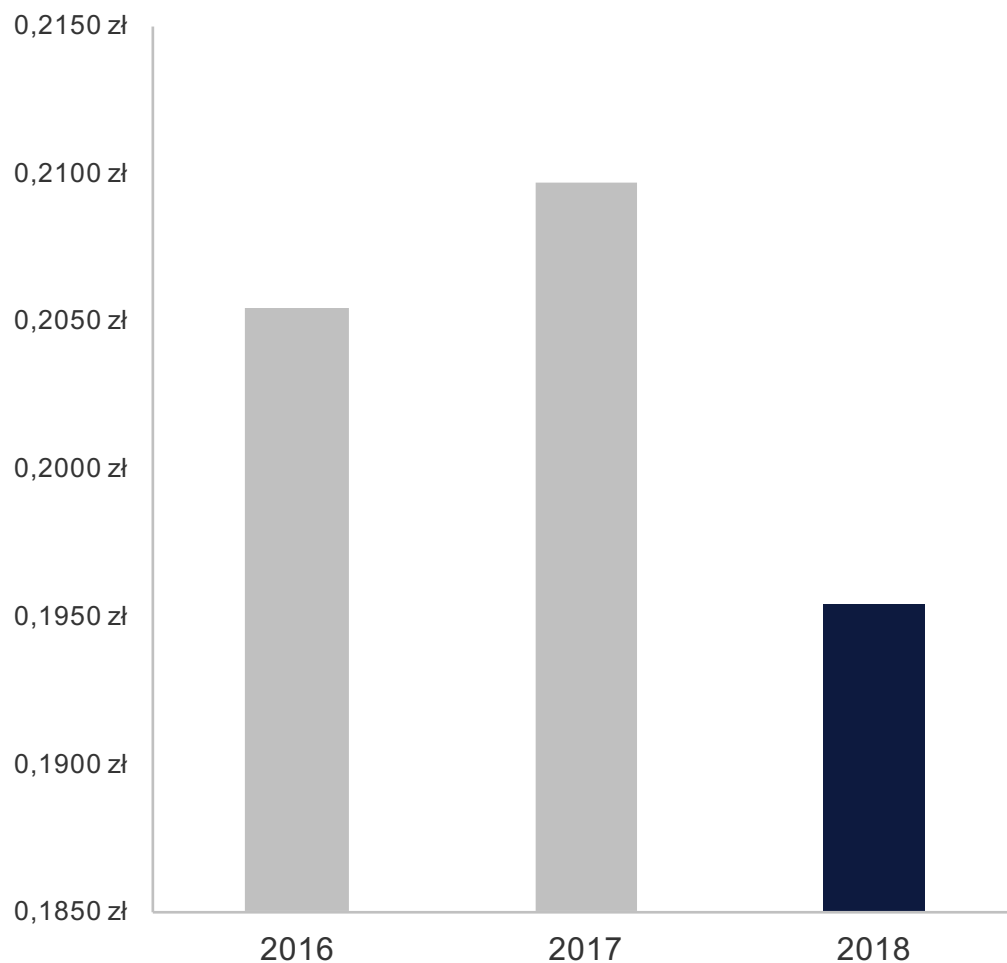
The Śnieżka Group incurs costs for environmental usage. The level of financial burden in 2018 was comparable to 2017. The entire financial burden is a fee for releasing gases and dust into the air.

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

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Figure 19 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.

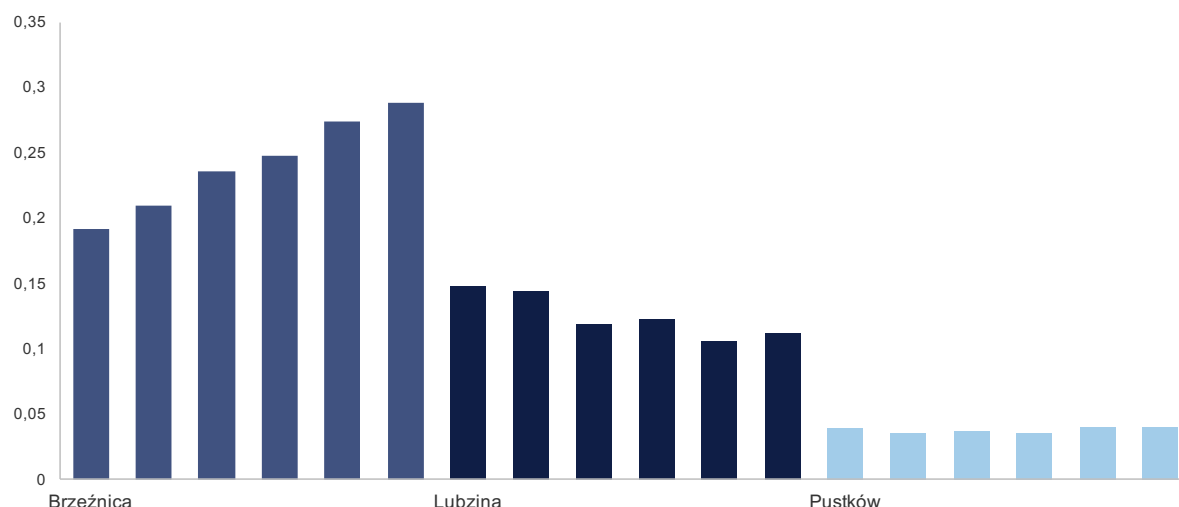
From the data about the environmental activity of FFIL Śnieżka SA included in this document, the following conclusions may be drawn:

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 20 Electricity consumption per production unit in the year at FFIL Śnieżka SA [kWh/l, kg]



Electricity consumption per production unit in the Company's plants y/y was not subject to any significant changes. Differences occurring in particular plants resulted from the following, among others:

- **Brzeźnica:** in connection with commissioning of the skywalk between A and B buildings and high temperatures during the summer season the demand for the use of air conditioning increased due to the increased number of office spaces - the increase in energy costs per production unit. The volume of energy consumption and total costs decreased in relation to 2017 due to the decrease in production volume. Partially, the lighting at the Warehouse of Finished Goods was also modernized with LED lighting, which resulted in an annual energy saving of 41.304 MWh.
- **Lubzina:** The contracted capacity was increased, which resulted in an increase in fixed costs for energy, due to the launch of a new transformer station and an increase in production capacity by installing two additional 200 kW and 130 kW dissolvers. The average price of energy decreased due to the low purchase price. Energy consumption per production unit increased due to the requirements of production technology.
- **Pustków:** energy consumption and share in production costs remained at a similar level as in 2017, while the average price of energy and energy costs per production unit decreased due to the lower purchase price of energy in relation to 2017.

In subsidiaries in Ukraine and Belarus the energy consumption per production unit in 2017-2018 remained at a similar level.

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.

High standards of work safety are shown by a low number of accidents. In 2017, in the Company six accidents occurred, including one on the road. All of them were recognized to be accidents at work and all of them were individual and light accidents.

These accidents caused in total, in 2018, 235 days of inability to work, while as the compensation for the accidents ZUS did not pay any amounts. Comparing the accident frequency ratios "Ww" and accident severity ratios "Wc" in 2017 with 2018, it should be noted that the accident frequency ratio increased insignificantly from Ww=6.71 in 2017 to Ww=7.76 in 2018; at the same time, there was a decrease in the accident severity ratio for the accidents that occurred in 2018, namely from Wc=61.00 in 2017 to Wc=39.20 in 2018. Severe accidents, fatal accidents or occupational diseases were not recorded.

Neither were there any accidents on the way from home to work and from work back home. 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.

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Data in PLN thousand



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

Rafil reported one individual accident at work, which was classified as light and resulted in a total of 89 days of inability to work. Severe accidents, fatal accidents or occupational diseases were not recorded in the said company.

The Company constantly conducts activities in the field of occupational risk assessment. In 2018, they were carried out, among others, in relation to positions in the newly opened Marketing Communications Department. The assessment concerned four job positions created in this department - the total number of employees on these positions is 17.

In 2018, 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.

Training is an essential element of health and safety at work activities. In 2018, periodic training for a total number of 13 supervisors managing employees was 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. 231 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 in foreign companies, periodic medical examinations are carried out, based on local national law. Having valid medical examinations is necessary for an employee to be allowed to perform tasks on the assigned position.

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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 2018, the OHS and Fire Protection team of FFIL Śnieżka SA carried out a number of inspections in the Company's departments and cells 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 2018, the OSH team evaluated and prepared 10 reports for the assessment of employee exposure control (Rich), and reviewed 139 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>The Ecolabel sign is a European award granted to environmentally friendly products meeting high quality and health standards.</p> <p>The grounds for the award is Regulation (EC) no. 66/2010 of the European Parliament and of the Council of 25 November 2009 on the EU Ecolabel</p>
	<p>Product sign, which includes VOC emission class in accordance with the French Decree no. 2011-321 of 23 March 2011 relating to the labelling of construction products with their volatile pollutant emissions</p>
	<p>Certificate issued by the British BBA certification body for a complex thermal insulation system. 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>PN Certificate issued by the Polish Standardization Committee (PKN). The label is a quality and safety guarantee and confirms that the product was certified by the PKN.</p>

Table 31 Mandatory certificates

	<p>European Technical Assessment for a complex thermal insulation system – or documented assessment of functional properties of a construction product with regard to its principal characteristics, in accordance with the relevant European assessment document</p> <p>A document confirming the highest functional parameters of products making up the FOVEO TECH S insulation system is European Technical Assessment ETA 15/0022.</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 construction materials in Europe.</p>
	<p>National Technical Assessment – is a documented positive assessment of functional properties, or these basic features of a construction product which, in accordance with the intended use, have an impact on the satisfaction of the essential requirements by construction facilities in which the product will be used.</p>
 OCpr-049	<p>Compliance Certificate for products that are subject to mandatory certification in the territory of the Republic of Moldova</p>
	<p>Compliance Certificate for products that are subject to mandatory certification in the territory of Belarus confirms quality of products in compliance with prevailing normative acts of law</p>

	<p>GOST R Declaration of Conformity - 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>Safety of toys 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>

Confirmation of care with regard to transparency of information placed on packaging is the absence of any important breaches in that field and on-going monitoring of the relevant signage in view of the changing provisions of law in that area. In the reporting period, one case of incompliance with regulations or voluntary codes was found concerning the impact of products on safety and health. Two cases of incompliance concerning information and correct labelling of products were recorded. In both cases, the adjustment of measures was applied immediately after identification of inaccuracies and did not involve any financial penalties. The packaging of our 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

Our objective is to provide consumers with products and services which fully satisfy their needs. Therefore, by way of developing product solutions, it is of key importance to us to answer the following questions:

- Are the offered products consistent with customers' expectations?
- Are customers satisfied with the offered products?

To assess customer satisfaction and loyalty, the Parent Company monitors:

- sales volume;
- market shares;
- opinions of final consumers.

To measure satisfaction of final consumers, the Parent company uses the Net Promoter Score (NPS). The advantage of the score is its simplicity and lack of complicated procedure for surveying customers. It involves asking consumers the question: "How probable it is that you will recommend the Śnieżka brand to your friends, acquaintances or family?" The surveyed assess their readiness to recommend the brand using a 10-degree scale. The results are grouped in three categories: brand critics, indifferent ones and brand promoters. Customers asked about their readiness to recommend the brand, they will consider all their experiences associated with the brand, or product quality, service evaluation, product costs and other customer experience. For comparative purposes, we monitor the NPS score also for our major competitors. Based on methodological assumptions behind the NPS score, the Company

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conducts a quantitative survey of final consumers twice a year (spring wave and autumn wave). The number of the surveyed persons corresponds to a representative sample of adult Poles. The level of the NPS score is verified for the most important brands and product categories. The NPS level in the 2018 autumn survey for the MAGNAT brand was 59 points and it achieved the highest score compared to other paint brands.

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 Group's research departments. The Research and Development Centre is comprised of research Laboratory accredited by PCA (no. AB 855). The R&D's tasks involve supervision over production processes in the Group's plants.

The Research and Development Centre liaises closely with subsidiaries, within the scope of:

- control of raw materials,
- preparing and optimizing product recipes,
- creating innovative product solutions and carrying out tests on them,
- quality control of existing products.

The R&D also monitors the raw materials market and emerging new solutions in the area of paints and varnishes design and production, and then uses them in the process of creating new, innovative products and in optimizing the procedures of products already comprising the Group's portfolio. Constant changes in European legislation and the need to comply with them forced the Group to implement necessary changes in certain products.

In 2018, the Research and Development Centre's team worked on launching new products onto the market and improving the existing ones. The outcome of their work is as follows:

- a new colour range of paints and plasters for exterior application offered under the Foveo Tech brand. In order to meet the customers' expectations and the latest colour trends, the R&D specialists - in cooperation with designers of the Academy of Fine Arts in Krakow - designed a new colour collection containing 318 colours;
- mosaic plaster featuring fine granulation and silicate-silicone facade paint FSS-20 of the Foveo Tech brand;
- Śnieżka Extra Facade white / base A-BU available in the NCS Cascade colouring system for the company Śnieżka-BelPol Wspólna Sp. z o.o.;
- a series of Śnieżka Platinum Śnieżka Modern paints available in the NCS colouring system, Śnieżka Platinum KIDS, Platinum Classic and Śnieżka Platinum Kitchen and Bathroom available in NCS CASCADE collection, as well as Śnieżka Platinum Ceiling, Śnieżka Platinum Magic for Śnieżka-Ukraina.

In addition, in 2018, the Research and Development Centre's team was actively involved in the mutual exchange of knowledge and learning about products comprising the portfolio of Radomska Fabryka Farb i Lakierów SA. The company mainly produces specialized products dedicated to metal protection, including products for industrial customers. The exchange of *know-how* provides new opportunities for the Group to develop synergistic solutions. At the same time, the need to unify processes and procedures has become a challenge.

The course of works for the R&D specialists in 2018 determined the implementations scheduled for 2019.



3.3.4.4 Changes to the Group's portfolio in 2018

The product offering is one of the elements of building a competitive advantage of the Group and the Company. 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. Based on them, activities to expand or change the product offering are conducted. For the season of 2018 a lot of changes were prepared, which concerned the products of the Magnat brand. Magnat Ceramic products appeared on the market in a modified graphic design, which allows more efficient presentation of product features important for the consumer. Following the consumer research, a decision was also made to rebrand the paint reducing formaldehyde - "Magnat Sypialnia Pokój Dziecka" (*Magnat Bedroom Child's Room*), which was included in the line of ceramic paints under the new name - Magnat Ceramic Care. The modifications also affected the colour range of this product.

"Magnat Grunt" (*Magnat Primer*), introduced into the Magnat brand in 2018, supplements the offering of products for wall applications. The formula of this product stabilizes the painted substrate, increasing the efficiency and durability of both interior ceramic and latex paints.

During the period in question, Ultra Mat paint, previously comprising the Magnat brand, was launched onto the market featuring a new graphic layout and a modified recipe. The new packaging graphic layout, consistent with the other products of the brand, makes it easy for the customer to identify the most important product features displayed on the front of the packaging. In addition, the product's properties make Magnat Ultra Matt a paint dedicated to both professionals and individuals, who take advantage of the paint for their own needs. The leading company is working intensively on extending the portfolio. At the end of 2018, a new product appeared in the Magnat brand offering - a latex emulsion paint for walls - Creative White. The product's features such as no streaks, high efficiency and anti-reflective coating, make it efficient when painting large surfaces. Also, the paint can meet the professional expectations. Last year, the Foveo Tech brand's portfolio was also impacted by changes. A new product was released and a new colour palette was introduced, which perfectly corresponds to the current trends, among which the popularity of colourful and creative building facades need to be mentioned. The new offering introduced last year allows to obtain 318 colours in seven colour zones.

Colour durability, efficient coating protection against biological hazards, easy application and high vapour permeability - these are just some of the features of the new silicate-silicone facade paint Foveo Tech FSS 20. Those who chose Foveo Tech solutions last year were also able to take advantage of the changed colours of mosaic plasters. The novelty comprising the Foveo Tech offering were microfine aggregates and a new additive refining plasters in the form of mica flakes. These solutions allow to provide facades with subtle reflections, visible under appropriate lighting conditions.

In parallel with development of new products, the leading company also conducted work on the existing offering, introducing necessary modifications to the recipes and colour range of individual brands.

Individual subsidiaries also work on development of the product portfolio. Significant changes affected the offering of Śnieżka-Ukraina. A new line of wall paints was launched under the name Platinum, which is the flagship collection under the Śnieżka brand. The Śnieżka Platinum portfolio is comprised of 6 products: latex wall paints Śnieżka Platinum Modern and Śnieżka Platinum Classic, specialist paint dedicated to kitchens and bathrooms: Śnieżka Platinum Kitchen-Bath, the paint for children's rooms: Śnieżka Platinum Kids, acrylic ceiling paint: Śnieżka Platinum Ceiling and blackboard paint: Śnieżka Platinum Magic. The new products were launched in the second half of 2018.

3.3.4.5 Marketing Communication

We operate in accordance with a defined marketing strategy that allows us to implement key business objectives of the Group and Company. Our priority is to focus on consumers in order to provide them

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with maximum satisfaction of products they purchase, and at the same time to provide the company with the expected results.

In the reporting period, we conducted a number of communication activities supporting sales targets. The TV campaign for the Magnat brand and the "Cash within reach" lottery, as well as digital campaigns are just some forms of support for our products. At the end of the year, we ran a billboard campaign for Magnat Ceramic Care. In large cities, where inhabitants are particularly exposed to air pollution, billboards with air-purifying paint from formaldehyde - Magnat Ceramic Care, appeared.

In spring and summer, we also conducted activities for Vidaron brand products. Their main element was the "Win peace of mind for years" lottery, broadcasted on the radio and communicated at points of sale and on the Internet.

To a lesser extent, we supported other products of the Company's portfolio, including the the Foveo Tech brand thermal insulation system, in the case of which the advertising efforts were mainly addressed to professionals.

In the reporting period, the Company also carried out various marketing activities on selected foreign markets. Including subsidiaries: Śnieżka-Ukraina and Śnieżka-BelPol implemented own advertising activities. A billboard campaign for a new product line took place in Ukraine: Śnieżka Platinum and various types of activities on the Internet that support other Śnieka, Vidaron and Foveo Tech products. The subsidiary - Śnieżka-Ukraina, continued implementation of the partner program, and as part of the activities carried out, other stores were incorporated into the Śnieka chain of stores and showrooms.

On the Belarusian market, Śnieżka-BelPol ran support activities for the Śnieżka and Vidaron brands. In order to support the sales of products of the latter brand, a consumer lottery was also organized, which was communicated on the radio, billboards, as well as via POSM materials.

A clear, original, unambiguous and attractive brand image for the buyers is extremely important to succeed on the market, therefore throughout the year the brands are supported by various actions and activities on the Internet, social media and with the help of influencer marketing. A great emphasis is put on data analysis and KPI performance. The efficiency of marketing activities is checked in two ways. We conduct regular research on brand indicators, image research and competition analysis.

We strive to ensure that marketing messages conveyed by us are in line with the highest market and ethical standards. No case of violation of the Advertising Code of Ethics occurred in 2018 in our marketing activities.

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 Group companies. Thanks to the applicable procedures at our company, our customers can be certain that their data is completely safe.

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 those plans will take place in 2018-2019.

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. We wish to maintain a dialog with the communities of our Companies, and therefore engage into actions which are important for their inhabitants. We also perceive local community as a determinant of actions undertaken at the scale of the entire country; our initiatives are addressed, among others, 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

“Children’s world in colours”

Thanks to the "Children's world in colours" program carried out by the Company since 2005, paediatric wards throughout the country are transformed into colourful and friendly premises. Till the end of 2018 we renovated artistically 29 paediatric wards located in hospital throughout the country. Decorating the walls with fabulous motifs is always preceded by proper preparation and painting of all surfaces. In the reported period, the following facilities underwent a comprehensive renovation:

- **Independent Public Health Care Centre in Maków Mazowiecki**

The Children's ward at the hospital in Maków is the 28th point on the map of the Śnieżka's original program. Its rooms and corridors were decorated with colourful drawings, including motifs of a colourful meadow with an emphasis of red poppies, referring to the name of the city. On 16 October 2018, an official opening of the ward was held, which was accompanied by representatives of the hospital, Śnieżka, local government authorities and regional and local media. The renovation works lasted two months, and the interior restoration covered an area of about 890 m².

- **Blessed Virgin Mary Provincial Specialist Hospital in Częstochowa**

Impressive castles and fortresses located in the midst of picturesque hills covered with forests and characteristic limestone outliers are the landscape of the Krakow-Częstochowa Upland, where the famous Trail of the Eagles's Nests was made. It was the motifs that decorated the walls of the renovated paediatric ward with Children's Hematology and Nephrology Sub-ward of the hospital in Częstochowa. The drawings were designed and made by the artist Joanna Jeleniewska who has been collaborating with Śnieżka for years. The renovation works, lasting a month, began in November 2018 and covered an area of 1440 m².

“The colourful world of childhood”

„The colourful world of childhood” is the equivalent of the "Children's world in colours" program, implemented by the subsidiary Śnieżka-Ukraina since 2012. Similarly to the Polish edition of the program, the actions in Ukraine are also intended to restore and decorate hospital interiors. In 2018 the Ukrainian program covered one facility:

- **Lviv Regional Infectious Diseases Hospital**

On 30 October 2018 a ceremonial opening of the restored children's ward in Lviv was held. This time Śnieżka-Ukraina engaged a couple of Ukrainian artists, Oresta and Natalia Mańko, who with the help of a brush conjured up charming fairy-tale characters on the walls. During the presentation of the ward there were lots of attractions, children's smiles and good fun.

„Koloratorium”

"Koloratorium" is a new social program of FFiL Śnieżka SA, whose original edition was held from May 18 to June 22, 2018 in the Podkarpackie Province. The program is a combination of Śnieżka's many years of experience in creating social campaigns with knowledge in the field of chemistry, which is the basis for the production of our company's products. The idea of the program is to provide young people with the best conditions to acquire knowledge in the field of biology and chemistry. Its assumptions are based on the belief that in every child lies a potential of a small discoverer, and doing experiments is a great fun, which with a pinch of some creativity can have a practical dimension. The program is addressed to primary schools from towns up to 20,000 residents. Thanks to the competition formula, students and teachers are fighting for professional equipment of biological and chemical laboratories and products for their restoration. The rivalry takes place through a web platform designed for the needs of the program, which is also a spot for exchanging knowledge, and the educational materials posted on it is an inspiration for both teachers and students.

During the original edition, three educational institutions from Podkarpacie province, which engaged the largest number of students and performed the most interesting competition entries, won the prizes.

- The winner of the program in 2018 was Primary School in Kosienice. Competition entry called: "Śnieżka - colourful classroom" won the main prize, i.e. professional equipment of the biological and chemical classroom, whose value amounted to PLN 30 thousand, and Śnieżka's products for its restoration.
- The next place was taken by Primary School in Manasterz. The prize for the second place on the podium was equipment for the classroom in the total value of PLN 15 thousand and whose value amounted to PLN 15 thousand, and Śnieżka's products for its restoration. The students called its entry: "....From a kid Sue to engineer Susan".
- Primary School no.1 in Rudnika was placed 3rd for the film titled: "Our colourful classroom". The prize for the "bronze" medal was equipment for the classroom in the total value of PLN 10 thousand and Śnieżka's products for its restoration.

Participants could also win other prizes in individual competitions for students, such as: tablets or Company's gadgets.

The nationwide edition of the "Koloratorium" was initiated in November 2018. The results will be announced in May 2019. 105 schools from small towns and villages are competing for professional equipment for mini laboratories and over 4000 pupils for individual prizes all over the country. The total value of all prizes in the program accounts for PLN 250 thousand gross.



3.3.5.2 Initiatives co-organized and supported by FFIL Śnieżka SA

„Śnieżka Cup”

The Śnieżka Cup is a tournament for young children interested in football organized by FFIL Śnieżka SA jointly with the Igloopol football club from Dębica. The summer edition of the competition took place on June 16-17, 2018, at the LKS Igloopol stadium in Dębica. Over 1000 players born between 2007 and 2012 from the following provinces: Małopolska, Podkarpacie, Lublin, Świętokrzyskie and Silesia participated in the football competitions. In turn, in winter competitions (held in December 2018) teams from the following towns and cities took part: Krosno, Radomyśl, Tarnów, Mielec, Jasło, Pustków, Dębica, Ropczyce, Pilzno or Przecław. This time, the tournament held at 3 December weekends gathered over 500 contestants. 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 and are a great opportunity to test children's skills.

“Safe road to school”

On September 7, 2018, the seventh edition of the "Safe Road to School" campaign took place, whose aim is to promote the principles of safe road behaviour among the first years from Dębica. A special educational program was developed for the first years, showing in an understandable way, how to consciously and responsibly avoid hazards on the road. Śnieżka also arranged attractions for the youngest - creative boards, covered with Magnat magnetic blackboard paint, which could become a space for children's creativity. On 26 boards, road signs appeared painted with chalk and laid out by children from magnetic jigsaw puzzles. Additionally, our company sponsored backpacks with reflective elements for 542 school beginners.

“Summer Cinema”

For the third year in a row, the Municipal Cultural Centre in Dębica, with the support of our company, organized free summer screenings “under a cloud”. Friday's showings gathered hundreds of moviegoers, who could not only watch interesting films, but also take part in contests with prizes organized by Śnieżka. The participants, in response to "colourful" questions, fought for holiday renovation products. Warm evenings, comfortable deckchairs and interesting movies in a unique atmosphere - this is how the film screenings organized in July and August at the band shell in ul. Brzegowa in Dębica with the support of FFIL Śnieżka SA looked like.

“Great Orchestra of Christmas Charity” (WOŚP)

Śnieżka has supported the WOŚP for many years. On 14 January 2018 under the slogan: “Equal opportunities in the treatment of new-borns”, the 26th final of WOŚP was held. Our company donated the charity in total PLN 60 thousand.

Practical and Training Centre Śnieżka-Ukraina

Śnieżka-Ukraine for four years, in cooperation with vocational education centres, opens practical and training centres in the field of construction (CSP). CSP, through their educational programs, teach practical application of modern materials produced by the Śnieżka Group. Cooperation is continued within the framework of public-private partnership and enables entrepreneurs to share their experience with students. This in turn ensures a high level of training of qualified employees on the Ukrainian market. They can acquire knowledge and skills in the areas like: painter, carpenter, fitter of thermal insulation systems. In 2018, a professional CSP was opened at Higher Vocational School No. 2 in Kherson.



3.3.5.3 "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 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, which amounted to PLN 543 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 2018, 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 300 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 edition of the program in the 2018-2019 school year, 650 pupils from 22 schools from Dębica and neighbouring areas took part.

- **Grant program**

In 2018, the Foundation continued its grant program for the beneficiaries accepted for the program in the previous years. The fact that no new applications were collected in the reporting period was caused by the planned change to the grant program's assumptions for the next years and concept work in this area. The announcement of a new grant program for gifted youth is scheduled for 2019.

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 500 persons.

The amounts of cash acquired and expended by Śnieżka's Foundation in 2018 are presented in the tables below.

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Table 32 Cash acquired by the Foundation in 2018 [PLN]

Donations from the sponsor FFiL Śnieżka S.A.	543,000.00
Donations from other legal entities	45,093.06
Donations from natural persons	175,497.64
1% of tax	498,096.27

Table 33 Cash earmarked by the Foundation to achieve major statutory objectives in 2018 [PLN]

Aid to schools, kindergartens, educational and cultural institutions	62,038.70
Assistance in physical education, including aid to sports clubs	19,206.74
Aid to the ill and the disabled	615,437.87
Assistance in children's development	173,098.34
Charitable activity, including aid to charities	70,776.14
Scholarships	26,688.00

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

3.4.1 Description of significant risks associated with the Śnieżka 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 the "Terms and conditions of cooperation with vendors based on the policies of the Śnieżka Group" in 2018. Further information regarding this subject is presented in item 3.1.11 of the report.

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 2019.

Risks associated with the areas covered by the Policies:

Employee issues

Risk associated with demographic changes

In view of the deepening unfavorable demographic changes in the Polish society, the enterprises face the challenges connected with acquisition and maintenance of appropriate employees. This problem will become even more serious in the years to come because of the long-term demographic decline. That is why the Śnieżka Group performed an internal diagnosis which led to the formulation of the Employer Branding strategy that defines the directions of development of the Śnieżka's employer brand.

Risk connected with limited availability of staff and talent attraction and maintenance

The Śnieżka Group faces the challenge related with the adjustment of the rapidly changing business environment and qualifications, managing talents and skills of its current and prospective employees. A highly qualified personnel is very important for the Śnieżka Group. In connection with the location of the facilities, there is a risk of a limited availability of staff required to fill specific positions, in particular in the case of highly qualified staff. Wishing to ensure the best alignment of its employees and talent needs, the Śnieżka Group has taken actions aimed at strengthening the value offer for its employees, at efficient evaluation of the employees' performance as well as implementation of development programs and training.

Risk associated with average age of employees employed in production

The Śnieżka Group is aware of the risk of the increasing average age of the production employees. Many of them may retire within the next several years. In view of the challenges related with the market supply of employees, it may be quite complicated to close the human resources gap. The guidelines for the mitigation of this risk are included in the newly developed policy on human resources management.

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

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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 Śnieżka Group has started planning works in order 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

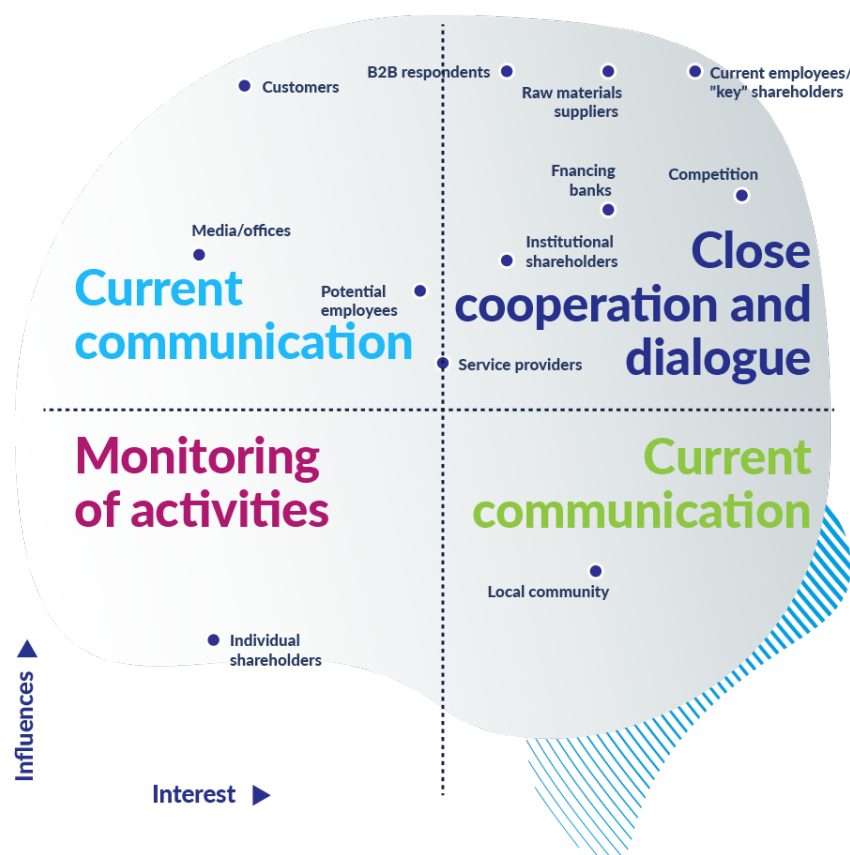
There is a potential risk of occurrence of events which may be understood as discrimination and/or harassment. The Group has developed and implemented an anti-harassment procedure so as to prevent this risk. There is also an anti-harassment commission operating at FFIL Śnieżka SA, and employee training 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.

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Figure 21 Stakeholder map



3.4.3 Description of relationship management with respect to specific stakeholder groups

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							
Cooperate closely	Meetings	Satisfaction surveys	Training	Social Media	Industry conferences and events	Website	Internal communication	Phone/e-mail contacts
Current employees	x	x	x	x		x	x	x
	x				x	x		x

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Strategic shareholders								
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
Monitor								
Individual shareholders	x					x		x
Inform								
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)

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- **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.

In addition, the Group identified risk factors affecting non-financial issues. They are described in item 3.4.1 of the report called: "Managing risks related to the activity of the Group that affect non-financial issues".

4.1 Risk associated with macroeconomic situation

The macroeconomic risk related to the economic situation in Poland, as well as on other markets where individual companies of the Group operate, plays a significant role in the operations of the Śnieżka Group.

This risk is primarily associated with:

- Lowering the purchasing power of society as a result of economic slowdown or recession.

A possible decrease in consumption and a deterioration in public sentiment may lead to a reduction in demand for flats - both on the primary and secondary market - as well as expenditure on renovations and modernization of flats, which mainly determine the demand for decorative paints. This risk may occur in particular on eastern markets. In Ukraine, it may be caused by: lack of reforms (which may limit the assistance of the IMF and the European Union), inflaming conflicts in the east of the country and change in economic policy after the elections in 2019. 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

Unsatisfactory financial results of construction companies, limiting development of production capacity, and the lack of workforce may prevent the construction sector from meeting the growing investment needs, which will adversely affect the demand for decorative products.

- The condition and credit policy of banks.

A possible tightening of lending policy by banks, including an increase in interest rates on loans, may have a negative impact on the demand for apartments and the scale of renovations 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, undercoat type etc.);
- 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

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.

These failures can also have an adverse impact on the natural environment. In order to limit this type of risk, the Group conducts constant modernization and maintenance in its production facilities. It also holds a property insurance policy against all risks, including the impact of natural disasters.

Essential insurance agreements are presented in item 1.7.2 of the report.

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

The paints and varnishes industry is strongly dependent on the prices of titanium white (TiO₂). Almost half of the production capacity of TiO₂ 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 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 the share of the Group's products at individual distribution levels - resulting primarily from competition activities.

The Group strives to minimize this risk by implementing a multi-channel sales strategy that contributes to the growth of sales of the Group's products.

- The risk associated with surplus stocks.

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 expanding its production lines and building new ones. By 2021, the Company is also planning to complete the erection of a modern logistics centre.

4.4 The risk associated with competition

The activities carried out by individual companies of the Śnieżka Group are exposed to fierce competition. The domestic market of paints and varnishes is infested with large renowned international companies and on the other hand there is a strong price competition triggered by small and local entities. 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 2018, there were no significant changes in the scope of the power distribution among paints and varnishes producers on the Polish market.

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. For example, in the case of the Belarusian market, the risk factor is expanding producers of construction materials from Russia (e.g. Bergauf).

The Group monitors the activities of other entities on all key markets. The Group companies try to limit the risk related to the company's competition activities through appropriate advertising activities and actions directly 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.

Ecological activities in the Company are carried out in accordance with the applicable legal requirements and procedures and instructions specified in the Integrated Management System (IMS), which includes: quality management system according to PN-EN ISO 9001 and environmental management system PN-EN ISO 14001.

4.6 Financial risk

Currency risk

In its activity, the Śnieżka Group is exposed to the risk of fluctuating exchange rates. The Group imports raw materials, paying in Euro, used for the production of paints and varnishes. The products are mainly exported to Eastern European countries (including Ukraine and Belarus, Moldova and Georgia), in which settlements are carried out primarily in US dollars. Therefore, the Group is exposed to the risk resulting from fluctuating exchange rates of EUR/USD and the relation of both currencies to the zloty. The most favourable scenario for the Group is the lowest EUR/USD rate, which reduces the purchase costs of raw materials and maximizes export revenues.

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.

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In 2018, FFIL Śnieżka SA purchased forward contracts, which served as cash flows hedges resulting from purchases of raw materials in euro.

The list of forward transactions concluded in 2018 was provided in note 39 to the consolidated financial statements for 2018.

The Group may apply as hedging instruments only contracts concluded with the external party (they cannot be issued by a Group entity). At the same time, hedging derivatives are concluded for a period not longer than one year, i.e. maximum for a period corresponding to the purchase plan of raw materials.

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, 2018, the Group's total liabilities on loans and borrowings and financial leasing amounted to PLN 65,514 thousand. The increase in official interest rates (WIBOR, EURIBOR, LIBOR, BUBOR) may contribute to a risk of increasing the Group's financing costs.

In 2018, 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 2018, 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 2018 and after the end of the financial year, FFIL Śnieżka SA signed loan agreements with several banks to finance the acquisition of 80% of 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 with the banks in 2018 and in 2019 are described respectively in items 1.7.2 and 1.7.3 of the report. Other credit agreements with the banks are presented in item 1.7.4 of the report.

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 provide information security, regularly backs up key data, and has extensive anti-virus and phishing protection.

In 2018, preparations were made to implement a new IT software in the Company, which will not only improve its operational activities, but also contribute to the improvement of IT operations security.

In addition, since 2018 - as part of the internal program to build awareness of cyber security - works have been 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

Highly qualified and experienced staff is an important asset of the companies comprising the Śnieżka Group. In particular, the Group recognizes the risk related to the increase in the average age of employees employed in the production area. Within a few years, a significant part of these employees will reach the retirement age, which may result in the end of their work.

In order to ensure continuity and fluency of work in companies belonging to the Group, a personnel policy is implemented, which is based on relevant plans, programs and tools used in HR processes. They include, inter alia, evaluation of staffing needs and annual employment planning, defining training needs and formulating the annual training plan, adjusting the on-going training and development projects to the needs of the specific areas, a non-wage compensation program as well as incentive systems, pay raises and promotions.

4.9 Legal risk

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

Ukraine

Apart from macroeconomic risk, the risk of the Ukrainian hryvnia devaluation is a significant threat. The risk factors also include a possibility of a further deterioration of the geopolitical situation in the east of Ukraine, which in previous years did not favour economic development and destabilized the Group's operations on this market.

Conducting business activities in Ukraine hampers and poses additional risks of a high level of corruption not occurring in Poland. The adoption of law on the anti-corruption court in June 2017 is a milestone to fight this phenomenon and create a safe and stable environment for companies operating on this market.

Belarus

Despite the favourable economic outlook, there is a uncertain political situation in the region, including Russia, which Belarus has particularly strong trade relationships.

The situation of the entire Śnieżka Group is also undoubtedly affected by measures to protect the domestic construction chemicals market in Belarus (customs, permits, certificates). One of the manifestations of this protection is the need to conduct costly certification of imported goods and increase the customs value for entrepreneurs importing goods into the Customs Union.

Also the expansion of the Customs Union zone and the related expansion of Russian producers of construction materials onto the Belarusian market contribute to important risk factors on this market.

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.

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 2018 the Company withdrew from applying or applied partially the following principles/ recommendations:

Principle/Recommendation	FFiL Śnieżka SA's comment
I. Disclosure policy, investor communications	
I.Z.1. 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:	
I.Z.1.3. 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 accordance with the adopted Regulations of the Management Board, the whole Management Board is jointly and severally liable for all areas of the Company's operations and performance of obligations resulting from the provisions of commercial law and the articles of association.
I.Z.1.10. 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;	Not applicable. The Company does not publish any financial projections.
I.Z.1.15. 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	The Company does not apply the above mentioned principle. The Management Board of FFiL Śnieżka SA hereby reports that the Company has not developed and does not apply any diversity policy to the company's governing bodies and key managers but the Group's 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

should publish the explanation of its decision on its website;	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 Company does not apply this principle due to the waiver of rule IV.Z.2.
I.Z.1.20. an audio or video recording of a general meeting,	The Company does not apply the above mentioned principle. In the Company's opinion, 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. Due to the Management Board's waiver of the rule providing for participation of shareholders in Shareholder Meetings by means of electronic communication, no audio or video recordings of Shareholder Meetings will 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 Company does not apply the above mentioned principle. The Management Board of FFIL Śnieżka SA hereby reports that the Company does not comply with rule 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 Company does not apply the above mentioned principle.

The Company does not have any separate internal audit unit and does not have any separate position for a person managing such a unit.

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 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 and the Audit Committee with the assessment of the effectiveness of the systems and functions in this area - without 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;

exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

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.

Not applicable.

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.

The Company does not apply the above mentioned principle. In the Company's opinion 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.

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 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 Company does not apply the above mentioned principle. 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.

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 management board and key managers to the actual long-term financial standing of the company

Not applicable.

The Company does not have any incentive schemes.

and long- term shareholder value creation as well as the company's stability.

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.

Not applicable.

The Company has not adopted any incentive schemes based on options or other instruments linked to the Company's shares.

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 Company does not apply the above mentioned principle.

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.

5.2 Description of the primary features of the internal control and risk management systems with reference to 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 Corporate Governance Department.

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

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.

In 2018 no amendments were made to FFIL Śnieżka SA's Articles of Association.

Pursuant to the Articles of Association, governing bodies of the Company are:

- Shareholder Meeting,
- Supervisory Board,
- Management Board.

5.4 Shareholder Meeting

The competences of FFIL Śnieżka SA's Shareholder Meeting are set out in § 10 item 1 of the Articles of Association.

The competences of the Shareholder 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.

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In addition, pursuant to § 10 item 2 of the Articles of Association, the consent of the shareholder meeting for the purchase or sale of real estate is not required.

Pursuant to the Articles of Association, shareholder 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 Shareholder 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 Shareholder Meeting, available on the Company's website at: 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 shareholder meeting for a joint three-year term. The number of members of the supervisory board is determined by the shareholder meeting. Members of the supervisory board are elected by the shareholder 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.

At the first meeting, its members elect from among members of the supervisory board, who owns series A preferred registered shares, the chairman on a rotating basis in the alphabetical order of the surnames. The vice-chairman and the secretary are elected from among other members.

The members of the supervisory board of the Company are elected for three-year term of office.

Current composition of the Supervisory Board

As at 31 December 2017 the Supervisory Board was composed of the following:

- Stanisław Cymbor - Chairman
- Jerzy Pater - Vice-Chairman
- Stanisław Mikrut- Secretary
- Zbigniew Łapiński - Member
- Dariusz Orłowski - Member
- Jarosław Wojdyła - Member

On 8 March 2018, Mr. Stanisław Mikrut passed away, who was a member of the Supervisory Board of the Company and served as Secretary. Mr. Stanisław Mikrut was a member of the Supervisory Board from January 1998.

On 25 May 2018, due to the elapse of the three-term of office of the Members of the Supervisory Board of the Company, the Ordinary General Meeting of FFIL Śnieżka SA appointed the Supervisory Board in the following composition:

- Stanisław Cymbor,
- Jerzy Pater,
- Rafał Mikrut,

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- Zbigniew Łapiński,
- Dariusz Orłowski,
- Jarosław Wojdyła.

Mr. Dariusz Orłowski and Mr. Jarosław Wojdyła stated that they meet the independence criteria set out in Annex II to *European Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive directors or supervisory board members of listed companies and supervisory board committees and in Good Practices of Companies Listed on the Warsaw Stock Exchange 2016*. In view of the submitted declarations, the Supervisory Board assessed that the above-mentioned Members of the Supervisory Board comply with the independence criteria.

At its first meeting, held on 25 May 2018, the Supervisory Board of the Company was constituted and as at 31 December 2018 and as at the date of publication of the Report, it was composed of:

- Stanisław Cymbor - Chairman
- Jerzy Pater - Vice-Chairman
- Jarosław Wojdyła - Secretary
- Zbigniew Łapiński - Member
- Rafał Mikrut - Member
- Dariusz Orłowski - Member

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 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 company, 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

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Table 35 Remuneration of Members of the Supervisory Board of FFiL Śnieżka SA in 2018

	Remuneration and bonuses 2018	Income earned in subsidiaries 2018	Remuneration and bonuses 2017	Income earned in subsidiaries 2017
Stanisław Cymbor	284.4	-	264.2	-
Zbigniew Łapiński	113.7	-	103.7	-
Stanisław Mikrut	52.9	-	264.2	-
Rafał Mikrut	68.6	-	-	-
Dariusz Orłowski	113.7	-	105.7	-
Jerzy Pater	284.4	-	264.2	-
Jarosław Wojdyła	113.7	-	-	-
Total	1,031.4	-	1,002.0	-

As at 31 December 2018, supervisory bodies did not have any debts due to loans granted by the Company. In addition, in 2018, 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.

As at 31 December 2018 the Audit Committee was composed of the following:

- Jarosław Wojdyła - Chairman
- Dariusz Orłowski - Member
- Stanisław Cymbor - Member

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

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auditors, auditing companies 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 2018 four 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 2018 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,



The Management Board in the above composition was appointed for the seventh term of office on June 5, 2015. 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

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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 Shareholder Meeting; presentation of explanations and preparation of reports at the request of the Supervisory Board and the Shareholders present at the Shareholder 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: HR Management Department, Corporate Governance Department, the Management Board Office, Research and Development Department, Quality Assurance Department, Production Department, Purchasing Department, Technical and Investments Department and Digital Transformation 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, IT, finance, and recovery of receivables;
- **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 2018

	Remuneration and bonuses 2018	Income earned in subsidiaries 2018	Remuneration and bonuses 2017	Income earned in subsidiaries 2017
Piotr Mikrut	1,070.3	-	722.5	-
Witold Waśko	1,054.0	81.2	743.5	81.2
Joanna Wróbel-Lipa	1,054.0	81.2	737.8	79.8
Total	3,178.3	162.4	2,203.8	161.0

As at 31 December 2018, 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

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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 2018, 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 2018, FFIL Śnieżka SA's share capital was comprised of 12,617,778 shares of nominal value of PLN 1.00 each.

In 2018 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

Registered shares of series A and B are preferential for vote so that one share corresponds to 5 votes at the shareholder meeting.

In addition, according to the Articles of Association, series A shares entitle to appoint a member of the supervisory board in a manner that every 25,000 shares entitle to appoint one member of the supervisory board.

On March 29, 2019, the holders of series A and B shares were:

Holders of series A shares	The number of shares held (items)
Stanisław Cymbor	33,334
Jerzy Pater	33,333
Piotr Mikrut	16,667
Rafał Mikrut	16,667

Holders of series B shares	The number of shares held (items)
Stanisław Cymbor	133,333
Jerzy Pater	133,334
Piotr Mikrut	133,333

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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 shareholder 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 2018.

Company's shares held by managing and supervising persons

As at 29 March 2019, 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 Waśko	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

On 8 March 2018, Mr. Stanisław Mikrut passed away, who was a Member of the Supervisory Board and held 33,333 shares of the Company. Series A shares previously owned by Mr. Stanisław Mikrut were taken over by Mr. Piotr Mikrut and Mr. Rafał Mikrut, in the number of shares 16,667 and 16 666 accordingly.

In the period from the date of publication of the last periodical report (for III quarter of 2018), i.e. on 5 November 2018, 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 Shareholder Meeting of the Company were the following persons and entities:

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	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 BZ WBK	1,461,000	11.58	1,461,000	9.99
Virtus KAR International Small CUP Fund	784,186	6.21	784,186	5.36

* Jerzy Pater holds the Company's shares indirectly by PPHU Elżbieta i Jerzy Pater Sp. z o.o. (PPHU Elżbieta i Jerzy Pater Sp. z o.o. holds 2,375,000 shares, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

** Stanisław Cymbor holds the Company's shares indirectly by PPHU Iwona i Stanisław Cymbor Sp. z o.o. (PPHU Iwona i Stanisław Cymbor Sp. z o.o. holds 2,375,000 shares, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

In the period from the date of publication the report for III quarter of 2018, i.e. on 5 November 2018, 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 22 Shareholding structure at FFIL Śnieżka SA – share in the share capital – as at 29.03.2019 (in %)

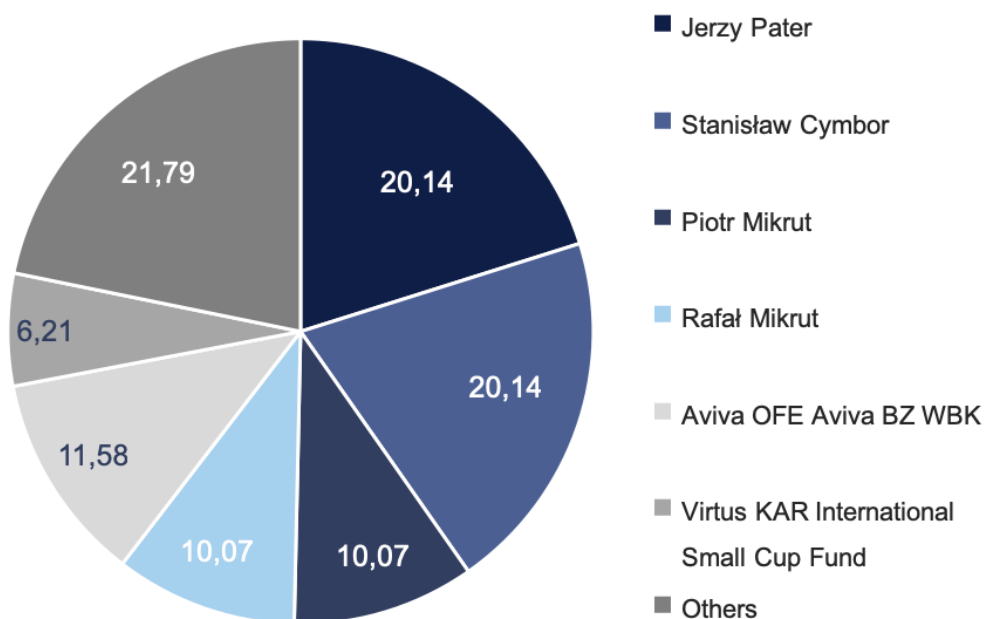
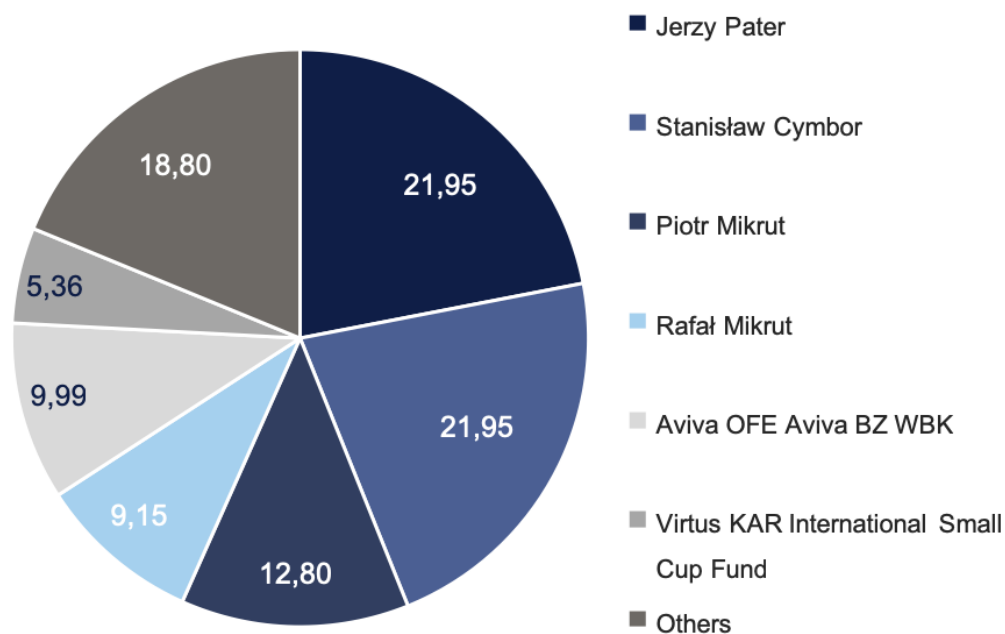


Figure 23 Shareholding structure at FFIL Śnieżka SA – share in the total number of votes at GMS– as at 29.03.2019 (in %)



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.

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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.

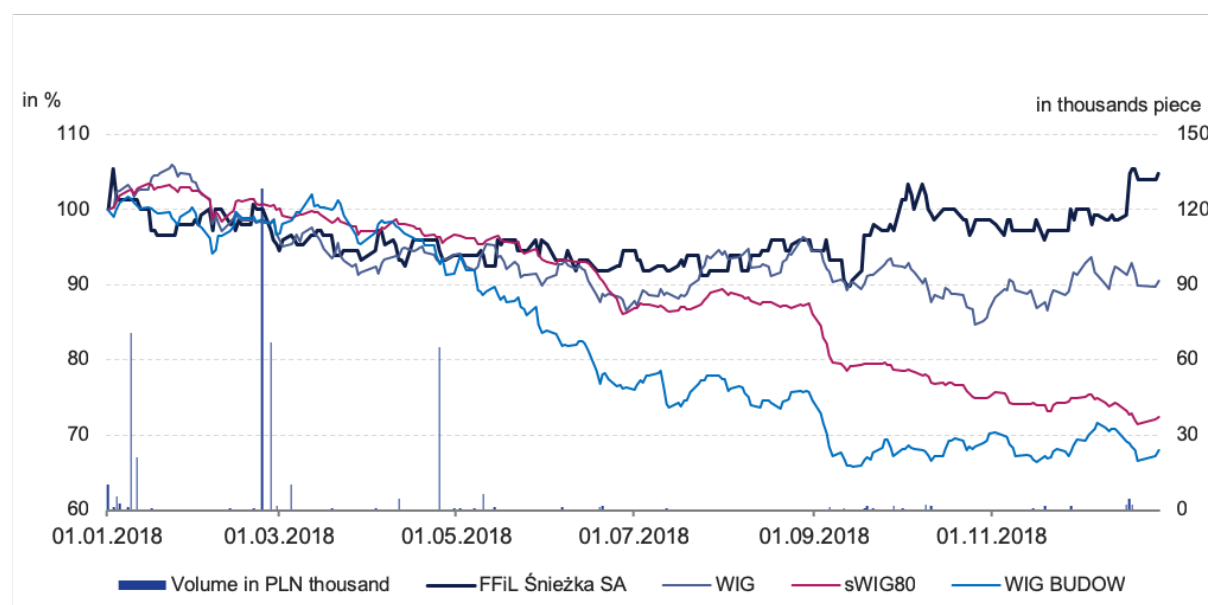
In 2018, the price of FFIL Śnieżka SA shares increased by 4.7%. For comparison, during this period the sub-index value for the construction sector (WIG-BUDOW) decreased by 32.1%, and the main WIG index by 9.5%.

In the past year, the share price of FFIL Śnieżka SA at the WSE at the closing session ranged from from PLN 66.5 (recorded on September 12-13) to PLN 78.00 (on January 19-20).

On 31 December 2018, the market value of FFIL Śnieżka SA increased to PLN 977,9 million (from PLN 933.7 million at the end of 2017), and the book value attributable to the shareholders of the parent company amounted to PLN 269.3 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 3.7 (-0.5 y/y), and P/E (price-to-earnings ratio per ordinary share attributable to shareholders of the parent company) was at the level of 15.9 (-0.8 y/y).

Figure 24 FFIL Śnieżka SA's listings at WSE in 2018 (01.01.2018 = 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 2018 the Company:

- It organized meetings on a regular basis for professional participants of the capital market. Following publication of subsequent periodic reports (for fourth quarter of 2017, the first quarter of 2018, the first half of 2018 and the third quarter of 2018), twelve meetings for capital market participants as well as four conferences for media representatives were held;
- It prepared for its stakeholders an annual interactive report entitled the strength of the interior and the abbreviated Annual Report 2017 - available at: <http://raportroczny2017.sniezka.pl> In the report, the Company transparently summarized the activities of the entire Group in 2017 (also in the non-financial area). The FFIL Śnieżka SA's report was awarded by the journalistic jury for the best debut in the 12th edition of the Social Reports Competition;

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- It reconstructed periodical reports (quarterly, semi-annual), taking into account the best practices in the scope of the structure of disclosures, the scope of information and data and the presentation aspect of these documents. In 2019, in accordance with these practices, it also rebuilt the annual report.
- It used FFIL Śnieżka SA's profile on Twitter (<https://twitter.com/SniezkaSA>), posting interesting information for investors, inter alia.

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 Company holds approx. 0.5% share in this index. 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 2018, FFIL Śnieżka SA continued the distribution of dividends. On May 25, 2018, the Ordinary General Meeting adopted a resolution regarding the dividend distribution from the 2017 profit in the amount of PLN 2.20 per share, i.e. in the total amount of up to PLN 27,759 thousand. The dividend date was established to June 12, 2018, and the dividend payment was carried out on June 26, 2018.

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 criterion for appointments to administrative, managerial and supervisory positions in the Company is competence, experience and fulfilment of requirements for a given position. Characteristics such as gender or age do not affect the evaluation of candidates.

At the same time, the diversity policy covering all employees of the Group is implemented in the Śnieżka Group. The policy is understood as the actions aimed at:

- preventing any discrimination based on: 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);
- establishing the diversity management through the development of strategies, policies and programs which shape the work environment in which every employee may feel appreciated, which ultimately contributes to the success of the entire Śnieżka Group.

Further information regarding the diversity policy within the Group is presented in item 3.2.3 of the report.

5.10 Auditing company

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 the entity PricewaterhouseCoopers Sp. o.o. with its seat in Warsaw to conduct the audit and statutory

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review of the separate financial statements of Fabryka Farb i Lakierów Śnieżka SA and the consolidated financial statements of the Śnieżka Capital Group for 2018 and 2019.

The Company concluded an agreement with PricewaterhouseCoopers Sp. o.o. on June 22, 2018.

Subject of the agreement

The subject of the above agreement with PricewaterhouseCoopers Sp. z o.o. 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 Sp. z o.o. was entered by the National Council of Statutory Auditors on the list of auditing companies under no. 144.

The aforementioned auditing company 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 companies and the key statutory auditor and mandatory grace periods.

The Company has already taken advantage of the PricewaterhouseCoopers Sp. z o.o.'s services regarding audit and review of financial statements for 2016 and 2017.

Auditing company's remuneration

The auditing company's remuneration, PricewaterhouseCoopers Sp. z o.o., 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, 2018 amounts in total PLN 147 thousand:

- PLN 107 thousand for auditing annual financial statements,
- PLN 40 thousand for reviewing interim financial statements.

The above mentioned prices are net. In addition, PricewaterhouseCoopers Sp. z o.o. will be reimbursed direct costs such as travel, accommodation, etc. up to a maximum of 10,000 PLN net. In view of the additional regulations introduced regarding statutory audits of financial statements of public-interest entities, the remuneration will be increased by 5% fee for audit activities i.e. the amount of PLN 7.4 thousand.

The remuneration for the audit and review of financial statements for 2017 amounted to PLN 133 thousand.

VAT tax was added to the above price at the applicable rate. In addition, PricewaterhouseCoopers Sp. z o.o. was reimbursed direct costs such as travel, accommodation, etc. up to a maximum of 10,000 PLN 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 2.75 thousand.

Neither did the Company conclude with PricewaterhouseCoopers Sp. z o. o. other agreements, nor did it pay remuneration for auditors other than mentioned above.

Policy on selecting an auditing company

FFiL Śnieżka SA has a policy on selecting an auditing company and a policy on providing additional non-audit services by an auditing company.

Selection of an auditing company is carried out in accordance with the "Policy on selecting an auditing company 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 company" prepared by the Audit Committee and adopted by a resolution of March 26, 2018.

The policy on selecting an auditing company 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 company and the statutory auditor;
- previous experience of the auditing company 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 company (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 company;
- professional qualifications and experience of persons directly involved in audit activities;
- the price proposed by an auditing company;
- time of conducting the audit and review of the financial statements;
- the maximum period of uninterrupted audit carried out by the same auditing company and the key statutory auditor or auditing company associated with the auditing company or any member of the network operating in the European Union countries which these auditing companies 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 company, 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 companies, 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 companies together with the justified preference of the audit committee for one of the presented entities. The final decision regarding the selection of an auditing company 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 company are set out in the "Policy of providing by an audit company conducting audits and reviews of financial statements by entities related to this auditing

the Management' report on the activities for 2018;

Data in PLN thousand



company and by a member of the auditing company network of permitted non-audit services" adopted by the resolution of the Audit Committee of March 26, 2018.

Since 2018 in FFIL Śnieżka SA has been in force "Policy of providing by an audit company conducting audits and reviews of financial statements by entities related to this auditing company and by a member of the auditing company network of permitted non-audit services" adopted by the resolution of the Audit Committee of March 26, 2018. The core assumption of this document is to minimize the risk that a statutory auditor or an auditing company 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 companies 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 company 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 company.

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A GLOSSARY OF TERMS

Wood stain and varnish - an agent for colouring wood which penetrates its structure and permanently stains its surface. It preserves the visible grain pattern and allows to level the substrate colour or mask the differences between shades.

Titanium dioxide (white) (TiO_2) - the most widespread, and at the same time one of the most expensive, white inorganic pigment. The core raw material used for the production of paints featuring high coverage efficiency. First of all it is characterized by refractive index, and thus the greatest ability to scatter it. Titanium white is obtained by the sulfate (older) or chloride (latest) method - the latter allows to obtain titanium white of better quality, used in the production of high quality paints. Companies comprising the Śnieżka Group mainly use titanium white for production.

Construction chemicals - a group of products used in construction industry as construction, insulation or finishing materials. It includes: products based on mineral and/or organic binders (produced in the form of dry mixes intended for use after mixing with water, or ready-to-use products) and coating materials (paints, varnishes, preservatives, primers, etc.).

DIY - "Do It Yourself" - the definition of an idea related to independent, non-commercial performance, usually for one's own needs, of various works without the help of professionals, often as part of a hobby.

The abbreviation "DIY" is 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 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 the 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 dying 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 - aims at ensuring better protection of the environment and human health against hazardous chemical substances, while increasing the competitiveness of the EU chemicals sector. Its name stands for: *Commission Regulation 453/2010 /EC of 20 May 2010 amending Regulation (EC) No 1907/2006 of the European Parliament and of the Council on the Registration, Evaluation, Authorization of Chemicals (REACH)*.

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 - 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 29 March 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 declares that, to the best of its knowledge, the consolidated financial statements of the Śnieżka Group for 2018 and the financial statements of FFIL Śnieżka SA for 2018, 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 company

(pursuant to the requirements of § 70 section 1 item 7 and § 71 section 1 of the Regulation of the Minister of Finance of 29 March 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 2018 in accordance with applicable law, including the selection of an auditing company and taking into account internal regulations of FFIL Śnieżka SA in this respect.

In addition, the Management Board of the Company informs that:

- auditing company PricewaterhouseCoopers Sp. z o.o. 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 2018 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 companies and the key statutory auditor and mandatory grace periods;
- FFIL Śnieżka SA has a policy on selecting an auditing company and a policy on providing additional non-audit services by an auditing company, related entity to the auditing company or a member of its network, including services conditionally exempted from the prohibition by the auditing company.



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 29 March 2019