

MANAGEMENT'S REPORT ON THE ACTIVITIES for 2023

26 march 2024



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1. KEY EVENTS - TIMETABLE

The most important events and agreements concluded in 2023:

- March 20, 2023 - recommendation of the Management Board regarding the amount of dividend for 2022 in the amount of PLN 1.45 per share, i.e. in the total amount of PLN 18,296 thousand (report no. 4/2023 of March 30, 2023),
- March 31, 2023 - stepping down from the position of Member of the Supervisory Board submitted by Mrs. Ewa Hałucha (report No. 5/2023 of March 31, 2023),
- On April 27, 2023 - the Ordinary General Meeting was held, which:
 - approved the Management Board's report on the activities and the financial statements for 2022;
 - divided the net profit for 2022 in the amount of PLN 23,608 thousand by establishing dividend in the amount of PLN 2.00 per share, i.e. in the total amount of PLN 25,236 thousand. The difference between net profit for 2022 and the dividend amount, i.e.: PLN 1,627 thousand was covered from the Supplementary Capital, which was created from previous years' profits,
 - approved the Management Board's report on the activities of the Śnieżka Group and the Group's financial statements for 2022, granted a vote of approval to the Members of the Company's Bodies for the performance of their duties for 2022, appointed a new Member of the Supervisory Board, Mrs. Anna Sobocka, gave a positive opinion on the "Report on the remuneration of Members of the Management Board and the Supervisory Board of FFIL Śnieżka S.A." for 2022,
 - On April 27, 2023 - the Supervisory Board appointed the President and Members of the Management Board of Śnieżka for the next, 9th term of office: Mr. Piotr Mikrut as President of the Management Board, Mr. Witold Waśko as a Member of the Management Board, Mrs. Joanna Wróbel-Lipa as a Member of the Management Board, Mr. Zdzisław Czerwiec as a Member of the Management Board,
 - May 31, 2023 - dividend payment.

The most important events after the balance sheet date:

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

The most important agreements concluded by the Company in 2023 and after the balance sheet date have been described in detail in item 7.7 of the Report.

2. LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Shareholders,

The year 2023 was successful for us. Up against market challenges such as high inflation and interest rates, which resulted in weakened consumption, we demonstrated good preparation. The solid foundations built over the years turned out to be the key factor of our success. These include strong and valued brands by our customers and effective sales and marketing strategies, including pricing. We have consistently implemented changes in the prices of our products, responding to rising production costs as well as the persistently high costs of transportation and wages.

Also, it's impossible to underestimate the high degree of automation and digitization, including: in the field of logistics and production processes. The objective that we have successfully reached is achieving the margin levels from previous years.

The premiumization trend observed on the key Polish market has consistently been beneficial to our Group's performance, resulting in opting for higher quality products by our consumers, which is perfectly matched by, among others, offer of our Magnat and Vidaron brands.

In 2023, the Śnieżka Group generated sales revenues of PLN 857.8 million, which accounts for an 8.3% increase compared to the previous year. Sales growth was primarily driven by a 10% increase in turnover in our key Polish market, which generates 69% of our consolidated sales.

In Ukraine, we recorded a significant boost in revenues on a year-on-year basis, after a previous period of decline. Sales on this market amounted to PLN 88.4 million, which accounts for a 29.6% increase compared to 2022.

High inflation in Hungary, which reached 17.6% in 2023, resulted in a decline in consumers' purchasing power. Revenues from Hungary amounted to PLN 128.2 million and were 6.3% lower than the previous year.

Our commitment to developing sustainable products is constantly deepening. The ESG strategy constitutes an integral part of Śnieżka's operations, addressing the growing expectations of consumers and the need to protect the environment. In 2023, our efforts in this area were appreciated by EcoVadis, the leading global provider of ESG ratings, which awarded Śnieżka the EcoVadis Gold Medal, placing us in the top 5% of companies that passed the certification process.

Together with the publication of the annual report, we decided to present strategic objectives for the Śnieżka Group, of which our approach to sustainable development is a complementary part. Striving to achieve the adopted goals will contribute to increasing the financial value of our Group and strengthening its position on the market.

We believe that through joint efforts, commitment and focus on our strategic goals, we will continue to create added value for our shareholders, employees and the community in which we operate.

Thank you for your support and trust, which are an invaluable source of motivation for us to go on with working and developing.

Piotr Mikrut

President of the Management Board

3. SELECTED FINANCIAL INFORMATION

The Śnieżka Group – consolidated data

	in PLN '000		in EUR '000	
	the period of 12 months ended as at 31 December 2023	the period of 12 months ended as at 31 December 2022	the period of 12 months ended as at 31 December 2023	the period of 12 months ended as at 31 December 2022
I. Net revenues from sale of products, goods and materials	857 773	791 686	189 421	168 864
II. Profit from operating activities	121 004	69 421	26 721	14 807
III. Gross profit	101 014	53 013	22 307	11 308
IV. Net profit	83 481	41 272	18 435	8 803
- Net profit attributable to shareholders of the parent company	77 634	36 684	17 144	7 825
- Net profit attributable to non-controlling interests	5 847	4 588	1 291	979
V. Comprehensive income for the period	74 022	24 435	16 346	5 212
- Comprehensive income for the period attributable to shareholders of the parent company	68 505	22 922	15 128	4 889
- Comprehensive income for the period attributable to non-controlling interests	5 517	1 513	1 218	323
VI. Net cash flows from operating activities	148 194	98 169	32 725	20 939
VII. Net cash flows from investing activities	(29 126)	(47 467)	(6 432)	(10 125)
VIII. Net cash flows from financing activities	(71 208)	(43 770)	(15 725)	(9 336)
IX. Total net cash flows	47 860	6 932	10 569	1 479
X. Total assets	818 786	794 015	188 313	169 303
XI. Liabilities and provisions for liabilities	444 642	472 773	102 264	100 807
XII. Long-term liabilities	223 545	244 850	51 413	52 208
XIII. Short-term liabilities	221 097	227 923	50 850	48 599
XIV. Equity	374 144	321 242	86 050	68 497
- Equity attributable to the shareholders of the parent company	347 799	292 942	79 991	62 462
- Equities attributable to non-controlling interests	26 345	28 300	6 059	6 034
XV. Share capital	12 618	12 618	2 902	2 690
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	6.62	3.27	1.46	0.70
- Earnings per share attributable to shareholders of the parent company	6.15	2.91	1.36	0.62
XVIII. Diluted earnings per ordinary share in PLN/EUR	6.62	3.27	1.46	0.70
- Diluted earnings per ordinary share attributable to shareholders of the parent company	6.15	2.91	1.36	0.62
XIX. Carrying amount per share in PLN/EUR	29.65	25.46	6.82	5.43
XX. Diluted carrying amount per share in PLN/EUR	29.65	25.46	6.82	5.43
XXI. Declared or paid dividend per share attributable to shareholders of the parent company (in PLN/EUR)	2.00	2.50	0.46	0.53

FFIL ŚNIEŻKA SA - standalone data

	in PLN '000		in EUR '000	
	the period of 12 months ended as at 31 December 2023	the period of 12 months ended as at 31 December 2022	the period of 12 months ended as at 31 December 2023	the period of 12 months ended as at 31 December 2022
I. Net revenues from sale of products, goods and materials	568 736	510 920	125 593	108 978
II. Profit from operating activities	111 958	57 994	24 724	12 370
III. Gross profit	75 894	25 724	16 760	5 487
IV. Net profit	69 527	23 608	15 354	5 036
V. Comprehensive income for the period	68 910	24 984	15 217	5 329
VI. Net cash flows from operating activities	81 500	73 925	17 998	15 768
VII. Net cash flows from investing activities	24 474	(19 352)	5 405	(4 128)
VIII. Net cash flows from financing activities	(106 776)	(60 345)	(23 579)	(12 871)
IX. Total net cash flows	(802)	(5 772)	(177)	(1 231)
X. Total assets	832 667	832 808	191 506	177 575
XI. Liabilities and provisions for liabilities	565 817	609 633	130 133	129 988
XII. Long-term liabilities	415 378	473 549	95 533	100 972
XIII. Short-term liabilities	150 439	136 084	34 600	29 016
XIV. Equity	266 850	223 175	61 373	47 586
XV. Share capital	12 618	12 618	2 902	2 690
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	5.51	1.87	1.22	0.40
XVIII. Diluted earnings per ordinary share in PLN/EUR	5.51	1.87	1.22	0.40
XIX. Carrying amount per share in PLN/EUR	21.15	17.69	4.86	3.77
XX. Diluted carrying amount per share in PLN/EUR	21.15	17.69	4.86	3.77
XXI. Declared or paid dividend per share attributable to shareholders of the parent company (in PLN/EUR)	2.00	2.50	0.46	0.53

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

	12 months of 2023	12 months of 2022
Particular items of the condensed statement of comprehensive income were translated at the average EURO exchange rate in the period	4.5284	4.6883
	as at 31 December 2023	as at 31 December 2022
Particular items of the financial position statement were translated at the EURO exchange rate at the end of the period	4.3480	4.6899

4. THE ŚNIEŻKA GROUP

4.1. BUSINESS CHARACTERISTICS

The Śnieżka Group, whose history dates back to 1984, is one of the leaders in the decorative paints and construction chemicals market in Poland. The Group also operates actively on several foreign markets. In Hungary, it is a significant player in the decorative paints segment, and in Ukraine it is one of the dominant entities in the production of paints and putties. It is one of the 25 largest paint manufacturers in Europe (according to European Coatings 2023). In 2023, FFIL Śnieżka SA - the parent company of the Śnieżka Group - was awarded the EcoVadis Gold Medal, which places it among the top 5% of companies subject to certification.

What makes us different

<p>In numbers</p> <p> 40 years of experience in the industry</p> <p> 20 years of presence on the WSE</p> <p> Over 1100 employees in the Śnieżka Group</p> <p> 140 million kg of decorative products annually</p>	<p></p> <p>One of the leaders of the paint market in the decorative products segment in Poland, Hungary and Ukraine.</p> <hr/> <p></p> <p>One of the 25 largest paint manufacturers in Europe.*</p> <p><small>*according to European Coatings, the largest manufacturers of paint coatings, 2023</small></p>	<p>Assets</p> <p> 7 production facilities in 4 countries</p> <p> Logistics Centre the largest investment in the Group's history</p> <p> R&D Centre own research and innovation</p> <p> Professional laboratories incl. microbiological and chromatographic</p>
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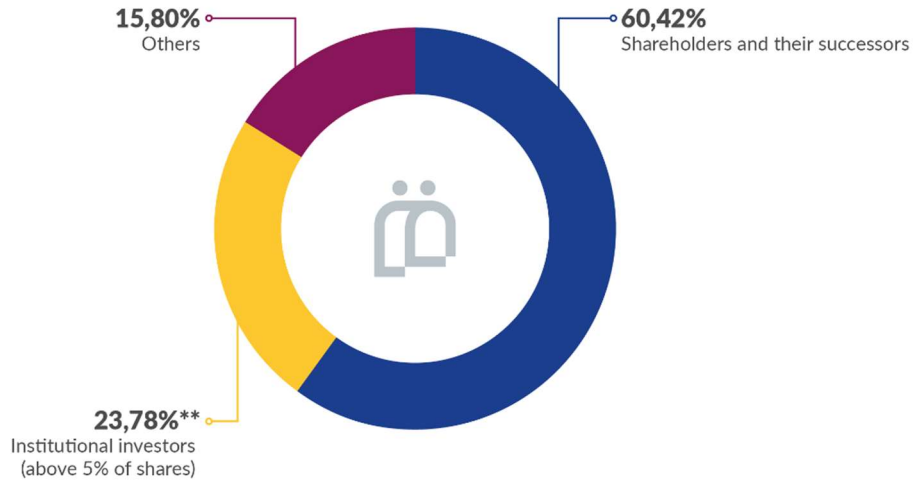
The Group takes on over 1,100 staff, and production facilities located in four countries manufacture on an annual basis over 140 million kg of products for decoration and protection of various types of substrates. The key brands of the Śnieżka Group are as follows: Śnieżka, Magnat, Poli-Farbe, Vidaron, Rafil and Foveo-Tech. In 2022, the Group launched its own Logistics Centre - this is the largest investment in the company's history to date.

The Group is comprised of: the parent company Fabryka Farb i Lakierów Śnieżka SA - whose shares have been listed on the Warsaw Stock Exchange since 2003 - and its subsidiaries in Poland and abroad.

The shareholder structure of FFIL Śnieżka SA is dominated by its founders and their successors, who control over 60% of the votes at the general meeting. Since its debut on the stock exchange, the company has regularly paid dividends to its shareholders from the generated profits, the total value of which, calculated since 2003, is PLN 504.2 million.

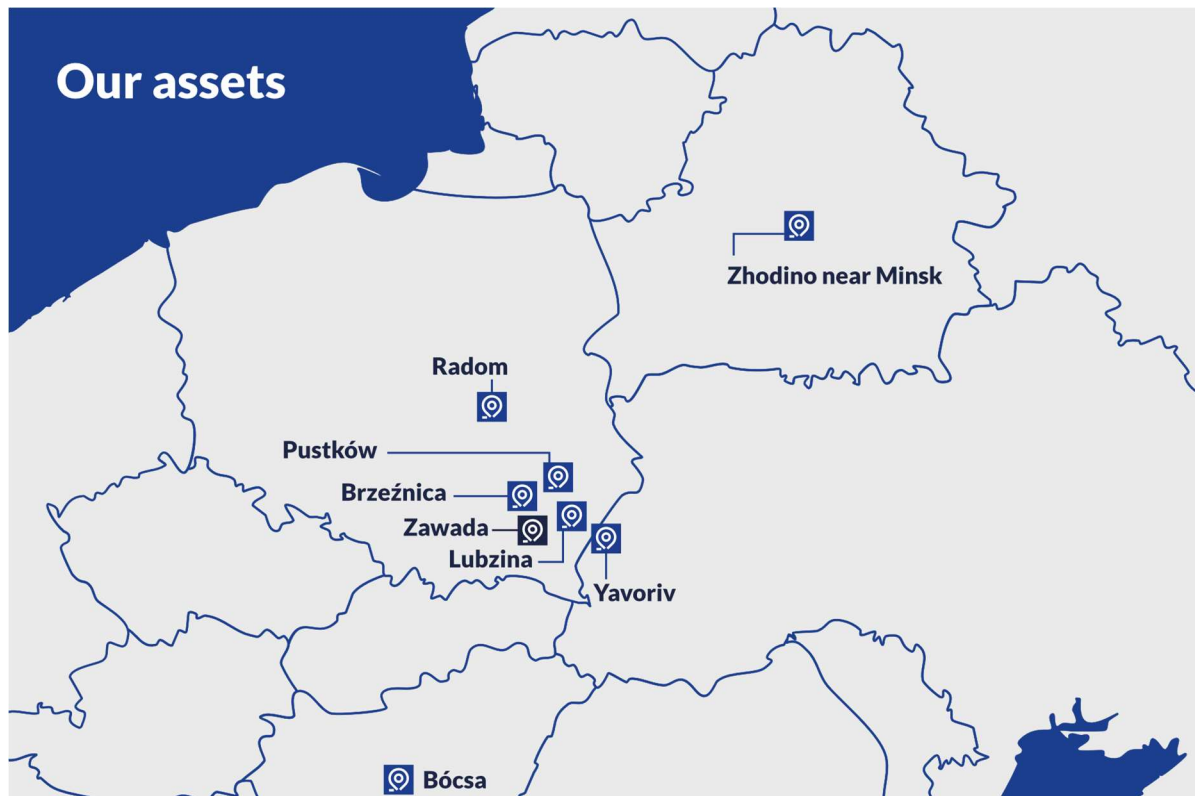
Shareholding structure of FFiL Śnieżka SA**

(share in the share capital in%)



* Data as at 26.03.2024

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

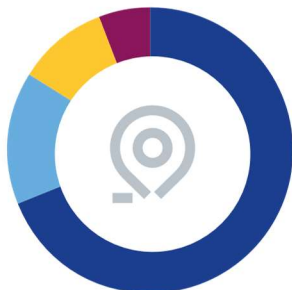


7 production facilities

Śnieżka Group Logistics Centre

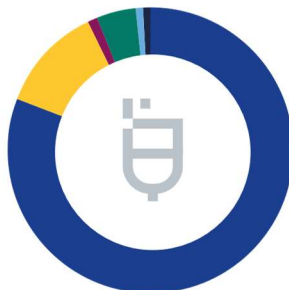
Sales revenues structure of the Group in 2023

Countries



- 69% Poland
- 14.9% Hungary
- 10.3% Ukraine
- 5.8% other

Product categories



- 81% Decorative products
- 12% Construction chemicals
- 0.9% Industrial products
- 4.5% Goods
- 0.9% Other revenues
- 0.7% Materials

Key markets



Key brands of the Group





4.2. ORGANIZATIONAL STRUCTURE

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

As part of this approach, key processes for the Group are developed at the level of two companies: FFIL Śnieżka SA and Śnieżka Trade of Colours Sp. z o.o. (Śnieżka ToC). FFIL Śnieżka SA, as the parent company, performs control functions in the supervisory bodies of the subsidiaries. In addition, it establishes a development strategy and coordinates the development of the entire Group in all aspects of its operations.

It is also a competence centre in the field of Supply Chain Management, R&D, Quality Assurance, and also serves as a shared services centre. In turn, Śnieżka ToC develops competences in the field of: Sales and Marketing (Revenue & Commercial, Branding, Product Development). Both companies coordinate the activities of individual Group companies in the areas of their competence.

All transactions concluded by the Company and its subsidiaries with related entities are performed at arm's length. This means that they are agreed as if they were negotiated by unrelated parties. These transactions are consistent with applicable laws in Poland, European Union regulations and the regulations of the countries where the subsidiaries are located. Additionally, the marketability of the transaction is verified on an annual basis.

Figure 1. The Śnieżka Group's structure (as at 31.12.2023)

Group structure and organization



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

The Company's seat: ul. Chłodna 51, 00-867 Warsaw
Phone (Headquarters): 14 681 11 11 lub 22 221 93 19;
<https://sniezkagroup.com/>

The Company's production facilities are located in:

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

The Company's administration is located in:

Brzeźnica, ul. Dębicka 44, 39-207 Brzeźnica, Dębica county, Sub-Carpathian province;

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

Table 1. A list of entities comprising the Group consolidated or valued using the equity method (as at 31.12.2023).

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

In 2023 the Śnieżka Group's structure was not subject to any changes.

FFIL ŚNIEŻKA SA's operations :

Fabryka Farb i Lakierów Śnieżka SA is one of the paint leaders in Poland in the segment of decorative products.

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

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

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

Products manufactured by FFiL Śnieżka SA are available in many distribution channels, and Śnieżka ToC is responsible for their sale.

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

On December 31, 2023, the Company employed 611 employees (606 at the end of 2022), which accounted for nearly 53.2% of the entire Group's team.

Activities of other Group companies

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

The key tasks performed by the company are marketing and sales, which include the following areas:

- **Marketing**
As part of marketing activities, we distinguish three key functions: strategic, implementing and supportive. Each of them plays an important role in building and implementing an effective company marketing strategy.
- **Sales**
An area covering all distribution channels of the Group: independent market, retail chains, insulation systems, export sales and sales support.

Products are distributed through business partners, including wholesalers and construction materials warehouses, DIY markets, retail stores and e-commerce. A multi-channel distribution is one of the assumptions of the sales growth strategy in all the Group's markets, and at the same time it minimizes the risk associated with too high reliance on one distribution channel. Since the beginning of 2024, the Group has expanded the distribution model on the independent market in Poland - selected retail outlets that were previously serviced indirectly by distributors can simultaneously make purchases directly from Śnieżka ToC. The company is to continue the cooperation with its existing partners - wholesalers.

The company was established in 2010 (as TM Investment Sp. z o.o.). As at December 31, 2023 the Śnieżka ToC's share capital amounted to PLN 303,558 thousand.

The company employed 123 employees as at the end of 2023 (113 at the end of 2022).

Poli-Farbe Vegyipari Kft.

Poli-Farbe is a company with an established position in Hungary in the sector of decorative paints. Its product range under the Poli-Farbe commercial brand includes: interior decorative water-borne paints, enamels, products for wood protection and decoration, facade paints, primers, insulation systems, as well as putties.

The products are distributed through business partners, including wholesalers and construction materials warehouses, DIY markets, retail stores and e-commerce.

As at December 31, 2023, Poli-Farbe Vegyipari Kft. employed 178 employees (195 at the end of 2022).

Poli-Farbe Vegyipari Kft. (Hungary) was established in 1998. As at December 31, 2023, the company's share capital amounted to HUF 56,500 thousand and was not subject to change compared to February 11, 2019, i.e. the day on which FFIL Śnieżka SA concluded an agreement to acquire 80% of its shares. The remaining 20% of the shares belong to the minority shareholder Lampo Kft (Lampo Korlátolt Felelősségű Társaság)

Śnieżka-Ukraina Sp. z o.o.

Śnieżka-Ukraina is one of the leaders in the production of paints in Ukraine¹ as well as a manufacture of putties. Its products are sold under the Śnieżka brand.

The company is the main distributor of FFIL ŚNIEŻKA SA's products on the local market. The products are distributed through business partners, including wholesalers and construction materials warehouses, DIY markets, retail stores and e-commerce.

As at December 31, 2023, the company employed 169 employees (172 at the end of 2022).

Śnieżka Ukraina Sp. z o.o. with was established in 1999. As at December 31, 2023, the company's share capital amounted to UAH 415,7 thousand and was not subject to change compared to the end of 2022. The share of FFIL Śnieżka SA in this entity is 83.48%, and the remaining shares belong to: Limited liability company "Sunsnow" - 15.60% and individual shareholders - 0.92%.

Śnieżka-BelPol Sp. z o.o.

Śnieżka-BelPol Sp. z o.o. is a significant manufacturer of putties on the Belarusian market. It sells its products under the Śnieżka brand through wholesalers, DIY markets and retail stores.

At the end of 2023, the company employed 15 employees (16 at the end of 2022).

Śnieżka-BelPol Sp. z o.o. (Belarus) was established in 2003. As at December 31, 2023, the company's share capital amounted to BYN 293,9 thousand and was not subject to change compared to the end of 2022.

Radomska Fabryka Farb i Lakierów SA

The company specializes in the production of decorative products (enamels for metal protection and decoration) and professional anti-corrosion systems.

At the end of 2023, the company employed 44 employees (48 at the end of 2022).

Radomska Fabryka Farb i Lakierów SA was established in 1995. As at December 31, 2023 the company's share capital amounted to PLN 4,102 thousand. The share of FFIL Śnieżka SA in this entity is 94.15%. The remaining 5.85% of the shares belong to individual shareholders.

¹ Estimated data (due to the war in Ukraine, access to research reports is limited).

Plastbud Sp. z o.o.

Cooperation with capital-related entities also applies to Plastbud Sp. z o.o. in Pustków, which supplies the Group with some raw materials and products. The share of FFIL Śnieżka SA in this entity as at December 31, 2023 is 10.07%.

Commercial brands

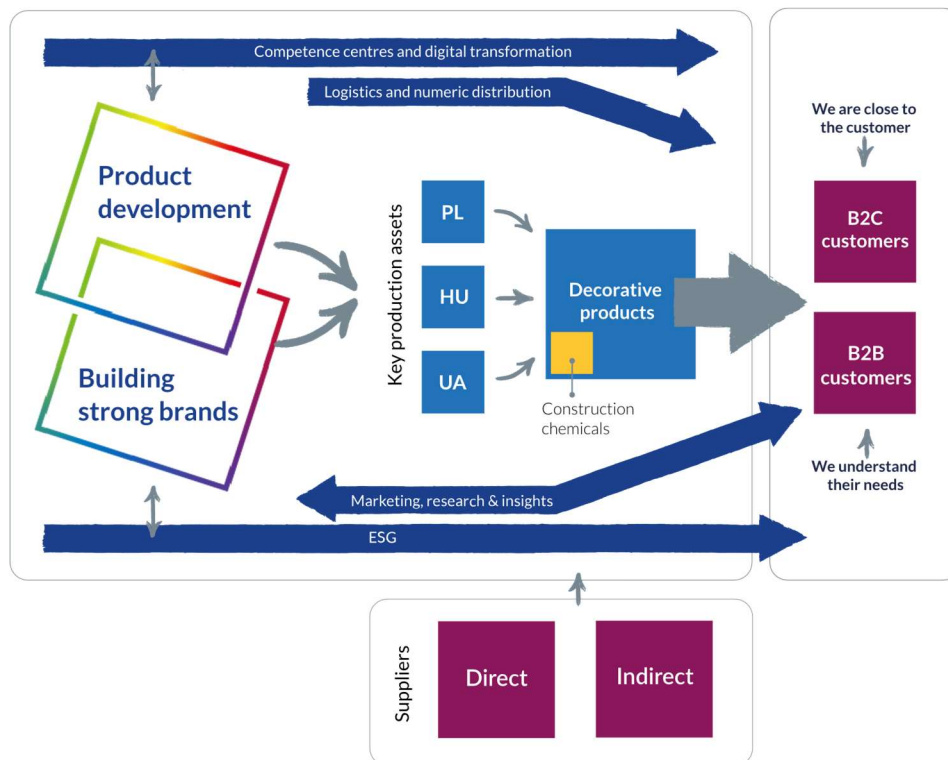
The owner of the commercial brands of the Śnieżka Group is Śnieżka Trade of Colours Sp. z o.o. (with the exception of brands belonging to Poli-Farbe Vegyipari Kft.) Śnieżka ToC, as the owner of the trademarks, markets the Group's products both directly (through cooperation with independent stores, DIY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

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

Śnieżka	being the core brand of the Group, which offers a wide range of products. Its portfolio is comprised of products for protection and decoration of various substrates, both for internal and external applications (i.a. paints for walls and facades, products for painting metal and wood as well as putties for smoothening walls). It is a comprehensive offer meeting customers' needs at every stage of a flat or house finishing or renovation.
Magnat	products for the most demanding customers who value quality and style. The portfolio of this innovative premium brand includes high quality ceramic paints featuring colour durability, remarkable colour range, resistance to stains and dirt as well as heavy duty purposes. The brand's portfolio also includes a selection of high-quality white paints. Magnat stands also for textures, providing numerous decorative options.
Poli-Farbe	an umbrella brand, which offers a wide portfolio of products for the protection and decoration of various surfaces. It comprises one of the most recognizable brands on the Hungarian market: Platinium and Inntaler (including interior and facade emulsions), Cellkolor (paint for wood and metal) and Boróka (agents for wood protection and decoration).
Vidaron	a top quality brand for wood protection and decoration. The brand's offer has been prepared for all of those who are willing to take care of wood used both indoors or outdoors in a comprehensive manner. The brand portfolio includes, inter alia,: high-quality preservatives ensuring comprehensive wood protection, both from the inside (priming agent) and from the outside (topcoat agent), as well as renovation agent intended for pre-painted wood, stain and varnish as well as oils and varnishes.
Rafil	a brand specializing in the production of decorative products (enamels for metal protection and decoration) and professional anti-corrosion systems.
Foveo-Tech	a brand of facade products based on decorative plasters and facade paints, available in a wide range of colours. They are widely used in both newly built and existing buildings. These are materials for renovating buildings for thermal insulation, structural protection and exterior appearance.

4.3. BUSINESS MODEL AND VALUE CHAIN

Figure 1. Śnieżka Group's business model



At the heart of the Group's business model is the ability to create high-end products and manage strong, recognizable brands (including: Śnieżka, Magnat, Poli-Farbe, Vidaron, Rafil and Foveo-Tech). This assumption stems from the awareness of consumers and business partners' expectations and needs. We have worked out our development projects and processes in such a manner so that our Group would be ready to embrace challenges of the future, as well as to identify and shape trends in the market of decorative paints and construction chemicals.

The owner of the commercial brands of the Śnieżka Group is Śnieżka Trade of Colours Sp. z o.o. (with the exception of Hungarian brands, which officially belong to Poli-Farbe Vegyipari Kft.) This is where our own marketing and sales resources are located. The process of developing a new or modifying an existing product is assigned to a specific brand. It is initiated by the marketing team by submitting assumptions to the Research and Development Centre and units responsible for production. The final stage of the process is developing a sales strategy. The Research and Development Centre runs laboratories and conducts research teams that - in addition to the development of new recipes - ensure quality control primarily in production processes and products. FFil Śnieżka SA acts as a competence centre in the field of Supply Chain Management (purchasing, production, distribution, warehousing, logistics, information flow), IT, technology, research and development (R&D) and quality assurance. The parent company acts also as a shared services centre.

In up-to-date production facilities of the Group located in four countries (including 3 key ones - in Poland, Hungary and Ukraine) approximately 140 million kg of products are manufactured assigned to approximately 5,000 SKUs (stock keeping units). Within individual production assets and brands, technological processes are automated and robotized to increase efficiency and reduce the workload of employees.

The Śnieżka Group Logistics Centre located in Zawada near Dębica has been operating since 2022. Owing to the ambitious investment, it was possible to permanently transform the distribution model and equalize production levels throughout the year, which in turn reduced the impact of seasonality on the business.

Since 2022, the Group has been benefiting from the company's digitization project, estimated as the largest in the entire Central and Eastern Europe region². The implementation has radically changed the manner of managing the supply chain. The flow and analysis of data in real time, combined with the capabilities of the Logistics Centre, has become crucial for order fulfilment, which enables effective inventory management within the Group. Integration with the systems of most logistics operators cooperating with the Group has also been carried out. The transformation project has modernized the manner of operating with data in all areas of activity, including: e-commerce, logistics, human resources management, finance and sales management.

A major change in the approach to product portfolio management, brand management, production, logistics and supply chain management is the inclusion of the ESG component, i.e. sustainable development, in the strategy (in which the company takes responsibility for the environment, people and business). The Group's objective is, inter alia, to develop products with a low environmental impact and to reduce the carbon footprint related to business activities. In the business model, the ESG approach is a kind of filter through which not only activities within the Group are analysed, but also the activities, products and services of our suppliers.

All the described components of the business model allow the Group to be close to its customers. This closeness is comprehended as the physical availability of products in retail outlets, care for appropriate level of customer experience and the collection of feedback. Since the beginning of 2024, the Group has expanded the distribution model on the independent market in Poland - selected retail outlets that were previously serviced indirectly by distributors can simultaneously make purchases directly from Śnieżka ToC. The company is to continue the cooperation with its existing partners - wholesalers. Extending the distribution model on the independent market in Poland may have a negative impact, difficult to estimate, on the Group's performance in the coming quarters. However, in the long term, it is an important step in the further development of the Group and building its competitive advantages.

THE VALUE CHAIN

The Śnieżka Group identifies its value chain divided into upstream and downstream parts, own operations and supporting activities, as well as entities with which it establishes and maintains business relationships at individual levels.

Its elements are described in more detail in the non-financial part of the Report.

Upstream part

At this level of the value chain, natural resources, materials and finished materials, as well as related activities are identified and acquired. Essential resources from the perspective of the Group's daily operations are as follows:

- water added to products and used on an on-going basis, including: for municipal purposes, supplied by the water supply network (and in the case of Rafil - also sourced from a drilled well),
- renewable energy used in production processes, the purchase of which is confirmed by certificates of Guaranteed Sales of Energy Produced from Renewable Sources (a special case is Śnieżka Ukraina, which uses energy produced in nuclear and coal-fired power plants); it should be mentioned that in the last quarter of 2023, the Ukrainian and Hungarian companies were equipped with new photovoltaic systems, which started producing energy in the first quarter of 2024.
- fossil fuels as a source of energy used to conduct business, including:
 - fuel and gas for production and heating purposes,
 - diesel oil for generators stored in case of failure (approx. 100 l),
 - coal for heating purposes,
- wood in the form of wooden pallets enabling the storage and transport of products, also on the premises of production facilities.

² According to SAP data, 2022 (SAP NOW 2022)

In order to obtain the above resources, individual companies of the Group establish rapport with appropriate external suppliers.

Among the material resources exploited by the Śnieżka Group, chemical substances that are components of products are of particular importance. All of them are purchased from external producers and distributors. Resources obtained from external suppliers include: pigments, binding agents, solvents, fillers, additives, gypsum, natural raw materials (derived from nature, ground, non-chemically processed). Finished products are also purchased from other companies as part of the product portfolio offered by the Group. A special type of resources is a narrow group of raw materials that have no substitutes, such as certain pigments, for example. They are purchased from a diversified group of producers and distributors. In the upstream value chain, there is also a group of ready-made materials used as part of the production process. These include packaging (paper, metal and plastic), protective films, shelves in warehouse areas, as well as cartons used both as dividers in pallets with products and packaging used to distribute products (in the online channel). They all come from external suppliers.

Own operations

These operations are also focused on processes around the product.

First of all, it is product design and determining the recipe composition, i.e. selecting raw materials based on specifications, impact on the environment, expected parameters and availability. Related activities include research and development, which allow for continuous improvement of products and introduction of new technologies. Work in this area is carried out in our own research laboratories, such as: water-based decorative products, construction chemicals, metal and wood products, aging, chromatographic and microbiological tests.

Each product is manufactured based on a recipe. The plants of the Group companies produce:

- paints for walls (interior) and facades (exterior) – similar processes in terms of energy consumption,
- colouring pastes and colorants,
- products for painting:
 - wood, but due to the different energy consumption of the processes, solvent-based and water-based products as well as enamels, varnishes, impregnations are distinguished,
 - metal – solvent-based and water-based, one-component and two-component enamels (this group of products is characterized by a long production process),
- wall putties, which, due to the different nature of production, are divided into dry and wet ones,
- as part of building insulation systems:
 - adhesives for insulation systems (purchased and produced e.g. by Poli-Farbe),
 - primer and facade paints (similarly produced),
 - dispersion and mosaic plasters, distinguished by the production process,
 - fibreglass reinforcing mesh – this is an exception as it is purchased (under a different brand),
- paints and enamels for concrete – water-based or solvent-based, one- or two-component (they are characterized by significantly different production methods),
- primers, such as priming agents for walls, wood and concrete,
- alkyd, polyvinyl, polyurethane, epoxy and heat-resistant systems - a group of enamels for metal and concrete,
- production for other brands and external companies, primarily emulsion paints.

Products are subjected to quality control, then packed, stored and transported between plants and warehouses.

Own operations also include processing the production waste. The largest proportion is water-soluble washings, a slightly smaller one is post-industrial washings, and the smallest is waste classified as hazardous. In addition, some of the paints and washing water are recycled for reuse as part of the production process.

Downstream part

This part of the value chain focuses on post-production activities in which the Group and its individual companies cooperate with many external entities.

Marketing and Procurement are responsible for the development, printing and distribution of promotional materials intended for the appropriate presentation of products at points of sale. All these activities take place with the participation of external subcontractors.

Another area is the sale of products and their distribution, which takes place through business partners, including wholesalers and construction materials warehouses, DIY markets, retail stores and e-commerce.

The Group monitors waste-related issues. After the end of the life cycle of goods, they are disposed of by waste disposal companies, while internal processes deal with damaged products, withdrawn ones and those that have expired.

A unique activity in the downstream part of the value chain is the mixing of colours in stores using mixers, which are used for a fee and serviced by Śnieżka. It is also responsible for the disposal of these devices unless a buyer is found for them.

Supportive activities

Most activities are carried out as part of internal processes. They include various market analyses and consumer behaviour, as well as the assessment of suppliers in terms of meeting specific criteria, including those contained in the Supplier Code, in the area of purchasing processes.

Supporting activities also include monitoring the operation of IT systems in order to ensure data security, internal controls, and risk identification and management. Another area is supervision of compliance of activities with the law and ensuring the coherence and transparency of documentation by introducing policies, procedures and internal regulations in line with corporate governance.

Human resources management, including employee development and occupational health and safety issues are also an important area of activity. Environmental and climate protection is another key issue that requires process optimization at all levels of the value chain. The management of trademarks and other intellectual property resources is supported by a law firm, while the Group's digital transformation is supported by a consulting company. These activities are possible thanks to the effective management of the Group's infrastructure, which allows maintaining production, sales, purchasing and other capabilities necessary for its daily operation.

4.4. VALUE AND CAPITAL CREATION MODEL

Figure 2. Value creation model of the Śnieżka Group



We build shareholder value and regularly pay dividends. We are rated as one of the leaders in communication with the market environment.

We modernize, automate, digitize and optimize production and logistics processes within the Group, increasing flexibility and efficiency.

We are a valued employer providing equal pay and development conditions. We promote safety and health concern.

We incorporate the ESG approach into the Strategy and all aspects of the Group's operations, as well as we monitor and limit the impact of our activities and products on the environment.

We develop based on knowledge. At the heart of our business model competencies in product development and brand management can be found.

We are a reliable, valuable partner – both for our suppliers and local communities with whom we grow and strengthen.

Financial capital

Financial capital is understood as internal and external sources of financing operational activities and investments. It consists of the financial results generated, share capital entrusted by owners, lenders and bondholders, and other types of long- and short-term liabilities.

CAPITAL DATA

Equity	374 144	PLN '000
Long-term liabilities	223 545	PLN '000
Short-term liabilities	221 097	PLN '000
ROA indicator	10.1	%
ROE indicator	24.0	%

CAPITAL MANAGEMENT

Funding sources	The market position and performance of the Śnieżka Group allow it to maintain constant access to verified sources of financing (including several providers of long-term loans) and guarantee a favourable negotiating position. The Group has unique experience in obtaining financing related to ESG goals (SLL– Sustainability-Linked Loan).
Capital expenditure	After finalizing a significant investment program, which was implemented between 2018 and 2022, the Company decided to return to the previously used approach, according to which the level of capital expenditure (CAPEX) is balanced with the level of depreciation. This approach enables, inter alia, investing in technologies that counteract the so-called technological debt. Within the Group, the main areas of allocating the capital expenditure include fixed assets and operating activities.
Investors Coverage	Taking care of transparency and relationships with its stakeholders, Śnieżka conducts active operations in the area of investor relations. It regularly organizes meetings, chats and videoconferences for capital market participants, and takes advantage of advanced functions of the corporate website to circulate information and materials.
Dividend payment	FFiL Śnieżka SA has been sharing its profits with shareholders continuously since 2003, which distinguishes it from companies listed on the WSE. For another year in a row, Śnieżka was classified by the Forbes editorial team in the ranking of Polish Private Dividend Companies. The Company's shares are included in WIGdiv dividend index.

CAPITAL RESULTS

Net revenues from sale of products, goods and materials	857 773	PLN '000
Profit from operating activities (EBIT)	121 004	PLN '000
EBITDA	159 415	PLN '000
Net cash flows from operating activities	148 194	PLN '000
Net cash flow from operating activities less capital expenditures	115 969	PLN '000
Number of group meetings with investors in 2023.	4	
Dividend paid in 2023 to the shareholders of the parent company	25 236	PLN '000
The value of dividend paid since the debut on the WSE	504 223	PLN '000

Productive capital

Productive capital consists primarily of assets located in 4 countries, thanks to which the Śnieżka Group reaches customers in several markets. The potential of the plants is strengthened by logistics assets, including the Logistics Centre in Zawada near Dębica, launched in 2022.

CAPITAL DATA

Number of production facilities in Poland	4		Lubzina, Brzeźnica, Pustków, Radom
Number of production facilities in Hungary	1		Bócsa
Number of production facilities in Ukraine	1		Yavoriv
Number of production facilities in Belarus	1		Zhodino near Minsk
Śnieżka Group Logistics Centre	44 500	m ²	Zawada
Value of the investment program 2018-2022	580	PLN mln	Including PLN 270 mln in the Logistics Centre

CAPITAL MANAGEMENT

Robotization

Robotization applies to most activities that are burdensome or cause a decrease in efficiency. This translates into a significant reduction in employee workload and improved efficiency. This includes the process of preparing pallets for shipment and the use of autonomous forklifts. The flagship project in this category in 2023 was the robotization of putty palletization at a plant in Ukraine. The Group strives to equalize the level of robotization at the level of all production facilities, including those located outside Poland.

Management of the production and warehouse logistics process

Owing to the construction of the Logistics Centre in Zawada, it was possible to permanently transform the distribution model and flatten the production level within a year. Consequently, the impact of seasonality on the Group's operations was significantly reduced and the needs for employment levels were stabilized. The new Logistics Centre also enabled notable optimization of raw material inventory management. Combined with significant investments in automation and robotization, it has become possible to manage production capacity and inventories in real time. It is possible to package up to 2,000 pallets per day.

Digitization

Since 2022 the Group has been benefiting from the largest company's digitization project in the entire Central and Eastern Europe region. The implementation has radically changed the manner of managing the supply chain. The flow of data between warehouse and production assets has become crucial for order fulfilment, in particular regarding the availability of raw materials. Integration with the systems of most logistics operators cooperating with the Group has also been carried out.

Automation

Automation enables to increase the accuracy of recipe reproduction and repeatability of processes, which contributes to the quality of products.

CAPITAL RESULTS

Production level	>140	mln kg	of decorative and construction products per year
A wide range of products	~5 000	SKU	stock keeping unit

Market position

Śnieżka belongs to TOP3, the largest manufacturers of paints and varnishes in Poland in the segment of decorative products, one of the largest players of decorative paints in Hungary, as well as one of the leaders in the manufacture of construction chemicals and white paints in Ukraine. According to the ranking of the "European Coatings" magazine, the Śnieżka Group is one of the 25 largest producers of paints and varnishes in Europe. In the ranking, Śnieżka is the only company from Central and Eastern Europe. In turn, in "The 2023 Top Companies Report" prepared by "Coatings World", the Śnieżka Group was classified as the 59th largest producer of paints and varnishes in the world and the only one representing Poland.

Human capital

Employees are the strength of the Śnieżka Group, and thanks to their commitment and creativity it is possible to build a strong market position and implement new solutions. Śnieżka's priority is to build a safety culture and provide employees with conditions for continuous development.

CAPITAL DATA

The number of employees	>1 100	An international team located in countries where the Group has production assets
Employees with an employment contract for an indefinite period	91.05 %	
Percentage of employees participating in upskill training (2023)	40.4 %	
Planned budget for benefits for 2024	PLN 1 000 850	(data for FFIL Śnieżka SA and ToC)
Number of issues of the printed internal magazine "In Colour" in 2023	3 pcs.	52 since the beginning of the magazine's launch in 2006 (data for FFIL Śnieżka SA and ToC)
Number of newsletters addressed to employees in 2023	99 pcs.	(data for FFIL Śnieżka SA and ToC)

CAPITAL MANAGEMENT

Professional development – culture of continuous feedback

Development conversations with employees carried out in recent years are complemented by a culture of continuous feedback. This approach uses tools such as formulating quarterly tasks and regular conversations.

Transparent remuneration system

The evaluation of job positions by the Evaluation Committee is one of the key tools for determining the value of individual positions for the organization and is an element of building a remuneration system. In 2023, the Committee evaluated all positions filled in FFIL Śnieżka SA and Śnieżka ToC.

In 2023, two remuneration reviews were conducted, which embraced all employees of both companies. Additionally, as a result of the work of the Evaluation Committee and the comparison of remuneration in companies to the market level, the level of the lowest remuneration was raised above the minimum wage.

Employer branding and communication with employees	Dialogue with employees is conducted on many levels. Employees of three key companies regularly received newsletters and the printed quarterly <i>In Colour</i> . For strategic topics, a precisely planned information cascade is planned, in which directors and team managers play a key role. Additionally, employees engage in dialogue through elected representatives (representing the Team in contacts with the Management Board) and the social committee.
Onboarding and adaptation process	Onboarding and adaptation at FFIL Śnieżka SA and Śnieżka ToC cover the first weeks of work. The purpose of these processes is to introduce a new team member to the principles of operation of the company and to equip them with the tools necessary for a given position.
Development of employee competences	All employees can benefit from training and development initiatives, regardless of age or gender. The main criteria for their availability are the needs and business capabilities of the organization, the need to have specific knowledge, authorizations, skills or competences, and the employee's development needs diagnosed in the assessment process (consistent with the scope of the position). The internal <i>iWIEM</i> platform is a tool supporting the training.
Sharing knowledge	The Group runs the <i>Śnieżka Academy</i> internal trainer program. In the first edition, 8 trainers were selected to train in thematic areas essential for Śnieżka.
Digital transformation of the HR area	Solutions in areas such as working time and leave management were digitized, which ensured efficiency in the HR and payroll area.
Employee satisfaction survey	In 2023, a multidimensional employee satisfaction survey was conducted. Important aspects of the declared tendency to recommend Śnieżka SA and Śnieżka ToC as employers are the "team and the atmosphere in the company", remuneration and benefits, work organization, training and development, good prospects for the company as well as the attitude towards the employee and the relationship with the superior.
Benefits	The Group offers employees extensive non-wage benefits, e.g. subsidies for group life insurance, employee meals, summer camps for children and foreign language learning. The team also has the opportunity to take advantage of private medical healthcare.
Health prevention	93% of eligible employees (managerial staff and line workers from the locations Brzeźnica, Pustków, Zawada, Lubzina) participated in additional First Aid training. The plants have also been equipped with defibrillators. The "Śnieżka paints the world pink" campaign is held on an annual basis, in which employees are spurred to undergo preventive tests financed by the Group. In addition, team members are offered an extended package of periodic tests.

CAPITAL RESULTS

eNPS Level (employee Net Promoter Score)	6	With a turnout of 88%
Number of training hours	11 795 h	Number of training hours per employee 26,81.
Adjusted wage gap	3.41 %	Data for Śnieżka SA and ToC

Natural capital

The Śnieżka Group systematically and responsibly manages the impact of its activities on the natural environment, as well as the health and safety of product users. It develops the organization's carbon footprint management, implements a number of optimization and reduction initiatives (water, energy) and as part of purchasing processes, analyzes suppliers' activities in terms of meeting ESG criteria.

CAPITAL DATA

Water consumption	55 894	m ³
Electricity consumption	9 583	MWh
Gas consumption (heating)	552 238	m ³

CAPITAL MANAGEMENT**Carbon footprint counting and reduction targets**

The Śnieżka Group calculates the carbon footprint in the scope of 1, 2 and 3. For FFIL Śnieżka SA and Śnieżka TOC, a target has been set to reduce greenhouse gas emissions in Scope 1 and Scope 2 (in total) by 45% in 2023 and 50% by 2025 compared to the 2020 level (according to the market-based method). The process of calculating and developing reduction assumptions will cover all Group companies in the future.

Green energy

All electricity purchased by FFIL Śnieżka SA in 2023 came from renewable energy sources, which is confirmed by guarantees of origin and documents confirming their redemption issued by the Polish Power Exchange. At the same time, photovoltaic systems were installed in the Group's companies in Hungary and Ukraine, which will produce "green" electricity from 2024.

Saving projects

In 2023, work began on optimizing electricity consumption in production processes. An analysis and assessment of possible measures to increase energy efficiency was carried out. One of them is to shorten the grinding times of raw materials in individual product production processes. In 2023, tests in production departments were initiated. Initiatives are also being implemented to reduce water consumption by closing the cycle and reducing the amount of washings.

Risk assessment of the substances used

At the product design stage, operational conditions and risks are assessed, which allows for proper control of threats to human health and the environment. The analysis covers the entire life cycle of the substance, including its formulation, industrial and professional end use, consumer use and use in products.

Product certification management

In 2023, the Śnieżka Group expanded its offer of eco-friendly and allergy-free certified products.

CAPITAL RESULTS

Total greenhouse gas emissions: Scope of 1, 2 and 3 (market-based method)	143 620	t CO ₂ e
Total greenhouse gas emissions: Scope of 1, 2 and 3 (location-based method)	149 090	t CO ₂ e
% of recycled plastic packaging by weight	>5	%
% of industrial waste generated in FFIL Śnieżka SA sent for recycling or reuse, neutralization in order to avoid its disposal in landfills	100	%
	(91% in GK)	
Share in the sale of eco-friendly and allergy-free certified products.	38	%
Share in the sale of water-based products.	82	%

Intellectual capital

The central element of the Group's business model is not production assets, but competences focused on developing products, managing strong brands and organizing digitally supported processes within the Group, enabling us to always be close to our customers. Intellectual capital consists of recipes and technologies, information management processes built as part of the *Change IT* project - including feedback from partners and customers - as well as a knowledge management system.

CAPITAL DATA

Strong, key brands	6	Śnieżka, Magnat, Poli-Farbe, Vidaron, Rafil, Foveo-Tech
Own Research & Development Centre	1	Research and development activities of all companies of the Śnieżka Group are carried out in the Research and Development Centre (R&D). This unit consists of the Research and Development Department and the Quality and Climate Assurance Department.

CAPITAL MANAGEMENT

Management of brands and related products	The owner of the commercial brands of the Śnieżka Group is Śnieżka Trade of Colours Sp. z o.o. (with the exception of brands belonging to Poli-Farbe Vegyipari Kft.) The company features the following competences: shaping the pricing policy, analysing the market and consumer behaviour and introducing changes to the portfolio. The product development process is always assigned to a specific brand and involves close cooperation between the marketing team, the Research and Development Centre and the team responsible for production. The process takes into account the specificity of individual markets and is built on internal resources, including the market research team.
Recipe and production technology management	The essence of the work of the Research and Development Centre (R&D) is to develop recipes and implement new products and technological solutions, which contribute to high quality of manufactured products and their safety for customers and the environment. Thanks to the developed and acquired technologies and automation of production processes, not only is efficiency increased, but it is also possible to reduce the amount of production waste as well as water and energy consumption. Our own research laboratories (including microbiological and chromatographic ones) enable specialized testing of raw materials, recipes and products.
Digitization of processes	The Group implemented one of the largest - in terms of scale - digitization process in the region of Central and Eastern Europe. It has streamlined many business processes in all areas of Śnieżka's operations and is being developed as part of current initiatives and business needs. Its direct effects are the ability to manage knowledge about customers, their satisfaction and preferences - which translates into the product creation process. We facilitate processes and increase efficiency.

High awareness of the Śnieżka, Magnat, Vidaron brands In the top 5 in its category

Number of recipes available in the mixer >150 000

Annual capital expenditure and operating expenses related to IT (without depreciation) PLN 14.9 mln

Relational social capital

In the Group's business model, relationships are of key importance. Distribution channels are built through them. A stable supply chain requires mature dialogue with entities guaranteeing continuity of production. The Śnieżka's strength as an attractive employer stems from its relations with the social environment, especially on a regional scale.

CAPITAL DATA

Minimum budget for social activities (2-year cycle)	1.0	% of gross profit of Śnieżka SA
Śnieżka SA's expenses on social activities (2023)	PLN 000 888.4	
Value of the Śnieżka's Foundation <i>World in Colours</i> project (2023 r.)	PLN 000 280	
Value of the Śnieżka's Foundation " <i>Przeogarniacze</i> " project (in one edition)	PLN 000 51	
Percentage of suppliers informed about the <i>Supplier Code</i>	100	%

CAPITAL MANAGEMENT

„KOLORATORIUM”	A nationwide social project for primary schools in towns with a population of up to 20k residents. The aim of the initiative is to popularise chemistry among students of grades 4-8 - a field in which Śnieżka specializes as a paint manufacturer.
“Przeogarniacze”	A project addressed to fourth grade primary school students. During five 90-minute workshops, issues related to economics, entrepreneurship and pro-social and pro-environmental activities are presented.
World in Colours	A comprehensive renovation program of hospital wards, which translates into improved treatment conditions for patients and the comfort of work of medical staff.
Relations with suppliers	The Group's objective is to liaise with business partners who, similarly to Śnieżka, develop in a sustainable manner. In order to be able to cooperate with the Śnieżka Group, each supplier is required to confirm the knowledge and compliance with the rules of the code of conduct, which are attached in a form of a document to each new agreement with suppliers. Suppliers are required to sign the acknowledgment of the <i>Śnieżka Group's Supplier Code</i> , thus declaring their readiness to undertake ethical business activities.
Dialogue with the environment	We carry out systematic activities to build lasting and transparent relationships with stakeholders, diversifying channels of access and the scope of information to meet their needs, and developing innovative tools.
Membership in external organizations	The group focuses on participation in organizations and associations supporting the transformation of enterprises in the field of sustainable development. These are: Polish Association of Paint and Adhesive Producers, Polish Plastic Pact, Polish ESG Association.

CAPITAL RESULTS

Number of laboratories funded under the <i>Koloratorium</i> project in 2018-2022	34	In previous editions, Śnieżka funded 34 studios with a total value of PLN 590,000.
Hospital wards renovated as part of the <i>World in Colours</i> Program in 2005-2023	35	Including renovation of two hospital wards in 2023 with a total value of PLN 275,000. The project implemented by the Śnieżka Foundation.
Number of students covered by the <i>Przeogarniacze</i> project in 2016-2023	1 827	1 827 students from 106 fourth grades from 35 primary schools in the Dębica district, which gives 1 144 teaching hours and over 792 hours of education in the field, during classes carried out during educational trips.
Percentage of active suppliers who have signed the <i>Supplier Code</i>	34 %	
Percentage of strategic and key suppliers who have completed the self-assessment survey	61 %	

4.5. CONDITIONS FOR BUILDING COMPETITIVENESS

In a dynamic business environment, the Group strives to maintain and develop its competitiveness, which contributes to its development. Concurrently, it attaches importance to the strategic management of its resources, adapting them to changing customer expectations and market conditions.

The following areas are key in this aspect:

Effective marketing (including pricing) and sales processes and a wide product portfolio: The Group is distinguished by effective pricing processes and offers a wide selection of products, including from the "value for money" segment, which allows it to attract diverse customer groups. Extensive distribution channels, including traditional chains, DIY stores (renovation and construction) and e-commerce, provide easy access to its products.

Strong brands: the company has strong brands that are well-known and liked by consumers, which feature strong position in key markets. This is the result of Śnieżka's long-term commitment to building brands and trust among consumers.

Modern and optimized logistics and production processes: The company's advanced logistics and production processes ensure high operational efficiency, which translates into better customer service and faster response to market changes.

Diversified and stable supply chain: the Group's supply chain is both diversified and based on cooperation with long-term partners, which ensures security and stability of production.

Digitized processes: the Company takes advantage of digitized processes, which, owing to their scalability, can be implemented throughout the Supply Chain area within the Group, which increases efficiency and enables better resource management, and the solutions are gradually implemented in subsequent companies.

Stable cash flow and debt: thanks to stable cash flow and debt management, the Group maintains strong financial foundations, which secures its future and allows it to plan further development.

High level of automation and digitization: the company's investments in process automation and digitization translate into greater efficiency and production capacity, enabling planning of optimal capital expenditures (CAPEX) in the coming years.

Śnieżka 2023 + Sustainable Development Strategy: the implemented sustainable development strategy emphasizes the company's involvement in pro-ecological and socially responsible activities, which not only strengthens its image, but also opens up new market opportunities for it.

5. MARKET AND REGULATORY AND BUSINESS ENVIRONMENT

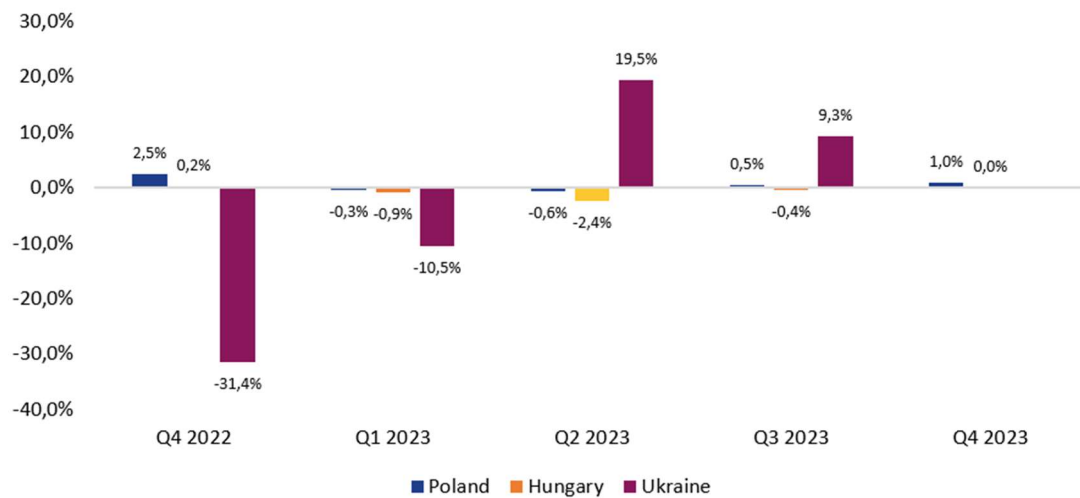
5.1. MACROECONOMIC SITUATION

The years 2021 and 2022 were a period of strong economic expansion following the pandemic, as well as challenges posed to the European Union countries by the armed conflict in neighbouring Ukraine and the related inflation. In 2023, EU countries came up against the natural consequences of the events of previous periods. The fiscal support used was partially withdrawn, and the monetary policy introduced in response to high inflation limited the economies' growth potential. The reasons for the dynamics loss are also perceived in the weakness of consumption caused by a decline in real purchasing power and consumer sentiment, as well as a drop in exports.

According to data published by the European Commission (EC), GDP growth in 2023 in the entire EU amounted to 0.4% y/y³.

³ Source: <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-08032024-ap>

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



Source: GUS, Hungarian Central Statistical Office, State Statistics Service of Ukraine* (the data on GDP in Q4 of 2023 were not available as at the date of publication of the Report).

Poland

According to preliminary estimates, the gross domestic product in 2023 recorded a real growth of 0.2%, compared to an increase of 5.3% in 2022. The preliminary estimate of GDP for Q4 of 2023 indicates 1.0% dynamics compared to 2.5% in the same period of the previous year⁴.

Industrial production sold in 2023 decreased by 1.5% compared to an increase of 10.2% recorded in 2022. In each subsequent quarter, lower and lower dynamics was noticeable⁵. Total retail sales declined by 4.1% y/y in 2023. However, construction and assembly production improved - by 4% year on year.

The labour market still records low unemployment rates, which at the end of December 2023 amounted to 5.1%, which denotes a decrease by 0.1% y/y. Concurrently, the average salary in the enterprise sector in Poland in 2023 amounted to PLN 7,444.39, which stands for a nominal increase of 11.9% compared to the previous year. In real terms (taking into account inflation), wages increased by only 0.4% throughout 2023, compared to a 4.3% decline throughout 2022.

As for the housing construction, the first fall in many years was observed. According to CSO's data in 2023, 220.4 thousand apartments were commissioned (a decrease by 7.6% y/y). The sector, which recorded high growth dynamics in recent years, 2022 and 2023 started to slow down significantly in the face of higher borrowing costs and difficult access to home loans. This is reflected in the number of building permits issued or notifications with a construction project (in 2023 - 241.1 thousand, which means -19.1% y/y) and notifications of commenced construction sites (in 2023 - 189.1 thousand, which means -5.6% y/y).

Throughout 2023, CPI inflation reached 11.4% y/y, and in Q4 alone it amounted to 6.4% y/y. The central NBP forecast indicates that in 2024 the inflation will reach 4.6% on an annual basis. Price dynamics is expected to approach the inflation target (2.5% +/- 1%) in Q4 of 2025⁶.

⁴ Source: Central Statistical Office, *Gross domestic product in 2023 - preliminary estimate, January 2024, Flash estimate of gross domestic product for Q4 of 2023, February 2024*.

⁵ Data source for Poland: Central Statistical Office, *Socio-economic situation of the country in 2023, February 2024 - unless otherwise indicated*.

⁶ Source: National Bank of Poland, *Inflation and GDP projection - November 2023, January 2024*.

The European Commission estimates the national GDP in 2024 at the level of 2.7% and inflation at 6.2%⁷. The International Monetary Fund anticipates a slightly lower GDP dynamics of 2.3% in 2024⁸.

Hungary

The Gross Domestic Product in Hungary in 2023 reached -0.9%. In Q4 of 2023, GDP dynamics was, according to a quick estimate, 0.0%, while in the previous quarters it reached: -0.4%, -2.4% and -0.9%, respectively⁹.

In 2023, the average gross salary in Hungary amounted to HUF 571,200 (approx. PLN 6,800), which means an increase of 14.2% compared to the same period of the previous year. The unemployment rate in December reached 4.2%, which means an increase by 0.4% y/y.

Consumer prices in Hungary rose on average in 2023 by 17.6% compared to the previous year, and their increase in December was 5.5%.

In 2023 the volume of industrial production increased by 5.5% y/y, and in December alone it fell by 13.7% compared to December 2022¹⁰. The volume of construction production in 2023 went down compared to the previous year's level by 5.0%, and in December alone it decreased by 4.3% compared to December 2022.

In 2023, 9.8% less apartments were commissioned than in the corresponding period of 2022, and the number of building permits for new apartments in the country declined by 38.6%.

According to the European Commission, economic growth in Hungary may be at the level of 2.4% in 2024, while inflation may amount to approx. 5.2%¹¹. The International Monetary Fund forecasts that Hungary's GDP is to reach 3.1% in 2024¹².

Ukraine

In 2023, Ukraine's economy slowly recovered from the initial shock related to the pending war, which contributed to extensive damage to the national economy.

By the end of 2022 the vast majority of companies reduced production due to electricity shortages. In 2023, the situation in the energy sector improved.

Despite troublesome war conditions, the Ukrainian economy showed great resilience, and Ukraine's GDP increased by 5% in 2023¹³. The increase was possible due to the greater adaptability of business and people to war conditions than in the initial phase of the conflict, increased harvests of agricultural produce, faster development of alternative supply routes, and also thanks to financial support from international partners. Owing to increased foreign financial support, international reserves went up by 42% y/y to USD 40.5 billion at the end of the year¹⁴.

In 2023, inflation slowed down significantly to 5.1%¹⁵. The inflation reduction in 2023 is the aftermath of a number of actions taken by the National Bank of Ukraine (NBU) to maintain the stability of the currency market: limiting the price growth of a wide range of goods with an import component, freezing the prices of certain residential and commercial services, and good harvests and appropriate growth availability of food products¹⁶.

⁷ Source: European Commission, Economic forecast for Poland, January 2024.

⁸ Source: International Monetary Fund, World Economic outlook update, January 2024.

⁹ Data source for Hungary: Hungarian Central Statistical Office (KSH) - unless otherwise indicated.

¹⁰ Referring to data adjusted for the number of working days in December 2023, the dynamics is -8.7% y/y.

¹¹ Source: European Commission, Economic forecast for Hungary, January 2024.

¹² Source: International Monetary Fund, <https://www.imf.org/en/Countries/HUN#countrydata>.

¹³ Source: Portal: Interfax-Ukraina, January 2024, <https://interfax.com.ua/news/economic/959975.html>

¹⁴ Source: National Bank of Ukraine, January 2024, <https://bank.gov.ua/ua/news/all/mijnarodni-rezervi-ukrayini-zrosli-uprodovj-2023-roku-na-42-ta-perevischili-405-mlrd-dol-ssha>

¹⁵ Source: Minfin.com.ua portal, January 2024, <https://index.minfin.com.ua/ua/economy/index/inflation/2023/>

¹⁶ Source: National Bank of Ukraine, January 2024, <https://bank.gov.ua/ua/news/all/komentar-natsionalnogo-banku-schodo-rivnya-inflyatsiyi-u-2023-rotsi>

In 2023, the NBU interest rate changed four times. The NBU used the interest rate as one of the methods of reducing inflation. From January to July 27, 2023, the interest rate remained at 25%. Then, it was reduced to 22% in July, to 20% in September, to 16% in October and finally to 15% in December. In the future, the NBU is ready to flexibly adjust its interest rate policy, taking into account changes in the balance of risks for exchange rate stability and inflation¹⁷. The situation on the currency market remained under control. The NBU continued to balance the currency market, compensating for the structural deficit of foreign currency, but allowing the exchange rate to move both towards strengthening and weakening, depending on changes in the demand-supply balance.

In October 2023, the NBU decided to switch to a system of managed exchange rate flexibility, which influenced the change in the value of the dollar against the Ukrainian currency at the end of the year. The official exchange rate of the hryvnia to the US dollar remained stable at 36.5686 UAH/USD until October 3, 2023¹⁸. The regulator supported the hryvnia, but allowed the exchange rate to react to market trends. On December 1, the NBU eliminated all restrictions on the possibility of selling currency in cash for individuals¹⁹.

Since the beginning of the full-scale war, i.e. February 24, 2022 to the date of publication of the report, data from the Ukrainian statistical office on average wages and the unemployment rate have not been published. The labour market in Ukraine is still struggling, but some recovery was noticed in 2023. The number of vacancies remains far from what it was like before the war, but the number of job offers is on the increase every month²⁰.

Concurrently, the Ukrainian market is facing a shortage of workers. It results from emigration and internal migration initiated upon the outbreak of the war. The labour market is also influenced by military mobilization and the fact that many people are killed in action. The greatest scarcity of workers is observed in the medical and commercial sectors²¹.

2023 was a year of revival in the real estate and construction market in central and western Ukraine. In the capital, most developers announced the continuation of work on residential complexes. In the west of the country, where many new projects were launched, the situation was even better. Since the beginning of the year, the cost of a square meter in new construction has increased by around one third²².

Many construction companies suffered from material supplies, increased construction costs, and labour instability due to military mobilization. In addition, significant infrastructure damage in some regions forced urgent reconstruction, which may stimulate demand for construction services in the long run. Construction materials suppliers who previously imported products from Russia and Belarus were also forced to switch to products from the EU and Turkey.

The closure of Ukrainian ports prevented the import of construction materials by sea. By the end of 2023, the import of raw materials and materials was hindered by Polish and Slovak carriers blocking the border with Ukraine. This contributed to a boost in prices and longer lead times of imported construction materials. Following the border blockade, logistics costs doubled, leading to a 5-10% increase in prices of imported construction materials²³.

The World Bank forecasts that Ukrainian GDP is to go up by 3.2% in 2024²⁴.

¹⁷ Source: National Bank of Ukraine, <https://bank.gov.ua/ua/monetary/archive-rish>

¹⁸ Source: National Bank of Ukraine, October 2023, <https://bank.gov.ua/ua/news/all/nbu-vprovadjuye-kerovanu-gnuchkist-obminnogo-kursu-scho-posilit-stiykist-valyutnogo-rinku-ta-ekonomiki> ?fbclid=IwAR0xqm5eVbkLx4j3aa4TpkNOSlmyKmGx-QVOYMO8vFeXoLPCrFkRS8fs5IA

¹⁹ Source: National Bank of Ukraine, November <https://bank.gov.ua/ua/news/all/natsionalniy-bank-i-nadali-pomyakshuye-valyutni-obmejennya-dlya-biznesu-ta-gromadyan>

²⁰ Source: Pravda Ekonomiczna Portal, January 2024, <https://www.epravda.com.ua/publications/2024/01/9/708528/>

²¹ Source: National Bank of Ukraine, January 2024, https://bank.gov.ua/admin_uploads/article/MMR_2024-01.pdf?v=6

²² Source: Portal Biznes NV, December 2024, <https://biz.nv.ua/ukr/markets/2023-rik-vidnovlennya-na-rinku-neruhomosti-ukrajini-50380482.html>

²³ Source: Gmk center portal, December 2024, <https://gmk.center.ua/opinion/budivelnij-rinok-u-2023-roci-mozhe-zrostiti-na-25/>

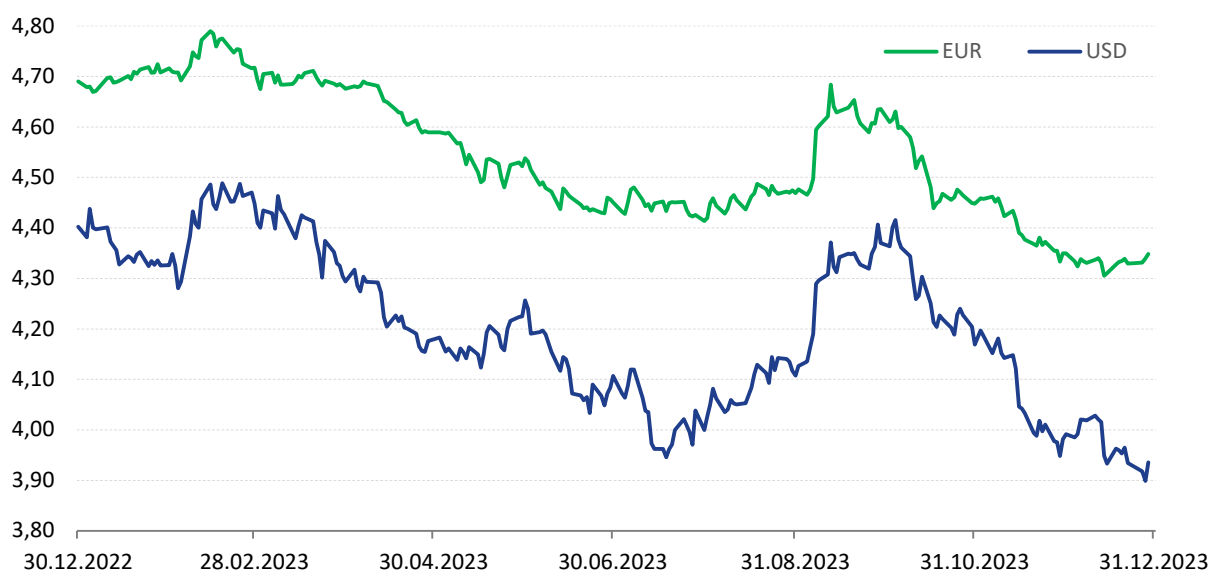
²⁴ Source: World Bank, Global Economic Prospects, <https://www.worldbank.org/en/publication/global-economic-prospects>.

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

In 2023, the Polish zloty strengthened against major currencies, including the euro. Data of the National Bank of Poland indicate that the average euro exchange rate in 2023 dropped to PLN 4.54 from PLN 4.69 in the previous year. In the analysed period, the EUR/PLN exchange rate was volatile, oscillating between PLN 4.31 and PLN 4.79. The appreciation of the Polish zloty against the euro calculated on the basis of the exchange rate from the end dates of the analysed period amounted to 7.3% (with the exchange rate at the end of 2023 at PLN 4.35), with a relatively low volatility coefficient of quotations (2.8%), calculated on the basis of the deviation standard and arithmetic mean.

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

Figure 2. EUR and USD quotations against PLN



Source: NBP.

In 2023, the exchange rate of 100 Hungarian forints against the Polish zloty decreased on average to PLN 1.19 from PLN 1.20 in the previous year. During this period, the 100 HUF/PLN exchange rate was volatile, oscillating from approximately PLN 1.13 to PLN 1.26. The appreciation of PLN against HUF calculated on the basis of the exchange rate from the end dates of the analysed period amounted to 3.1% (with the exchange rate at the end of 2023 at PLN 1.14), with a relatively high volatility coefficient of quotations (2.8%).

Figure 3. HUF quotations against PLN



Source: NBP.

In 2022, due to the extraordinary situation on the Ukrainian market, the Group introduced a change in the rules regarding the translation of financial statements of Śnieżka-Ukraina, for which the Ukrainian hryvnia (UAH) is the functional currency. The mentioned change was also applicable in 2023.

The policy that the Group applies when converting items expressed in foreign currencies is described in item 2.4.6. *Translation of items expressed in foreign currencies* of the Consolidated Financial Statements for 2023.

In the context of the above changes, the Group adopted the closing rate as at December 31, 2023, set by the National Bank of Poland at which the Group exchanges UAH for PLN, i.e. 1 UAH = PLN 0.1037.

Figure 4. UAH quotations against PLN



Source: NBP.

5.2. REGULATORY ENVIRONMENT

The regulatory environment for the Śnieżka Group includes laws and regulations that influence the way business is conducted and define obligations and responsibilities in various areas. Śnieżka constantly monitors legal changes that apply to it.

The most important legal regulations that are to affect the Śnieżka Group's operations in 2024 are as follows:

- The Regulation of the European Parliament and the EU Council 2020/852 of 18 June 2020 on establishing a framework to facilitate sustainable investment, amending Regulation (EU) 2019/2088 (hereinafter: Taxonomy),
- Directive 2014/95/EU of 22 October 2014 amending Directive 2013/34/EU as regards the disclosure of non-financial information and information on diversity by certain large entities and groups (hereinafter: NFRD) and Directive 2022/2464 of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU as regards corporate sustainability reporting (hereinafter: CSRD).

Below are presented which of the regulations mentioned above affect the operation of the Śnieżka Group:

Environmental regulations: The Śnieżka Group, as a manufacturer of paints and varnishes, is subject to environmental protection regulations, including emissions of harmful substances into the atmosphere, waste management, water consumption and principles of conducting business in nature protection areas. The introduction of new environmental regulations may require adjustment of production processes, increased investment in cleaning and environmental protection technologies, and changes in the purchasing policy of raw materials and packaging.

National regulations on key markets: The Śnieżka Group operates on many domestic and foreign markets, therefore national regulations on these markets may have a significant impact on its operations. This applies to both the markets where Śnieżka Group companies are located and sales markets (e.g. Poland, EU countries). The regulations in question may cover various areas such as trade, taxes, consumer protection, antitrust laws, etc.

Regulations regarding suppliers and raw materials: The Śnieżka Group cooperates with a diversified group of suppliers, and in the production of paints and varnishes it takes advantage of a wide selection of raw materials, monitoring the published formulations and adapting them to existing and future legal requirements. Further changes in regulations regarding the availability, price, quality and sustainable use of raw materials may have a significant impact on the operations of the Śnieżka Group. This may include the introduction of new restrictions on chemicals, changes in raw material prices, and the need to vet suppliers to ensure they meet new regulatory requirements. All these changes require the Śnieżka Group to adapt to new legal requirements, which leads to greater organizational effort.

5.3. CONDITION OF THE SECTOR

The main markets where the Śnieżka Group operated in 2023 were as follows: Poland, Hungary and Ukraine. In the reported period, the Group's revenues generated on these three markets accounted for 94.2% of consolidated sales revenues.

In the reporting period in Poland and Hungary, the market recorded an increase in value, with a simultaneous decrease in quantity. This was mainly due to increases in product sales prices, consumer concerns about the economic situation, maintaining the premiumization trend observed in previous years and a decline in the real purchasing power of consumers (in Hungary) in the face of high inflation.

The year of 2023 was a challenging one for the industry in Ukraine due to the need to operate in conditions of high uncertainty and requiring high flexibility. Throughout the national economy, also in the paint industry, challenges were related to limited human resources and lower purchasing power of consumers, availability of raw materials, and logistics and transport. Despite these adversities, the industry performed significantly better than in 2022, although it did not come close to the pre-war level recorded in 2021.

In addition, the condition of the industry on the markets in question in 2023 was affected by increases of prices of raw materials, energy and exchange rate fluctuations, which impacted the extent of the raise in selling prices.

Poland

According to the data of the Polish Association of Paint and Adhesive Producers, in 2023, the decorative paint market recorded an increase of 13% y/y, to PLN 2.62 billion, with a simultaneous decrease in the volume sold y/y in litres by 2%²⁵.

The causes of this condition are complex. In the foreground are the high inflation dynamics observed throughout 2023, the uncertainty caused by the war in Ukraine, as well as widespread concerns about the country's economic condition.

The economic situation on the Polish market of paints and agents for wood protection and decoration is also dependent on the consumer sentiment. The situation of the Polish market of paints and wood agents in 2023 was affected by a very low level of consumer confidence. The average level of the Current Consumer Confidence Indicator (BWUK)²⁶ in 2023 was at the low level (-26.3) which, however, and it is worth emphasizing, consistently increased in the following months. In January 2023, BWUK was at the lowest level of the year (-38.1), and in December this level was comparable (-15.2) to the results recorded in the summer of 2021²⁷. Similarly to 2022, the Leading Indicator of Consumer Confidence (WWUK) is slightly above BWUK, which means that consumers declared greater optimism as for the next 12 months (2023: -14.8). December's WWUK reading was as high as -6.4²⁸.

According to the Company's internal data, as in previous years, decorative paints were used primarily for renovation or restoration of apartments²⁹, while - as the Group estimates - the decision to purchase them was less frequent when it was necessary to finish a new apartment. Consumers are looking for high-quality products with good coverage properties that can be painted efficiently.

In 2023, no changes occurred among the main players on the Polish market of paints and agents for wood protection and decoration. The entities with the largest shares on the Polish market currently include: Śnieżka Group companies, PPG Deco Polska and AkzoNobel Polska. According to the Company's estimates, their share in the total sales of decorative products in Poland amounts to over 80% (in value terms).

Hungary

According to the Group's estimated data, in 2023, the Hungarian market of paints and agents for wood protection and decoration continued the trend of growth in value (single-digit y/y increase in percentage terms in local currency) and simultaneous decline in volume (double-digit decrease y/y in percentage terms).

In 2023, the industry encountered a number of challenges that are the aftermath of those from previous years, namely: high inflation dynamics, decline in real wages, limited access to financing, general concern about the economic situation and - partly - uncertainty caused by the war in Ukraine.

²⁵ Polish Association of Paint and Adhesive Producers, Results of the decorative paint industry for 2023.

²⁶ The BWUK and WWUK indicators range from -100 to +100. Values above zero indicate an improvement in the economic situation, while negative values indicate a deterioration.

²⁷ Source: Central Statistical Office, Consumer economic situation - December 2023.

²⁸ Ibidem.

²⁹ Source: Group internal research.

According to the Group's data, the largest consumption of paints and wood decoration products on the Hungarian market was related to renovation works and refreshing flats and houses. As in Poland, Hungarian consumers pay attention to the ease of painting and good coverage properties when choosing products³⁰.

The year 2023 did not bring significant changes among major players operating on the Hungarian market. The largest entities operating in Hungary in the segment of paints and products for wood decoration and protection are: Poli-Farbe from the Śnieżka Group, PPG Trilak and AkzoNobel Coatings. Their total market share is estimated at approx. 75% of the entire market (in value terms).

Ukraine

According to the Group's data, 2023 was a relatively positive year for paint and varnish producers, despite the on-going war in Ukraine. Manufacturers managed to increase production, producing significantly more products than in the same period of 2022, but the production of the indicated categories did not reach pre-war levels³¹.

Companies in the industry operated more stably than last year. Most of them have resumed production activities in regions where it is possible. Concurrently, some manufacturers are considering various opportunities to work in other segments and other sales channels, depending on the needs and market situation.

In Q1 of 2023, Ukraine was affected by problems related to massive missile attacks on critical infrastructure, which generated power outages and temporarily destabilized the operation of production plants. Uncertainty of energy supplies in winter prompted most producers in the eastern and central regions of Ukraine to stockpile raw materials for their own production. At the end of Q1 of 2023, some companies from the industry located in eastern Ukraine, which suffered as a result of the armed conflict in 2022, began to resume operations after electricity supplies had stabilized. The second quarter of 2023 brought a significant increase in production, but the pace did not remain at an equally high level in the second half of the year.

One of the main challenges for the industry is the logistics and delivery of raw materials, the majority of which are imported from Europe. This affects high production costs³². The problem is predominantly faced by enterprises located in the eastern regions of Ukraine.

In 2023, producers encountered staffing difficulties related to mobilizing men for the army. Calling up employees to active military service is an additional burden for companies that have faced the challenge of finding and training new personnel. This also had an impact on the production and sales processes in the regions.

The last quarter of 2023 brought an unexpected situation related to the blockade of border crossings. This resulted in queues lasting several days and led to downtime in many production plants due to lack of supplies of raw materials.

The biggest players in the production of decorative paints on the Ukrainian market are as follows: Śnieżka-Ukraina, Tikkurila, Meffert Hansa Farben, Henkel, ZIP, DAW, Eskaro, Feidal, Polisan, Olejnikov.

5.4. RAW MATERIALS

The year 2023 was characterized by insignificant fluctuations in raw material prices. The price increase of raw materials and packaging in 2023 was driven by the increase in transport costs as well as costs related to labour remuneration.

In addition, temporary increases in raw material prices were still influenced by the geopolitical situation, which

³⁰ Group internal research.

³¹ Source: Chem-Courier, January 2024, https://chem-courier.com.ua/ru/productfilter?select=HK_LKMUKRAINE.

³² Source: Chem-Courier, January 2024, https://chem-courier.com.ua/ru/productfilter?select=HK_LKMUKRAINE.

destabilizes some raw material groups and supply chains in Europe and worldwide. However, the euro exchange rate had a positive impact.

Occasional problems at the turn of the year, as well as the above-mentioned difficulties on the border with Ukraine in the last weeks of 2023, did not significantly limit access to raw materials.

At the end of 2023, no other significant events or threats in the area of procurement took place that would have a significant impact on ensuring the continuity of supplies of raw materials.

6. DEVELOPMENT PROSPECTS

6.1. FACTORS AFFECTING THE DEVELOPMENT AND PERFORMANCE

The performance of the Śnieżka Group in the perspective of 2024 (similarly to 2023) will be influenced primarily by the performance of FFIL Śnieżka SA (parent company) and Śnieżka Trade of Colours Sp. z o.o.

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

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

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

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

Demand in the coming months may be influenced by rising, although still low, readings of consumer sentiment, stagnation in purchasing power, as well as a greater tendency to save and temporary restrictions on large expenditures in connection with the monetary policy of the National Bank of Poland. This largely comes down to maintaining high interest rates and limiting lending, thus reducing the amount of money on the market. As analysed by the Central Statistical Office, the average annual consumer sentiment in Poland - aggregated in the current consumer confidence indicator (BWUK) - in 2023 was at a low level (-26.3), although it increased in each subsequent quarter of the year. In the last quarter of 2023, the result was significantly higher than the annual average and amounted to -15.2. Also the Leading Indicator of Consumer Confidence (WWUK), describing the expected individual consumption trends in the next 12 months, maintained a similar upward trend³³.

In the reporting period, the Group observed a slight increase in demand for decorative products on the Polish market, which is responsible for over 2/3 of its sales revenues. On the Hungarian market, sales volume remains in a downward trend, while on the Ukrainian market, demand has increased significantly compared to the difficult year of 2022 in this respect, yet has not reached the results recorded prior to the outbreak of the full-scale war in Ukraine.

The Group analyses, including: how global factors (e.g. the effects of the war in Ukraine) and local ones (e.g. inflation and changes in wages) affect the GDP indicator in individual countries, with which the condition of the decorative paints industry is strongly correlated. A constant element of the activities carried out is the monitoring of situation in this sector on key markets, which provides the possibility of predicting alternations in consumer attitudes, as well as adapting the Company's offer as well as marketing and sales activities to volatile conditions.

³³ Source: Central Statistical Office, Consumer economic situation - January 2024.

2. Armed conflict on the territory of Ukraine

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

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

At the moment, there are no premises that would indicate the loss of the ability to continue business operations in Ukraine.

However, the possible escalation of the conflict may also have a negative impact on renovation works and, consequently, on the demand for the Company's products.

The on-going warfare in Ukraine may have an essential effect on the future performance of Śnieżka-Ukraina and, as a result, the entire Capital Group. The industry's performance in 2023 has significantly improved compared to the previous year, giving a signal that the demand for renovation products (including decorative ones) may return to the pre-war performance relatively quickly. Concurrently, due to external factors and the current market environment, the Management Board of the Company is currently unable to estimate the impact of the war on the future performance of the Group on the said market.

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

As at December 31, 2023, the Group performed an impairment test for assets located in Ukraine. The test result showed no impairment. Details regarding the methodology and assumptions for the test are presented in note 2.2.7 of the Consolidated Financial Statements for 2023.

The exposure to risk of assets held in Ukraine as at December 31, 2023 is as follows:

Table 2 The exposure to risk of assets held in Ukraine as at December 31, 2023

Data in PLN '000	Balance as at 12.2023
Tangible fixed assets	17 315
Inventory	8 634
Short-term receivables	4 299
Cash	23 734
Other assets	403
Total assets	54 386
Net assets (Equity)	49 039

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

The reading from the Goods Trade Barometer of the World Trade Organization (WTO) in November 2023 was 100.7 points (improving the level compared to the August reading of 99.1 points)³⁴. According to October forecasts, the WTO expects the upward trend in trade and production to continue until the end of the forecast horizon, i.e. until the fourth quarter of 2024. According to pundits, the recent trade situation and 2023 performance are in line with the estimated confidence interval indicated in the previous WTO forecast of April

³⁴ Source: World Trade Organization (WTO), WTO trade barometers – November 2023, February 2024.

2023. Trade is expected to grow faster than GDP in 2024, which may be influenced by the relatively high share of cyclical-sensitive investments and durable goods in trade compared to GDP. According to the same source, the volume of global trade in goods in 2024 is to increase by 3,3% (compared to the estimated increase of 3.2% in April 2023), while the global GDP is to grow at a rate of 2.5% y/y (against 2.6 % estimated in April 2023).

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

The highest risk for the trade outlook is a stronger-than-expected slowdown in China and a return of inflation in developed economies, which would require interest rates to remain higher for a longer period³⁵.

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

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

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

5. Changes in currency exchange rates

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

6. Increase in energy prices affecting production costs

The experience of recent years indicates great instability in energy purchase prices, at the same time it should be emphasized that the company is low energy-intensive. In the current macroeconomic and geopolitical environment, a strong cost pressure sustains as regards energy prices, which affects the increased production costs. The Group conducts analyses aimed at implementing investments that will significantly increase the share of green energy in its energy consumption structure in two key markets, i.e. in Poland and Hungary. These activities are part of *Śnieżka 2023 + Sustainable Development Strategy*.

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

The legal regulations of the European Union relating to the paint and varnish industry are becoming more and more restrictive. They are also characterized by increasing complexity. For example, legal regulations are becoming more and more stringent regarding the content of biocides allowed in paints, as well as other substances used in production that pose health and environmental hazards. The greater emphasis is placed on the use of natural components in paints, which on the one hand are responsible for the safety of the product, but on the other hand shorten its shelf life. Adaptation works ensuring compliance with European Union

³⁵ Source: World Trade Organization (WTO), Global Trade Outlook and Statistics. Update: October 2023, February 2024.

requirements therefore focus on ensuring that pro-ecological properties are accompanied by equally high durability and quality of products.

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

Owing to its own Microbiological Laboratory, not only does the Group regularly perform tests necessary to comply with new legal requirements, but also conducts research and analyses ahead of the applicable legal status, while ensuring high quality of the offered products as well as safety of use.

8. Actions to prevent climate change

In the coming years, the situation on the market of construction chemicals, including paints and agents for wood protection and decoration, may also be influenced by actions aimed at stopping unfavourable climate change, including regulatory and stimulating actions as part of the implementation of the Paris Agreement and the EU strategy *European Green Deal*.

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

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

The Śnieżka Group publishes carbon footprint values in the scope of 1, 2 and 3. The data covers the period from 2020. For FFIL Śnieżka SA and Śnieżka TOC, a target has been set to reduce greenhouse gas emissions in Scope 1 and Scope 2 (in total) by 45% in 2023 and 50% by 2025 compared to the 2020 level (according to the market-based method). Work is scheduled for 2024 on determining the reduction values in scope 3 (described in the Report in item 10.3.3.1). The Company has also developed and is implementing the *2023+ Sustainable Development Strategy*, an important part of which are activities aimed at contributing to preventing climate change and minimizing the impact on the environment.

6.2. KEY DEVELOPMENT DIRECTIONS

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

The goals supporting the implementation of the strategy of the Group and FFIL Śnieżka SA for 2024 and subsequent years are as follows:

Consolidation of position on main domestic markets and in exports

In the coming periods, the Śnieżka Group intends to continue its consistent approach to creating strong brands and building market share by focusing on its main markets. In Poland, the Group aims at further strengthening its position in the category of decorative paints and agents for wood protection and decoration, as one of the leading producers in its business lines.

The Śnieżka Group plans to develop its product portfolio in Hungary and continue to implement an approach based on active optimization, both in relation to the current product portfolio and through new implementations.

In Ukraine, the Group focuses on maintaining business continuity and adapting the scale of production to changing market needs during the war, with a concentrated approach to the development of selected products and categories.

As part of further building the presence and position of the Capital Group's brands in export countries, Śnieżka is to develop actively its presence in selected, carefully selected geographical directions that will represent the highest potential for the Group.

Development of the offer in current sales channels and offering direct cooperation to B2B customers

In the coming periods in Poland, the Śnieżka Group intends to offer direct cooperation and purchase of a variety of decorative paints and wood protection products to commercial and service companies serving contractors and B2C customers, which constitute a single sales point with a local reach. By the end of 2023, the Śnieżka Group offered the possibility of purchasing the above-mentioned products to a group of B2B customers running wholesale activities, in subsequent periods this option will also be available to a limited group of retail outlets that work directly with end customers.

The Śnieżka Group, recognizing the potential in the development of the Foveo-Tech brand in the business line of insulation systems, is to offer selected customers the opportunity to liaise on the basis of the *store-in-store* concept, providing business partners with specific support both at the retail point of sale and know-how.

Further active work in the ESG area

In 2024, we will continue to implement *Śnieżka's Sustainable Development Strategy 2023+*, which will be subject to review and update.

The 2024 continued ESG goals include: those related to SLL financing (which Śnieżka obtained in 2023):

- Development of products featuring a low environmental impact
- Transformation towards green energy
- Reduction of GHG emissions

The remaining objectives are described in item 10.2.3.

In 2024, the Company is to go on with activities to prepare it to comply with the requirements of the (*CSRD - Corporate Sustainability Reporting Directive*), including developing readiness for reporting in accordance with new reporting standards (*ESRS - European Sustainability Reporting Standards*). The stages planned for 2024 include: a full double materiality assessment, defining carbon footprint reduction objectives and developing an ESG risk management system.

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

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

6.3. STRATEGIC OBJECTIVES



In 2023, the Management Board, with the involvement of the managerial staff, worked on defining strategic objectives for the Group for the coming years. Together with the publication of this annual report, we decided to announce new strategic objectives of the Śnieżka Group until 2028. Not only will their implementation increase the financial value of the Group, but will also strengthen its market position. Taking into account the financial aspect, by 2028 we intend to achieve consolidated net revenues of PLN 1.1 billion, with an EBITDA margin of 18%. In addition, one of the strategic assumptions is a market share higher than 20% in our key countries, i.e. Poland, Hungary and Ukraine.

We will also focus on further increasing the recognition of our core brands: Śnieżka, Magnat, Polifarbe, Vidaron, so that they can become the first three brands indicated by consumers in recognition studies carried out on our key markets. Another element of our plans is the systematic improvement of ESG indicators assessed by the renowned EcoVadis company. The strategic objectives also include building an engaging work environment, which will be measured by eNPS research among the Group's employees. In this respect, we will strive to obtain a positive result, demonstrating the satisfaction and commitment of the team.

The adoption of these objectives is based on the assumption that the conditions for conducting business activities will remain stable, which includes legal, tax and administrative regulations in Śnieżka's key markets. The Management Board also assumes that there will be no extraordinary one-off events that could affect the implementation of the strategy.

Additionally, these plans assume maintaining the Management Board's objectives regarding the dividend payment recommendation (in accordance with current report 5/2022).

6.4. DEVELOPMENT PLANS

In the coming periods, the Śnieżka Group is to continue its current course for strategic objectives, both in the context of product development and geographical directions. It will still be essential to maintain and increase market shares in key markets both in Central and Eastern European countries and in non-European areas. Śnieżka intends to achieve this goal by strengthening its brands among consumers and professional customers.

The Śnieżka Group still recognizes risks arising from the instability of the geopolitical situation in the region and on the markets in which it conducts its operations - these risks are subject to scrutiny and tracking on an on-going basis.

The Śnieżka Group consistently follows the previously chosen path of brand and product development. The changes carried out in the field of digital transformation and the construction of a modern Logistics Centre enable better response to the challenges of the dynamically changing market and new trends. Due to digitalization and changes in the customer purchasing process, the Śnieżka Group strives to address the needs of its customers more comprehensively and faster, using consistently implemented key changes and investments. As far as the development of the Śnieżka Group is concerned, it will also be crucial to constantly monitor consumer sentiments and attitudes, analyse the macroeconomic situation and the condition of the sector of paint, wood care and protection agents as well as other products on key markets for the Group. Consequently, it will be possible to foresee changes in consumer attitudes and to accommodate the offer to the changing competitive conditions in individual countries. The flexibility of the business is also a challenge, which allows to quickly and effectively adapt to the volatile reality.

The company is conducting development activities in the field of ESG, which are intended to allow it to maintain the EcoVadis gold medal in 2024.

Development plans of the Group in Poland

On the Polish market, the Śnieżka Group is to continue to develop its presence in the two largest sales channels:

- On the independent market
- On the market of DIY stores

Starting to offer products and services to a selected group of smaller customers in the independent market channel will allow us to provide a broader offer and reach the end customer, i.e. contracting companies, investors and final consumers, with a more comprehensive product range.

As for the DIY supermarket channel, the Group notices and addresses consumer trends, adapting the offer and living up to the expectations of its customers.

Development plans of the Group in Hungary

The Śnieżka Group is to further actively develop its product offer on the Hungarian market in the following two sales channels:

- On the independent market
- On the market of DIY stores and on other retail chains

The Company - by building the presence of brands and products - will continue its strategy of active development of cooperation with stores it serves directly and with distributors conducting wholesale activities.

The Hungarian market features trends similar to those in Poland regarding consumer behaviour and their approach to shopping, especially among customers of DIY construction stores. The Śnieżka Group plans to actively address these observations and on-going changes, both at the level of the product offer and in the context of changing customer purchasing preferences and methods of searching for information about products.

Development plans of the Group in Ukraine

Still, a significant factor that may have an impact on the strategic plans of the Group is the geopolitical situation in Eastern Europe. The Śnieżka Group is to undertake specific activities associated with the development of the product portfolio and the presence of brands in the minds of Ukraine's end consumers.

Recognizing the potential and development of specific product categories, the Group plans product implementations in both the independent and modern channels.

Development plans of the Group on other export markets

Owing to recognizing the potential and selecting the most profitable export directions, the Śnieżka Group will actively win customers from markets other than those mentioned above. Śnieżka assumes addressing this potential with a strictly defined product portfolio selected to live up to consumers' needs in specific markets in liaison with partners representing the highest operational capabilities and potential in a given market.

7. GROUP ACTIVITIES

7.1. SALES VOLUMES

In 2023, the Śnieżka Group generated sales revenues of PLN 857,773 thousand, i.e. 8.3% higher than in 2022. The consolidated performance was positively influenced by higher sales on the Polish market, which has a dominant share in the Group's total revenues, and significantly higher sales on the Ukrainian market, which is rebuilding its share in the Group's revenue structure. Lower sales on the Hungarian market had a negative impact on revenues in 2023.

The implementation of a long-term marketing and sales strategy, one of the elements of which is the pricing policy, had a positive impact on the performance of the season and the entire year 2023. It includes, inter alia: consistent implementation of product price changes in response to rising production costs, as well as due to higher costs of running a business (mainly costs of transport, logistics, financing and salaries).

It is worth emphasizing that unfavourable macroeconomic conditions continued throughout the entire year 2023, affecting the entire industry in which the Group operates. This includes: high inflation contributing to a decline in consumers' purchasing power and still unfavourable - although improving compared to last year - consumer sentiment indicators reflected in surveys. Throughout the 2023 season, the demand in the industry was influenced by the trend of premiumization, i.e. consumers buying higher quality products, observed primarily in Poland. In spite of the difficult economic environment, in 2023 the Group increased its shares in Polish and Ukrainian markets.

The Group's performance in 2023 was also significantly affected by the unstable geopolitical environment, including the pending armed conflict in Ukraine and its effects on the entire region of Central and Eastern Europe, where the Group's key markets are located.

The sales volumes in the period January-December 2023 on the main markets (and the most important factors that contributed to them) are as follows:

- **Poland** (69% share in the revenue structure, +1.1% y/y)

Sales revenues generated by the Group on the Polish market amounted to PLN 591,090 thousand and thus were 10% (PLN 53,870 thousand) higher compared to the previous year.

According to the Group's own data, this performance is better than the performance of the entire decorative products market (home decoration items), which allowed the Group to increase its market share in Poland. The increase in sales value in Poland resulted predominantly from an appropriately shaped marketing and sales strategy, including pricing one.

- **Hungary** (14.9% share in the revenue structure, -2.4% y/y)

In Hungary, the Group's sales revenues amounted to PLN 128,153 thousand and were by 6.3% (i.e. by PLN 8,626 thousand) lower than in 2022. This is principally a consequence of the exceptionally difficult macroeconomic environment. The significant weakening of purchasing power and deterioration of

sentiment among Hungarian consumers were the aftermath of record high inflation. Hungarian consumers' postponement of renovation plans last year had a negative impact on demand for products of the entire industry.

According to the Group's own data, this performance is worse than the performance of the entire market of decorative paints and agents for wood protection and decoration, which resulted in a slight decline in the Group's market share.

- **Ukraine** (10.3% share in the revenue structure, +1.7% y/y)

In Ukraine, the Group generated revenues of PLN 88,439 thousand, i.e. 29.6% (PLN 20,194 thousand) higher compared to 2022. The performance of 2023 is difficult to compare with 2022 due to the war on the territory of this country. At the outset of the war, the Śnieżka Group temporarily suspended the operational activities of the Śnieżka-Ukraina company, suspending deliveries and production on February 25, 2022. On April 11, 2022, the Ukrainian company was the first to resume both production (initially for one shift, then full-time) and sales on the market in question.

In 2023 the share of the Ukrainian market in the Group's revenue structure increased to 10.3% i.e. it approached the levels from the years preceding the war.

Given the situation in Ukraine, the performance of the Group on this market in 2023 turned out to be a positive surprise. There was an increase in demand for decorative paints and construction chemicals compared to the level recorded immediately after the outbreak of the war and throughout 2022.

This is primarily the effect of a moderately better situation in the western and central regions of Ukraine, where renovation works have been partially recommenced. The Management Board of the Company indicates, however, that the circumstances on the Ukrainian market remain uncertain and demanding.

On other markets ("Other" segment), the Group generated sales revenues of PLN 50,091 thousand, i.e. 1.3% (PLN 649 thousand) higher than the year before. The share of other markets in the revenue structure amounted to 5.8%, -0.4% y/y). In total, the Group's revenues generated in 2023 on foreign markets accounted for 31% of its total revenues.

In the reporting period ended as at 31 December 2023 no changes in the presentation of the Group's operating segments occurred.

Table 3 Sales revenues of the Śnieżka Group by countries in PLN '000

	for the period of 12 months ended as at 31 December 2023	Structure	for the period of 12 months ended as at 31 December 2022	Change (y/y)
Poland	591 090	69.0%	537 220	10.0%
Hungary	128 153	14.9%	136 779	-6.3%
Ukraine	88 439	10.3%	68 245	29.6%
Other	50 091	5.8%	49 442	1.3%
Total sales	857 773	100.0%	791 686	8.3%

The Group's sales structure is dominated by decorative products. In 2023, the Group generated revenues from their sales in the amount of PLN 694,659 thousand - i.e. 11.4% (PLN 71,116 thousand) higher than the year before. Decorative products accounted for 81% of the Group's total sales revenues. Construction chemicals featured the second highest share i.e. 12% (PLN 102,803 thousand) in the sales structure. This volume is lower by 3.5% (PLN 3,694 thousand) compared to 2022.

Table 4 Sales revenues of the Śnieżka Group by product categories (in PLN '000)

	the period of 12 months ended as at 31 December 2023	Structure	the period of 12 months ended as at 31 December 2022	Change (y/y)
Decorative products	694 659	81.0%	623 543	11.4%
Construction chemicals	102 803	12.0%	106 497	-3.5%
Industrial products	7 485	0.9%	9 820	-23.8%
Goods	38 833	4.5%	39 062	-0.6%
Other revenues	7 661	0.9%	5 887	30.1%
Materials	6 332	0.7%	6 877	-7.9%
Total sales	857 773	100.0%	791 686	8.3%

In terms of volume, the sales of the Group's products in 2023 amounted to 113.7 million l/kg and was lower by 6.5% compared to 2022. In relation to the increase in the value of revenues by 8.3% y/y, the quantitative result obtained illustrates the scale of price increases in the industry of decorative paints and products for the protection and decoration of wood in all markets of the Group and the trend of continued premiumization in Poland.

In the reporting period, the Group sold 67.236 million l/kg of decorative products (-4.4% y/y), 46.270 million l/kg of construction chemicals (-9.1% y/y) and 0.217 million l/kg of other industrial products (-37.6% y/y). The sale of goods, materials and services in terms of quantity is not disclosed due to the variety of measurement units used (tons, litres, pcs.) and the fact that it is not the main object of the Group's business.

Table 5 Product sales structure in the Śnieżka Group by categories in thousand litres / kilograms.

Breakdown	for the period of 12 months ended as at 31 December 2023	for the period of 12 months ended as at 31 December 2022	% change (y/y)
Decorative products	67 235,8	70 347,0	-4.4%
Construction chemicals	46 269,9	50 910,8	-9.1%
Industrial products	PLN 217.1	PLN 348.2	-37.6%
Total sales	113 722,8	121 606,0	-6.5%

FFIL ŚNIEŻKA SA

Śnieżka SA generates revenues primarily from:

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

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

In 2023 FFiL ŚNIEŻKA SA generated sales revenues in the amount of PLN 568,736 thousand, i.e. 11.3% (PLN 57,816 thousand) higher than in 2022. The predominant share in the Company's total revenues in the reporting period was the sale of products and goods to Śnieżka ToC, i.e. 90.5% recognized in the "Poland" segment. Compared to the previous year, sales in this segment increased by 11.2%, i.e. by PLN 55,743 thousand.

In addition, in the reporting period FFIL Śnieżka SA also generated revenues of PLN 13,738 thousand - mainly from the sale of materials (raw materials) to its subsidiaries located in Hungary, Ukraine and Belarus. The Company's revenues from sales to foreign markets (segments: "Hungary", "Ukraine" and "Other") accounted for 2.5% of its total revenues.

Table 6 Sales revenues of the FFIL ŚNIEŻKA SA by countries in PLN '000

	for the period of 12 months ended as at 31 December 2023	Structure	for the period of 12 months ended as at 31 December 2022	Change (y/y)
Poland	554 998	97.5%	499 255	11.2%
Hungary	1 565	0.3%	2 642	-40.8%
Ukraine	11 678	2.1%	8 391	39.2%
Other	495	0.1%	632	-21.7%
Total sales	568 736	100.0%	510 920	11.3%

In the breakdown by product categories, the Company's sales structure - as in the case of the entire Group - was dominated by decorative products, whose share in revenues amounted to 78.5% (+3,2% r/r). The next places in the sales structure were taken by: construction chemicals (6.1%), goods (5.9%) and other revenues (6.1%).

Table 7 Sales revenues of the FFIL ŚNIEŻKA SA by product categories in PLN '000

	for the period of 12 months ended as at 31 December 2023	Structure	for the period of 12 months ended as at 31 December 2022	Change (y/y)
Decorative products	446 575	78.5%	384 903	16.0%
Construction chemicals	34 579	6.1%	39 752	-13.0%
Industrial products	183	0.0%	179	2.2%
Goods	33 434	5.9%	32 349	3.4%
Other revenues	34 886	6.1%	31 212	11.8%
Materials	19 079	3.4%	22 525	-15.3%
Total sales	568 736	100.0%	510 920	11.3%

In quantitative terms, the sale of the Company's products in 2023 amounted to 58.821 million l/kg and was 9.1% lower than in the previous year. In the reporting period, the Company sold 45.995 million l/kg of decorative products (-1.1% y/y), 12.819 million l/kg of construction chemicals (-29.6% y/y) and 0.006 million l/kg of other industrial products (-19.9% y/y).

The sale of goods, materials and services in terms of quantity is not disclosed due to the variety of measurement units used (tons, litres, pcs.) and the fact that it is not the main object of the Company's business.

Table 8 Product sales structure in FFIL Śnieżka SA by categories in thousand litres / kilograms.

Breakdown	the period of 12 months ended as at 31 December 2023	the period of 12 months ended as at 31 December 2022	% change (y/y)
Decorative products	45 995,5	46 521	-1.1%
Construction chemicals	12 819,5	18 205	-29.6%
Industrial products	6.2	8.0	-19.9%
Total sales	58 821,2	64 734,0	-9.1%

7.2. FINANCIAL STANDING

The Śnieżka Group

The level of the Group's balance sheet values is influenced by the phenomenon of seasonality related to the volatile intensity of renovation and construction works in particular periods of the year (described in more detail in item 7.6 of the Report).

Table 9 The Śnieżka Group's assets

Group's assets	31.12.2023	31.12.2022	Change (y/y)
Fixed assets, including:	564 088	572 889	-1.5%
- Tangible fixed assets	492 172	496 131	-0.8%
- other fixed assets	71 916	76 758	-6.3%
Current assets, including:	254 698	220 946	15.3%
- Inventory	116 169	124 553	-6.7%
- Trade and other receivables	58 760	65 339	-10.1%
- Cash and cash equivalents	65 665	19 916	229.7%
- other current assets	14 104	11 138	26.6%
Non-current assets classified as held for sale	-	180	-100.0%
Total	818 786	794 015	3.1%

As at 31 December 2023, the value of assets of the Śnieżka Group amounted to PLN 818,786 thousand, which accounts for an increase by 3.1% (by PLN 24,771 thousand y/y) compared to the end of December 2022.

The value of the Group's fixed assets (representing 68.9% of its total assets) decreased by 1.5% over the year to PLN 564,088 thousand.

The value of the Group's current assets amounted to PLN 254,698 thousand, increasing by 15.3% compared to December 31, 2022. The main part of the Group's current assets were inventories valued at PLN 116,169 thousand. Their value compared to the end of the previous year decreased by a total of 6.7%. The second largest item was trade receivables and other receivables worth PLN 58,760 thousand, which is 10.1% lower than the year before. In addition, as at December 31, 2023, the Group held PLN 65,665 thousand cash (increase by 229.7% y/y).

Table 10. The Śnieżka Group's liabilities

Group's liabilities	31.12.2023	31.12.2022	Change (y/y)
Total equity, including:	374 144	321 242	16.5%
- Equity (attributable to the shareholders of the parent company)	347 799	292 942	18.7%
- Equity of non-controlling interests	26 345	28 300	-6.9%
Total liabilities	444 642	472 773	-6.0%
Long-term liabilities	223 545	244 850	-8.7%
Short-term liabilities, including:	221 097	227 923	-3.0%
- Trade and other liabilities	101 448	103 216	-1.7%
- Short-term liabilities on loans and borrowings	77 775	70 904	9.7%
- Other short-term liabilities	41 874	53 803	-22.2%
Total	818 786	794 015	3.1%

As at 31 December 2023, the Group had equity in the amount of PLN 374,144 thousand, i.e. higher by 16.5% than by the end of December 2022. At the same time, its level of external debt decreased. Consequently, the Group financed its operations from its own resources at 45.7%, which denotes an increase of this ratio by 5.2% over the year.

At the end of the reporting period, the Group's long-term liabilities amounted to PLN 223,545 thousand, which account for 8.7% fall (PLN 21,305 thousand) y/y. Liabilities due after twelve months from the balance sheet date accounted for 27.3% of the balance sheet total.

The Group's short-term liabilities amounted to PLN 221,097 thousand, lower by 3.0% y/y and accounted for 27.0% of the balance sheet total. Their decline stems primarily from a decrease in the liability for the option to purchase shares in Poli-Farbe (it is included in the short-term item since such a liability may potentially be due in 2024).

Compared to the end of December 2022, the Group's trade and other liabilities decreased by -1.7% (a decrease of PLN 1,768 thousand y/y).

Put and call options

The Group's balance sheet includes a put option, i.e. a liability under the option to purchase shares of Poli-Farbe Vegyipari Kft. held by a minority shareholder. It reduces the Group's equity. The essence of this option is that Lampo Kft. – the other shareholder of Poli-Farbe Vegyipari Kft. – has the right to sell (put option), and FFIL Śnieżka is obliged to purchase the remaining 20% of shares in this company. Details are described in note 2.2.4 of the Consolidated Financial Statements for 2023.

Whereas the call option entitles the Company, in special circumstances, to acquire the remaining 20% of shares.

Fabryka Farb i Lakierów Śnieżka SA

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

Table 11. FFIL ŚNIEŻKA SA's assets

Company's assets	31.12.2023	31.12.2022	Change (y/y)
Fixed assets, including:	657 287	659 754	-0.4%
- Tangible fixed assets	423 732	422 896	0.2%
- Shares and stocks in other entities	201 476	202 856	-0.7%
- other fixed assets	32 079	34 002	-5.7%
Current assets, including:	175 380	173 054	1.3%
- Inventory	88 071	84 185	4.6%
- Trade and other receivables	72 617	76 879	-5.5%
- Cash and cash equivalents	745	1 547	-51.8%
- other current assets	13 947	10 443	33.6%
Total	832 667	832 808	-0.0%

As at 31 December 2023, the value of Company's assets amounted to PLN 832,667 thousand and was at the same level as at the end of 2022.

The value of the Company's fixed assets (representing 78.9% of its total assets) decreased by 0.4% during the year to PLN 657,287 thousand. The greatest contributor to this was the decline in other fixed assets by PLN 1,923 thousand (-5.7% y/y) resulting mainly from the redemption of intangible assets.

The value of the Company's current assets amounted to PLN 175,380 thousand, i.e. it was 1.3% higher than as at December 31, 2022. The core assets were inventories, which were 4.6% higher than in the previous year, valued at PLN 88,071 thousand. The increase in inventories, on the one hand, is a derivative of the increase in raw material prices, which translates into higher prices of finished products in stock. On the other hand, it is the aftermath of optimization of supply chain management, including: launching a logistics centre and investing in the digitization of the supply chain. The second largest current assets were trade and other receivables (PLN 72,617 thousand), which decreased by 5.5% compared to 2022.

At the end of December 2023, the Company had PLN 745 thousand cash and cash equivalents (decline by 51.8% y/y) and PLN 13,947 thousand of other current assets in the form of income tax receivables.

Table 12. FFIL ŚNIEŻKA SA's liabilities

Company's liabilities	31.12.2023	31.12.2022	Change (y/y)
-----------------------	------------	------------	--------------

Equity	266 850	223 175	19.6%
Total liabilities	565 817	609 633	-7.2%
Long-term liabilities, including:	415 378	473 549	-12.3%
- Long-term interest-bearing loans and borrowings	402 239	464 472	-13.4%
- Other long-term liabilities	13 139	9 077	44.8%
Short-term liabilities, including:	150 439	136 084	10.5%
- Trade and other liabilities	63 491	69 509	-8.7%
- Current portion of interest-bearing loans and borrowings	75 417	58 094	29.8%
- Other short-term liabilities	11 531	8 481	36.0%
Total	832 667	832 808	-0.0%

As at December 31, 2023, FFIL Śnieżka SA financed its activities in 32% from its own funds, which denotes a decrease of this ratio by 5.2% compared to 2022. This is the result of a reducing the level of external financing.

At the end of the reporting period, the long-term liabilities of the Company amounted to PLN 415,378 thousand (decrease by PLN 58,171 thousand y/y) and accounted for 49.9% of the balance sheet total. The Company's short-term liabilities, however, increased by 10,5% (PLN 14,355 thousand). This balance sheet item was largely affected by the increase in the Company's current credit liabilities by PLN 17,323 thousand (up to PLN 75,417 thousand), as well as an increase in other liabilities by PLN 3,050 thousand (up to PLN 11,531 thousand), which resulted mainly from the increase in the liability under options for the purchase of shares owned by minorities. Pursuant to the agreement of acquiring 80% shares in Poli-Farbe, the Sellers are entitled to put option, under which 2 years after the completion of the first stage of the Transaction, Śnieżka is obliged to acquire, at the Sellers' request, the remaining 20% shares in Poli-Farbe.

As at the balance sheet date, the Company's trade liabilities decreased by 8.7% (by PLN 6,018 thousand y/y).

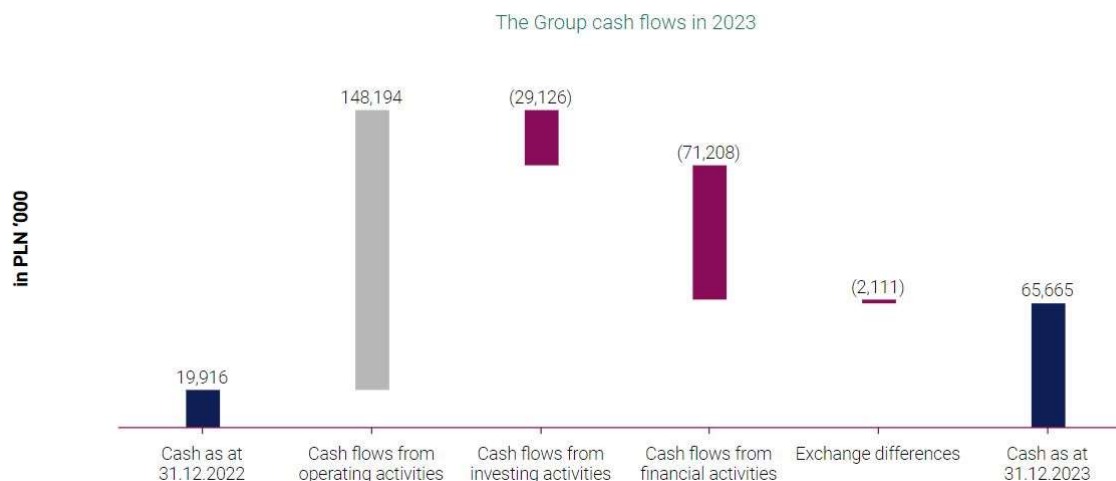
As part of the liabilities presented in the report, the Company has a loan from its subsidiary - Śnieżka ToC, which is an element of liquidity management in the Group. The total value of this loan is PLN 233,143 thousand including PLN 231,806 thousand (long-term liability) and PLN 1,337 thousand (short-term liability).

7.3. CASH FLOWS

The Śnieżka Group

In 2023, the Group generated positive cash flows of PLN 45,749 thousand (after adjustment for exchange rate differences from the translation of foreign units) against also positive cash flows in the amount of PLN 3,726 thousand a year earlier.

Figure 5. The Group's cash flows in 2023 (in PLN '000)



At the end of the reporting period, cash and cash equivalents of the Group amounted to PLN 65,665 thousand. This performance was affected by:

positive cash flows from operating activities in the amount of PLN 148,194 thousand.

Their amount was positively influenced primarily by the gross profit generated by the Group in the amount of PLN 101,014 thousand and adjustments made in the amount of PLN 78,851 thousand - including interest costs of PLN 23,117 thousand. However, the income tax paid reduced cash flows from operating activities (PLN 31,671 thousand).

negative cash flows from investing activities in the amount of PLN 29,126 thousand.

The Group companies spent a total of PLN 32,225 thousand for the purchase of tangible fixed assets and intangible assets. The vast majority of this amount is accounted for by expenses incurred in the production and IT areas.

negative flows from financial activities at the level of PLN 71,208 thousand.

In addition to the proceeds from the existing lines of credit in the amount of PLN 183,334 thousand, - resulting from investment needs and current operating activities - the greatest impact on cash flows from financial activities had a partial repayment of loans (PLN 200,683 thousand), including interest (PLN 22,651) and dividends paid (PLN 30,051).

Fabryka Farb i Lakierów Śnieżka SA

In 2023, the Company generated negative cash flows of PLN 802 thousand against also negative cash flows of PLN 5,772 thousand a year earlier.

Figure 6. FFIL ŚNIEŻKA SA's cash flows in 2023



At the end of the reporting period, the Company's cash amounted to PLN 745 thousand. They were a result of:

- **positive cash flows from operating activities in the amount of PLN 81,500 thousand.**

Their value was influenced primarily by gross profit after adjustments in the amount of PLN 104,700 thousand and income tax paid (PLN 23,200 thousand).

- **positive cash flows from investing activities in the amount of PLN 24,474 thousand.**

The Company spent PLN 21,672 thousand, more than half of which concerned investment areas such as production, IT and logistics. The Company in turn recorded proceeds from dividends received from subsidiaries in the amount of PLN 45,630 thousand: Poli-Farbe Vegyipari Kft. and Śnieżka Trade of Colours Sp. z o.o.

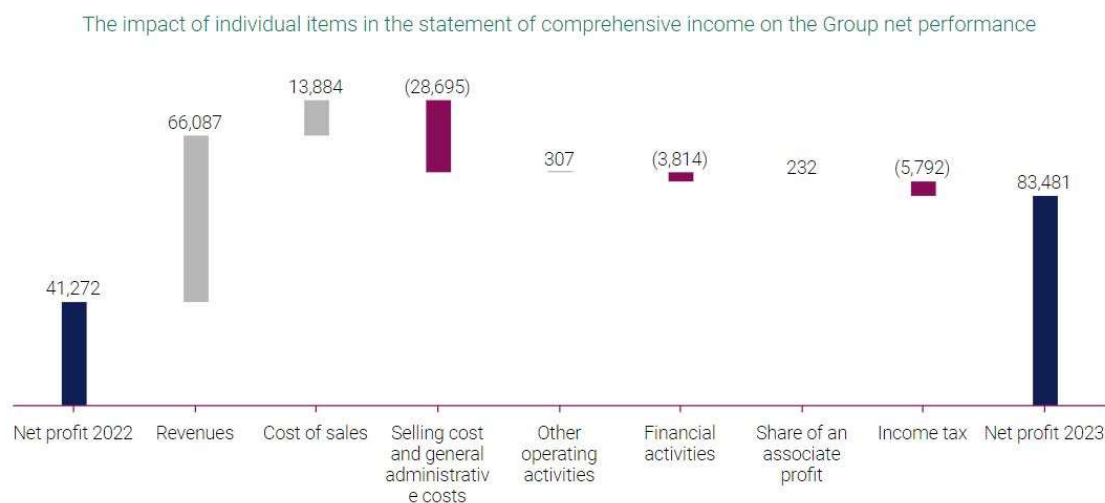
- **negative cash flows from financing activities in the amount of PLN 106,776 thousand.**

The greatest positive impact on this item had proceeds from existing lines of credit and loans, totalling PLN 261,126 thousand. The greatest negative impact was due to: partial repayment of loans and borrowings (PLN 301,410 thousand), repayment of interest (PLN 40,907 thousand) and the payment of dividends (PLN 25,236 thousand).

7.4. KEY FINANCIAL PERFORMANCE OF THE GROUP

In 2023, the Śnieżka Group generated consolidated net profit of PLN 83,481 thousand. i.e. - 102.3% higher than in the corresponding period of the previous year. Net profit attributable to the parent company's shareholders amounted to PLN 77,634 thousand (+111.6% y/y).

Figure 7. The impact of individual items in the statement of comprehensive income on the Group's net performance



The Group's bottom line in 2023 was primarily affected by:

- increase in sales revenues by 8.3% (PLN 66,087 thousand), with higher turnover on the Polish and Ukrainian market and on the markets recognized in the "Other" segment, and lower turnover recorded on the Hungarian market,
- a decrease in cost of sales by -2.8% (PLN -13,885 thousand y/y) to PLN 473,569 thousand, which was related to a decrease in sales in quantitative terms;
- an increase in selling cost and general administrative costs by 12.2% (PLN 28,695 thousand y/y) as a result of adjusting budgets and marketing and sales activities to the current market and economic situation and an increase, primarily, in salaries;
- higher profit from other operating activities by PLN 307 thousand;
- lower profit from financial activities by PLN -3,814 thousand, mainly through higher interest costs on loans drawn;
- higher income tax by 49.3% (PLN 5,792 thousand y/y)

No other factors or events occurred in 2023 than those described in the report, including those of unusual nature, having a significant impact on the consolidated financial statements.

Table 13. The basic elements of the profit and loss account of the Śnieżka Group

	for the period of 12 months ended as at 31 December 2023	for the period of 12 months ended as at 31 December 2022	Change (y/y)
Sales revenues	857 773	791 686	8.3%
Cost of sales	473 569	487 453	-2.8%
Selling costs	151 425	142 605	6.2%
General administrative costs	112 711	92 836	21.4%
Profit from other operating activities	936	629	48.8%
Profit from financial activities	(20 356)	(16 542)	23.1%
Share in associate's profit	366	134	173.1%
Gross profit	101 014	53 013	90.5%
Profit from operating activities (EBIT)	121 004	69 421	74.3%
Profit from operating activities + depreciation (EBITDA)	159 415	106 177	50.1%
Income tax	17 533	11 741	49.3%
Net profit, including:	83 481	41 272	102.3%
profit attributable to shareholders of the parent company	77 634	36 684	111.6%

7.5. FINANCIAL RATIOS

The Śnieżka Group

Group's profitability ratios

In 2023, the Śnieżka Group generated higher margins than in the previous year at all profit levels, i.e.: net (an increase by 4.5%, to 9.7%), EBIT (an increase by 5.3%, to 14.1 %) and EBITDA (an increase by 5.2%, up to 18.6%). The gross margin on sales was also higher (an increase of 6.4%, to 44.8%) - this is primarily the result of higher sales revenues (+8.3% y/y), with a simultaneous decrease in the cost of sales (-2.8% y/y).

In the reporting period, ROA ratios were also higher (as a result of a slight decrease in the average level of assets, while net profit doubled), as well as ROE (mainly due to higher net profit).

Table 14. The Group's profitability ratios

	for the period of 12 months ended as at 31 December 2023	for the period of 12 months ended as at 31 December 2022
EBIT margin in % (EBIT / Sales revenues) x 100%	14.1%	8.8%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	18.6%	13.4%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	44.8%	38.4%
Net profit (loss) in % (Net profit / Sales revenues) x 100%	9.7%	5.2%
Return on assets (ROA) * (Net profit / Total assets *) x 100%	10.1%	4.8%
Return on equity (ROE) ** (Net profit / equity - attributable to the shareholders of the parent company) x 100%	24.0%	12.1%

* 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 for the last 4 quarters divided by the average value of equity attributable to shareholders of the parent company at the end of the last 5 quarters.

Group's liquidity and debt ratios

As at December 31, 2023, the total debt of the Group decreased by 5.2% (to 54.3%), which results from a decrease in liabilities compared to an increase in assets. An increase in the Equity-Asset-ratio with equity by 10.3% results from the increase in the value of equity capital in the face of a slight decrease in the value of fixed assets.

Compared to the previous year, the Group's liquidity ratios improved. The leading current liquidity ratio increased from 1.0 to 1.2 - mainly due to a decrease in liabilities and a simultaneous increase in current assets.

The Śnieżka Capital Group manages its interest debt in a safe manner, assuming the optimal debt level of 1x EBITDA.

At the end of 2023, the Group's net debt/EBITDA ratio was 1.38 compared to 2.66 a year earlier.

In 2023, the Group limited investment expenditure to the level necessary for effective operating activities (the investments are described in more detail in item 7.7 of the Report).

Table 15. The Śnieżka Group's liquidity and debt ratios

	31.12.2023	31.12.2022
Current liquidity ratio (Current assets / Short-term liabilities)	1.2	1.0
Quick liquidity ratio (Current assets - inventories)/Short-term liabilities	0.6	0.4
Cash liquidity ratio (Cash and cash equivalents / Short-term liabilities)	0.30	0.09
Total debt ratio (Total liabilities / Total assets) x 100%	54.3%	59.5%
Fixed-asset to equity-capital ratio (Equity/Fixed assets) x 100%	66.3%	56.1%

Group's rotation ratios

In 2023, the Group's cash conversion cycle shortened by 9,6 days. The inventory and receivables turnover cycle was shortened while the liabilities cycle was minimally extended.

Table 16. The Śnieżka Group's rotation ratios

	for the period of 12 months ended as at 31 December 2023	for the period of 12 months ended as at 31 December 2022
Inventory cycle (Inventory level x 360 / Cost of sales) in days	88.3	92.0
Receivables cycle (Trade and other receivables x 360 / Sales revenues) in days	24.7	29.7
Current liabilities cycle (Trade and other liabilities x 360 / Cost of sales) in days	77.1	76.2
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	35.9	45.5

FFIL ŚNIEŻKA SA

Company's profitability ratios

In 2023, FFIL Śnieżka SA generated better margins than the previous year at the level of: operating profit EBIT (by 8.3%), EBITDA (by 8.6%), net profit (by 7.6%).

In the reporting period gross margin increased by 8.3% to 31.0%. This is a derivative of the higher growth rate of revenues (+11.3% y/y) compared to the growth rate of cost of sales (-0.6% y/y).

In the current model, the profits from the sale of products generated by Śnieżka ToC (which is responsible for marketing and sales activities in the Group) are transferred to FFIL Śnieżka SA in the form of dividends. The Company, as year before, also received a dividend from the Hungarian company. In the reporting period, the total income of the Company from dividends amounted to PLN 45 670 thousand.

Table 17. FFIL ŚNIEŻKA SA's profitability ratios

	the period of 12 months ended as at 31 December 2021	the period of 12 months ended as at 31 December 2022
EBIT margin in % (EBIT / Sales revenues) x 100%	19.7%	11.4%
EBITDA margin in % (EBITDA / Sales revenues) x 100%	24.1%	15.5%
Gross margin on sales in % (Gross profit on sales / Sales revenues) x 100%	31.0%	22.7%
Net profit (loss) in % (Net profit / Sales revenues) x 100%	12.2%	4.6%
Return on assets (ROA) * (Net profit / Total assets *) x 100%	8.1%	2.7%
Return on equity (ROE) (Net profit / equity**) x 100%	28.2%	10.4%

* 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 for the last 4 quarters divided by the average value of equity attributable to shareholders of the parent company at the end of the last 5 quarters.

Company's liquidity and debt ratios

At the end of 2023, the overall debt of the Company decreased by 5.2% to 68%. Fixed-asset to equity-capital ratio increased by 6.8%, which is a result of the increase in the level of equity.

Compared to the previous year, the Company's current liquidity ratios slightly deteriorated (1.2 compared to 1.3 last year).

This is primarily the result of an increase in short-term liabilities.

Table 18. The FFIL ŚNIEŻKA SA's liquidity and debt ratios

	31.12.2023	31.12.2022
Current liquidity ratio (Current assets / Short-term liabilities)	1.2	1.3
Quick liquidity ratio (Current assets - inventories)/Short-term liabilities	0.6	0.7
Cash liquidity ratio (Cash and cash equivalents / Short-term liabilities)	0.00	0.01
Total debt ratio (Total liabilities / Total assets) x 100%	68.0%	73.2%
Fixed-asset to equity-capital ratio (Equity/Fixed assets) x 100%	40.6%	33.8%

Rotation ratios

In 2023, the Company's cash conversion cycle was approximately 68,5 days, which accounts for its extension by 1 day compared to the previous year. This is vastly the result of shortening the liabilities cycle (by approx. 5,1 days), slower inventory turnover (by 4 days) and shortening the receivables cycle (by approx. 8,2 days). Since the change of the Group's operating model, a significant part of the receivables of FFIL Śnieżka SA comes from Śnieżka ToC, which is related to the takeover of commercial contracts by it.

Table 19. FFIL ŚNIEŻKA SA's rotation ratios

	for the period of 12 months ended as at 31 December 2023	for the period of 12 months ended as at 31 December 2022
Inventory cycle (Inventory level x 360 / Cost of sales) in days	80.8	76.8
Receivables cycle (Trade and other receivables x 360 / Sales revenues) in days	46.0	54.2
Current liabilities cycle (Trade and other liabilities x 360 / Cost of sales) in days	58.2	63.4
Cash conversion cycle (Inventory cycle + receivable cycle - liability cycle) in days	68.5	67.6

7.6. SEASONALITY

The activity of the Śnieżka Group's companies is characterized by the phenomenon of seasonality. It is related to the intensity of renovation and construction works in particular periods of the year, which is generally higher in spring and summer. The Group usually generates higher revenues in the second and third quarters of each financial year. They constitute approx. 60-65% of its annual sales revenues.

The occurring phenomenon of seasonality also affects:

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

7.7. OTHER INFORMATION

Investments

In 2023, the total capital expenditure in the Śnieżka Group amounted to PLN 33,847 thousand - including leasing PLN 926 thousand - and were by 36.7% (PLN 19,646 thousand) lower than in the previous year. At the same time, the level of investment expenditure was lower by 19.4% (PLN 8,153 thousand) than the estimates presented in the Management Board's Report on activities for 2022 (i.e. the amount of approximately PLN 42 million).

Investment activities carried out in the Śnieżka Group in 2023 were a continuation of the assumptions in this regard from previous years. The implementation of individual tasks was carried out in accordance with the approved material and financial plan, with certain adjustments resulting from the current needs of the Group or necessity to adapt to the changing conditions of the external environment. Investments carried out by the Group in 2023 were focused primarily on:

- automation and improvement of the efficiency of production lines and maintaining a high level of production capacity,

- digital transformation to increase business efficiency,
- optimization of production costs, with particular emphasis on savings in the area of energy consumption,
- modernization of the transport fleet,
- development of infrastructure for research and development and quality control.

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

Investments in FFIL ŚNIEŻKA SA

The majority of the Group's investment expenditures were outlays on development purposes carried out by FFIL Śnieżka SA. The total investment expenditures in the Company amounted to PLN 22,768 - including leasing PLN 492 thousand - and were by 49.1% (PLN 22,006 thousand) lower than a year earlier. The investments focused predominantly on the production area (replacement of equipment, expansion of production lines) and logistics (continuation of finishing works on the office part in the Logistics Centre in Zawada).

In 2023 in the Company:

- two dissolvers were replaced on the white paint production line in Pustków,
- the filling and palletizing line for colour paint in Lubzina was expanded,
- finishing works were performed in the office part of the Logistics Centre in Zawada,
- various activities were carried out related to the modernization and optimization of water-based paint production lines in Lubzina and Pustków,
- another batch of new manual forklifts was delivered and put into operation at the Logistics Centre in Zawada,
- new IT software was implemented, as well as the existing IT software was expanded and modernized as part of the digital transformation project,
- investment activities were carried out to reduce energy consumption, including: replacement and modernization of lighting and installation of a utility consumption measurement system (electricity, natural gas, heat, water),
- the laboratory equipment base was modernized in the area of research and development and quality control,
- the transport fleet was supplemented, including the purchase of a truck with a semi-trailer.

The most important investments in other Group companies in 2023:

- Śnieżka Trade of Colours Sp. z o. o. – purchase of store equipment, expansion of the IT area as part of the digital transformation project and supplementing the car fleet,
- Poli-Farbe Vegyipari Kft. - installation of a photovoltaic system, purchase of shop equipment and supplementing the car fleet,
- Śnieżka-Ukraina Sp. z o.o. - installation of an automatic putty palletizing line, a photovoltaic system, erection of a technical building, and supplementing the car fleet (cars and forklifts).

Plans and financing of investment projects

The Management Board of FFIL Śnieżka SA assumes that the investment plans of the Group and the Company for 2024 are to be implemented in accordance with the plan. They will focus on: expansion and modernization of production lines, expansion and installation of new IT systems, purchase of a fleet of transport vehicles and store equipment.

Own funds and loan agreements signed with banks allow for safe financing of the investment plans scheduled for 2024. The total value of investment expenditure in the Group for this period may amount to approx. PLN 40,6 million.

Insurance agreements

In 2023, the Company concluded the following insurance agreements essential for its business activities:

Table 20. Insurance agreements

Company	Institution	Subject of the agreement	Period
FFIL ŚNIEŻKA SA	PZU	Property insurance (buildings, current assets, machinery and equipment) and loss of profit.	1.10.2023 - 30.09.2024
FFIL ŚNIEŻKA SA	PZU	Property insurance in domestic and international transport.	1.10.2023 - 30.09.2024
FFIL ŚNIEŻKA SA	Chubb European Group	Third-party liability insurance for business activity	1.10.2023 - 30.09.2024
FFIL ŚNIEŻKA SA	Chubb European Group	D&O liability insurance	16.09.2023 - 30.09.2024
Śnieżka ToC	PZU	Property insurance (machinery and equipment)	1.10.2023 - 30.09.2024
Śnieżka ToC	PZU	Property insurance in domestic and international transport.	1.10.2023 - 30.09.2024
Śnieżka ToC	Chubb European Group	Third-party liability insurance for business activity	1.10.2023 - 30.09.2024
Śnieżka ToC	Chubb European Group	D&O liability insurance	16.09.2023 - 30.09.2024
Śnieżka ToC	KUKE	Export credit insurance	The agreement is renewed on a regular basis
Poli-Farbe	PZU	Property insurance (buildings, current assets, machinery and equipment) and loss of profit.	1.10.2023 - 30.09.2024
Poli-Farbe	PZU	Property insurance in domestic and international transport.	1.10.2023 - 30.09.2024
Poli-Farbe	Chubb European Group	Third-party liability insurance for business activity	1.10.2023 - 30.09.2024
Poli-Farbe	Chubb European Group	D&O liability insurance	16.09.2023 - 30.09.2024
Śnieżka-Ukraina	ARX Insurance Company	Property insurance (buildings, current assets, machinery and equipment)	15.10.2023 - 14.10.2024

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

The agreements concluded after the balance sheet date

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

Court proceedings

The Issuer's tax proceedings are described in detail in note 3.22.2 in the Consolidated Financial Statements for 2023.

Granted sureties

As at 31 December 2023 neither the Company nor its subsidiaries granted any guarantees or sureties to a single entity.

8. RISKS IN THE GROUP'S OPERATIONS

8.1 RISK MANAGEMENT SYSTEM

<p>Risk management - We formalize a comprehensive approach to risk management, including climate risk.</p>	<p>Formalization of a comprehensive risk management system</p>	<p>Development of a new risk matrix (taking into account risks in the ESG areas), responsibility, procedures and supervision methods</p>
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Risk management is the basis for building a resilient organization and complying with regulatory requirements.

In the Śnieżka Group, Directors, within their assigned areas of responsibility, are obliged to identify and manage risks. In 2023, we implemented the first stage of the project - the enterprise risk management system, which we named *Mitigate and Grow*. Once completed in 2024, its effects will provide management support in the form of a repeatable process of identifying and assessing key risks, and will enable us to take appropriate risk mitigating actions.

The purpose of the implementation is to identify potential events and risks that may have an impact on the Śnieżka Group, maintain the risk within the established limits, and ensure the introduction of strategic and operational objectives. Enterprise risk management covers activities at the level of the entire organization and individual business processes. It is a continuous process, subject to modifications and being the implication of the changing economic environment, the Śnieżka Group's operations and changes regarding the impact of individual risk.

The implemented enterprise risk management project requires a systematic and transparent approach for all employees. The system introduces uniform rules for identifying, assessing, monitoring and reporting risks in all areas of activity. The project assumes a precise division of competences and responsibilities, in particular by assigning an owner to each identified risk.

In the first stage, the parent company Śnieżka, in liaison with external advisors, carried out a comprehensive analysis and assessment of risks in key areas of its operational activities (production planning, production,

procurement, logistics and customer service). Currently, the company is implementing an IT tool for comprehensive management of this issue.

In the subsequent stage of the project, risks in other areas of activity and in the ESG area will be mapped.

In the final stage, the risk management project will be extended to include other companies comprising the Śnieżka Group.

As part of the project work, a Policy and Procedure for the implementation of the enterprise risk management process were drawn up, the effective implementation of which will allow the process to be carried out in a consistent and repeatable manner.

The prepared plan for further development of the risk management system takes into account the present state and:

- Development of risk assessment methods - monitoring the effectiveness of control mechanisms,
- Development of the system towards on-going risk assessment, strategic risk assessment,
- Further adaptation of the system to the guidelines contained in the DPSN on the WSE,
- Synergistic building of specialized risk management systems based on the Enterprise Risk Management (ESG) model.

The Śnieżka Group systematically and strategically manages non-financial risks in its current operations. They are comprehended within the Group as, inter alia: operational, reputational, compliance, ecological and employee health and safety risks. The key documents related to non-financial risk management include:

- *Śnieżka 2023 + Sustainable Development Strategy,*
- *Code of Ethics,*
- *Climate policy,*
- *Anti-corruption policy,*
- *HR policy,*
- *Quality, environmental and health and safety policy,*
- *Mobbing prevention procedure,*
- *Supplier code,*
- *Failure Prevention Program,*
- *Work Regulations in individual companies of the Group.*

Following the risk analysis conducted in 2023, the Group identified risks that could affect its financial situation and performance. At the same time, the Management Board, supported by area directors, makes every effort to constantly monitor and mitigate key risks that could generate potential financial consequences or affect the Group's business model. As a result of the risk analysis, the Group performed impairment tests for assets located in Ukraine and Belarus. The remaining risks did not significantly affect the Group's assets and performance in 2023.

8.2 IDENTIFIED BUSINESS RISKS

8.2.1. RISK ASSOCIATED WITH MACROECONOMIC SITUATION

Macroeconomic conditions and changes in the economic, social and political environment (both in Poland and beyond) have a significant impact on the operations and business performance of the Śnieżka Group. The risk related to the macroeconomic situation is mainly related to:

Consequences of the war in Ukraine

The Management Board of Śnieżka constantly monitors the situation related to the war in Ukraine and its regional and global consequences, adapting actions and plans to the current circumstances. The markets in which the Group's companies operate and the Group's operations are and/or may be influenced by the following factors:

- **a decrease in the real purchasing power of society** on the Group's main sales markets as a result of inflation and economic slowdown or recession, and consequently, reduced demand for the Group's products;
- **the Group's property insurance agreements** contain standard clauses excluding the insurer's liability in the event of war;
- **disturbances in the supply chains** of imported raw materials, components and fuels, as well as temporarily constricted access to some of them;
- **downgrading of ratings for selected countries from the conflict region** and a general further increase in the risk of conducting business activities in those countries, which may ultimately translate into higher costs for selected Group companies operating on these markets;
- **new hardships in the operation of the Śnieżka-Ukraine plant**, resulting from, for example, lack of access to qualified employees or conscription of current employees for military service;
- **extension of communication routes to selected countries** and the resulting increase in transport costs;
- **decline in consumer sentiment** in the Group's key markets and the resulting possible drop in demand in the Group's main markets.

Despite the on-going war in Ukraine, 2023 was good for paint and varnish producers. Entities from the industry managed to increase production, which resulted in the yield of more products than in the same period of 2022. However, the production of the indicated categories did not reach pre-war levels. Śnieżka-Ukraine is capable of conducting its business activities due to its location outside the current war zone. The company's plant, as one of the few in the decorative paints and construction chemicals industry in Ukraine, is located in the western part of Ukraine - in Yavoriv, in the Lviv region, approx. 20 km from the Polish border.

Production activity in 2023 (particularly after Q1) in Ukraine was more predictable due to the stabilization of electricity supplies.

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

The purchasing power of consumers has a decisive impact on decisions on the purchase of paints and products for decorating and protecting wood.

The purchasing power of society in 2024 may be influenced by:

- **inflation persisting above the NBP target** (including an increase in fees for electricity, gas, fuels and municipal waste management);
- **new fees and taxes.**

According to the central inflation projection of the National Bank of Poland, the average inflation level throughout the year is to amount to 4.6% y/y (operating at levels from 4.4 to 5.0% y/y in individual quarters)³⁶. According to the Central Statistical Office, the prices of consumer goods and services in December 2023, compared to the same month last year, increased by 6.2% (with an increase in the prices of goods - by 5.5% and services - by 8.2%).

According to GfK data, the Consumer Confidence Barometer in Poland in December 2023 was at the level of -3. In assessing the current financial situation of households, Poles are still pessimistic about the wealth of their wallets (-7.3). The future economic situation of the country is also assessed negatively (-5.3). It is worth emphasizing that the sentiment, although remaining negative, should be assessed as significantly better than in December 2022.

³⁶ Source: National Bank of Poland, Inflation and GDP projections – November 2023.

Hungary may also face a risk of reduced purchasing power resulting from increased inflation. In 2023, it amounted to 17.6%, although a strong disinflationary trend was noticeable from Q2 (in December 2023, inflation amounted to 5.5% y/y). The inflation projection for 2024 presented by the National Bank of Hungary indicates that it will amount to between 4 and 5.5% per year³⁷.

A similar trend is noticeable in Ukraine, where inflation for the entire year 2023 amounted to 5.1% (2022: 26.6%).

Deterioration of the construction industry's condition

According to the CSO's data for December 2023, entrepreneurs estimated that in the construction industry there was a decrease in the use of production capacity to the level of approx. 80%, which accounts for a decline by approx. 1% on a year-on-year basis. In December 2023, the general economic climate in the construction industry in Poland was -13.2.

The companies indicated the main barriers to business activity in the construction industry:

- **employment costs;**
- **high budget burdens;**
- **material costs³⁸.**

According to the Group's data, the condition of the construction industry may be affected by the unstable situation on the global market of raw materials, which may translate into scarcity in product deliveries and an increase in prices. The factors and phenomena indicated above may contribute to the situation in all key markets for the Group.

A possible decline in consumption, deterioration of public sentiment, rising energy prices, housing maintenance costs, an increase in housing prices may lead to a weakened demand for housing - both on the primary and secondary market. This may result in reduced expenses for renovation and modernization of apartments, which mainly determine the demand for decorative paints.

Monetary and housing policy

In September and October 2023, the Monetary Policy Council (MPC) decided to reduce interest rates, slightly increasing the availability of loans³⁹. This action, combined with the government's "Safe Credit 2%" program, fuelled the housing loan market, with more loans granted in Q4 than in the record year 2021.

However, in response to the lower availability of financing during the period of higher interest rates, developers significantly reduced the number of commenced investments. This means that from 2024:

- **the number of apartments put into service will be significantly lower** than in previous years;
- in the context of potential interest rate cuts in the second half of 2024 and the announcement of the next government program "Apartment for start", **the demand for which will be on the increase.**

This may lead to a boost the price of the flats. The complex situation on the housing market in particular periods of the year will affect consumers' savings and the demand for renovation and decorative products. However, the company's internal data shows that the purchase of decorative products is mostly financed from savings and current income of consumers.

³⁷ Source: Magyar Nemzeti Bank (MNB), Inflation Report, December 2023, <https://www.mnb.hu/letoltes/eng-ir-digitalis-23.pdf>.

³⁸ Source: Central Statistical Office, Economic situation in industrial processing, construction, trade and services - January 2024, <https://stat.gov.pl/obszarytematyczne/koniunktura/koniunktura-w-przetworstwo-przemyslowm-budownictwo-handlu-i-uslugach-2000-2024-january-2024,4,81.html>.

³⁹ Source: Narodowy Bank Polski, Archive of NBP basic interest rates since 1998, <https://nbp.pl/podstawowe-stopy-zdrowie-archiwum/>.

In 2024, the risk of continued tightening of monetary policy in the face of disinflation is low, and MPC members are increasingly pointing to the possible commencement of a cycle of interest rate cuts in 2024.

8.2.2. STRATEGIC RISK

Strategic risk is related to a possibility of negative financial and business consequences

- **inaccurate predictions of customer preferences** - both in terms of behaviour during the purchasing process, the volume of demand for products, and product features (e.g. paint colours favoured by customers);
- **inappropriate assessment of changes in the competitive environment** (consolidation processes or new companies entering the market), which may lead to the loss of the current position on individual markets;
- **incorrect assessment of the potential of the markets on which the Group focuses its activities**, incorrect assessment of the future dynamics of the decorative paints and construction chemicals market. A faster pace of the market growth than assumed by the Group may result in the Group's failure to adapt its production potential to increased demand and losing its current market position.

These risks are mitigated through strategically managed and conducted market research and analysis of consumer behavior, as well as market and competition monitoring, which in turn allows for an agile response to changes in the business environment and supports maintaining a high market position.

8.2.3. RISK ASSOCIATED WITH OPERATIONAL ACTIVITIES

As a result of the identification and mapping process within the operational activities, risks were identified and assigned to the following operational areas of the Group's activities:

- production planning and production;
- procurement;
- logistics.

The most important risks in the area of production planning and production

Risk of microbiological contamination of the production line.

This risk may occur in the following situations:

- irregularities in the hygiene of the production line;
- microbiological contamination of raw materials;
- improper disinfection of the production line or incorrect design of the production process or production line.

As a result of this risk occurrence, the production line may be temporarily shut down, contributing to limited production capacity and loss of sales. The sale of microbiologically contaminated products may give rise to loss of reputation and the need to incur the costs of withdrawing defective products from the market. In order to prevent the risk of microbiological contamination of the production line, Śnieżka systematically examines the microbiological purity of production lines, periodically disinfects them, tests samples of finished products, tests the microbiological purity of raw materials and checks the expiry dates of products and raw materials.

Risk of inefficiency of production processes

The risk of inefficiency of production processes may take place as a result of:

- lack of continuous optimization
- lack of automation of production processes.

The consequence of inefficiency of production processes may be higher unit production costs, and consequently, lower profitability and possible loss of the market in favour of products offered by competitors. Śnieżka manages the risk of inefficiency of production processes by steady monitoring the efficiency and dynamics of production, monitoring cost effectiveness and uninterrupted control of production profitability as well as searching for more cost-optimal substitutes for raw materials used to produce products.

The most important risks in the procurement area

Risk of significant fluctuations in raw material prices

The risk of significant fluctuations in raw material prices may occur in the event of a serious increase in the prices of key production raw materials for Śnieżka. It may be triggered by the market situation:

- demand increase;
- limited supply of raw materials as a result of natural disasters;
- interruption of the supply chain as a result of epidemiological or political events.

Additionally, due to the prices of key raw materials expressed in foreign currencies (mainly EUR and USD), exchange rate risk has a substantial impact on the level of raw material prices. The effect of the risk materialization of a significant increase in raw material prices is an increase in production costs, which has a direct impact on Śnieżka's bottom line. The Company manages the risk of essential fluctuations in raw material prices by concluding long-term supply agreements that enable price stabilization and concluding agreements with at least two suppliers for each of the key raw materials. Moreover, Śnieżka minimizes the exchange rate risk by purchasing the currencies necessary to acquire raw materials when their quotations are favourable.

Risk of lack of availability of raw materials or packaging and risk of significant delays in the supply of raw materials or packaging

The risk of lack of availability of raw materials or packaging and the risk of significant delays in the supply of raw materials or packaging may occur in the aftermath of a reduction in the supply of raw materials or packaging as a result of:

- natural disasters
- interruption of the supply chain as a result of epidemiological or political events.

The occurrence of this risk may contribute to delays in the production and delivery of Śnieżka's products. In addition, if this risk occurs, Śnieżka will be forced to bear additional costs related to the search for substitutes for raw materials and their purchase at higher prices. Also, a negative impact on the quality of products is possible as a result of the need to use lower quality substitutes for raw materials. Śnieżka limits the risk of lack of availability of raw materials or packaging and the risk of significant delays in the supply of raw materials or packaging by geographical diversification of suppliers of key raw materials, concluding contracts with at least two suppliers for each of the key raw materials and packaging suppliers and by identifying and taking advantage of appropriate qualitative substitutes for production.

The most important risks in the logistics area

Risk of lack of available carriers (including the risk of low availability of suppliers rendering partial load transport services at controlled temperatures)

Carrier availability limitations may occur as a consequence of:

- market situation on the market of transport services;
- weather changes (applies to the lack of transport services at controlled temperatures);
- the need to transport hazardous materials.

The availability of this category of services is also influenced by political risk (e.g. transport of products to politically unstable countries such as Ukraine or Belarus). The materialization of the risk of unavailability of

carriers may result in delays in timely delivery and contractual penalties following these delays. Śnieżka limits the risk of lack of carrier availability by signing long-term contracts with carriers and actively searching for new service providers in this area.

8.2.4. THE RISK ASSOCIATED WITH COMPETITION

Individual companies comprising the Group operate in a highly competitive environment. The following competitors have been operating on Śnieżka's key markets for a long time:

- large international corporations;
- local entities.

Relatively high crossbars to enter the onto the market mean that to start up a new business in the industry would require large capital expenditure. The most likely way for a new player to enter the market or for significant changes in the balance of power may be an acquisition.

According to the information held by the Group, in 2023 no merger or acquisition transaction occurred in the key markets of the Group's operations which would significantly affect the market share structure.

A constant element of the Group's operations is monitoring of the activities of other entities in all key markets. Mitigating the risk associated with competition activities is achieved through appropriately planned investments and marketing and sales activities aimed at supporting the building of shares and brand recognition as well as the sale of the Group's products.

8.2.5. FINANCIAL RISK

The Group identifies the following categories of financial risks:

- Interest rate risk
- Currency risk
- Credit risk
- Liquidity risk

Each of the categories mentioned above includes risks that may increase the costs of business operations and, consequently, reduce profitability. Additionally, it cannot be ruled out that further development of the geopolitical and macroeconomic situation in the long term will cause a number of adverse effects in the area of the Group's finances - including, for example, contractors' failure to meet their obligations or problems with financial liquidity.

Interest rate risk

The Śnieżka Group has credit and financial lease liabilities with a variable interest rate and is therefore exposed to the risk of an increase in interest rates. As at December 31, 2023, the Group's total liabilities on loans and borrowings and financial leasing amounted to PLN 282,853 thousand.

In 2023, interest rate fluctuations stabilized, which led to their reduction compared to 2022. The reference WIBOR 1M interest rate decreased from 6.93% as of December 29, 2022 to 5.80% as of December 29, 2023. In the reporting period, the Group did not apply interest rate risk hedging, and the Hungarian daughter company signed a loan agreement based on a fixed interest rate.

More details, including sensitivity analysis, can be found in note 3.25.1 Objectives and principles of financial risk management in the Consolidated Financial Statements for 2023.

Currency risk

In its activity, the Śnieżka Group is exposed to the risk of fluctuating exchange rates. The Group imports raw materials used for the production of paint and varnish products, which are mostly paid in Euro. Therefore, the greatest currency risk for the Group is related to the strengthening of the EUR - PLN/HUF exchange rate. The Group exports products mainly to the countries of Central and Eastern Europe, where settlements are made in currencies most commonly used in international trade (USD, EUR), as well as in PLN. The risk may materialize if it is not possible to transfer higher costs of imported raw materials to the price of products manufactured by the Group.

In order to minimize the negative impact of currency exchange rate fluctuations on the generated revenues and profits, the Group monitors its currency exposure on an on-going basis, conducts currency risk analysis and makes decisions on the use of appropriate mechanisms limiting the impact of exchange rate fluctuations.

The mechanisms limiting the impact of exchange rate fluctuations used by the Group include hedging transactions, optimal arrangement of cash flows between the Group companies and appropriate pricing. In 2023, the Group concluded forward transactions that hedged cash flows resulting from the purchase of raw materials in EUR.

Moreover, the currency risk resulting from the Group's capital investments in foreign companies should be taken into account. The most important exposures in this respect are investments in companies in Hungary and Ukraine. More details, including sensitivity analysis, can be found in note 2.2.7. Impairment of Group's assets in the Consolidated Financial Statements for 2023.

High volatility on the currency market is conditioned, inter alia, by the pending conflict in Ukraine. Also, macroeconomic indicators of the Polish economy affect the value of PLN in relation to other currencies.

The purpose of the currency risk analysis is to identify the importance of exchange rate volatility for the Group's revenues and profits. These include: standard deviation over the period, net exposure value, deviation from the adopted budget rate.

More details on the exchange rate risk for financial instruments can be found in note 3.25.2 Objectives and principles of financial risk management in the Consolidated Financial Statements for 2023.

Credit risk

The Group actively manages the contractors' credit risk, comprehended as contractors' failure to comply with their obligations toward the Group. In order to reduce the credit risk of contractors, the Śnieżka Group develops and improves tools used to support the adopted receivables management policy based on cooperation mainly with reliable partners.

The Śnieżka Group concludes transactions with reputable companies which have a good credit rating. All customers willing to take advantage of trade credit, are subject to procedures of initial verification. In addition, owing to current monitoring balances of receivables, the Group's exposure to the risk of non-collectible debts is insignificant.

More details can be found in note 3.25.3 Objectives and principles of financial risk management in the Consolidated Financial Statements for 2023.

Liquidity risk

Liquidity risk is related to the company's ability to repay current liabilities and the ability to obtain funds to finance its operations, both from the banking system and trade credit.

In order to minimize such risk, the Group companies (mainly FFIL Śnieżka SA) continue loan agreements ensuring a financing period of several years.

The Group constantly monitors the due dates of receivables and liabilities, striving to maintain a liquidity buffer by using various sources of financing (bank loan, factoring, leasing, trade credits). As part of the monitoring and analysis of due receivables and liabilities, the Group focuses on the following parameters: liquidity buffer in the appropriate maturity period and forecast of financial flows from operating activities.

The Group actively manages liquidity risk by:

- limiting and monitoring trade credit to individual clients depending on their financial condition and development dynamics
- applying financial instruments (e.g. factoring).

In this process, the Group takes advantage of modern tools and procedures as well as cooperation with business intelligence agencies. The policy of establishing trade credit limits and payment terms and conditions is closely related to bonuses granted to customers for timely payments, which additionally protects the Group's interests. Trade credit limits and other risks related to sales development are secured by:

- real estate mortgages;
- statements on submission to enforcement,
- bill of exchange;
- Bank guarantees.

As at December 31, 2023, the Group settled its liabilities in a timely manner, which is confirmed by the liquidity ratios presented in the Report.

More details can be found in note 3.25.4 Objectives and principles of financial risk management in the Consolidated Financial Statements for 2023.

8.2.6. IT RISK - CYBER THREATS

The following may have a direct impact on the production processes, competitive position and reputation of the Śnieżka Group:

- failures of key IT systems;
- effects of ransomware attacks;
- unauthorized access by cybercriminals through other activities to key management support systems, process control systems, as well as to unpublished, confidential data;
- other events in the area of IT security.

In order to minimize this risk, the Group:

- develops and updates the systems used to ensure information security,
- regularly backs up key data;
- has very modern, extensive anti-virus protection, cooperating with the monitoring centre, including: against phishing emails.

The Group companies in Poland are constantly monitored by the IT security operations centre (so-called SOC, Security Operation Centre), which responds to security incidents.

In accordance with it, the following initiatives were implemented in the reporting period:

- detailed audit of the security level in individual companies of the Group; as a result, vulnerabilities of the IT solutions used were identified and removed;
- developing and planning the implementation of IT security management procedures in cooperation with Śnieżka's suppliers and vulnerability management;
- developing an action plan and starting work in the field of business continuity management, analysis and prioritization of IT risks, definition of critical IT systems to ensure business continuity.

8.2.7. THE RISK RELATED TO THE LOSS AND THE INABILITY TO OBTAIN QUALIFIED STAFF

An important risk factor that may directly translate into the possibility of implementing the strategy adopted by the Group is the risk in the area of employees: related to both the loss and the inability to recruit staff with high qualifications, competences and experience, open to new knowledge and development, values and adapted to the organization's objectives and culture. Staff with appropriate, specialist or practical knowledge in specific business areas is crucial to building and maintaining the Group's competitive advantage. Competences that will be particularly in demand are soft skills, such as emotional intelligence, critical thinking, problem solving, and the ability to self-improvement and teach others.

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

- the influence of managerial and leadership competences of persons managing teams on the level of rotation, particularly in difficult, unstable situations and with high dynamics of change;
- facing the management staff with challenges in teams related to changes on the labour market,
- the risk of voluntary departures of employees related to the difficulty of retaining highly qualified, competent and experienced staff who make a significant contribution to the implementation of the Group's strategic goals;
- struggle to keep the best talents in the face of growing competition from foreign employers and companies whose model is fully based on remote work.

The fluctuation and potential loss of competencies important for the Group may cause a decrease in the effectiveness of the Group's operations and temporary problems with the implementation of the assumed business plans. Hiring new employees in some areas of the organization is associated with a time-consuming recruitment process and a relatively long adaptation process, and may be associated with the risk of a temporary reduction in the quality of work. The departure of qualified employees additionally hampers the pursuit of a long-term personnel policy and may increase labour costs.

Both the departures of employees and the process of their recruitment, particularly in areas characterized by a narrow field of specialization or those with the need for unique skills, are subject to a systematic process of monitoring and analysis in the Group.

The *Śnieżka Group's personnel policy* is in place in the Group companies, the assumptions of which support the minimization of the risk of loss and the inability to recruit qualified staff adapted to the organization's objectives and culture (description is included in section 3.3.2 of the Report).

In 2022, a number of measures were taken to reduce the risk of losing employees and facilitate the acquisition of appropriate competencies within the Group. The Group companies focused on:

- further standardization of processes in the field of human resource management;
- increasing their flexibility and digitization.

This enables a quick reaction to the information about their expectations and needs obtained from the market and from employees. Performance indicators related to employee issues are described in the Report in section 3.4.4 "Employee involvement and development".

8.2.8. LEGAL RISK

The EU legal regulations which affect the paints and varnishes industry are constantly becoming more severe and complex.

In order to prevent this risk, the Group constantly monitors legal changes by:

- implementing an internal report on legal changes;
- related recommendations for actions to be taken.

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.

8.2.9. RISKS CHARACTERISTIC TO FOREIGN MARKETS

Hungary

In Hungary, there is still a risk of a decrease in the level of consumption and household spending linked to the risk of the economic recession continuing or deepening. In 2023, according to estimates of the Hungarian Central Bank (MNB), GDP was between -0.6 and -0.4% y/y⁴⁰. MNB forecasts for 2024 indicate that economic growth will be between 2.5 and 3.5%, while the European Commission predicts growth of 2.4% y/y⁴¹.

The prolonged lack of agreement between the Hungarian government and the European Commission regarding the National Reconstruction Plan remains a significant risk for the economy. Hungary, right after Poland, is the largest net beneficiary of EU funds.

Another important risk is Hungary's attitude to Russian aggression in Ukraine, which may result in a deeper isolationism of the country within the European Union. Hungary was the only EU country to reject sanctions against Russia, banned arms deliveries to Ukraine through its territory, and is still reluctant to provide EU financial assistance to Kiev and to continue Ukraine's accession process to the EU⁴².

Ukraine

The major risks related to the Ukrainian market stem from military operations. In response to the invasion of Russian Federation troops into Ukrainian territory, Kiev declared martial law and general mobilization. As at the date of the publication of the Report, fighting continues chiefly in the north, east and south-east of the country. In addition, bombings are carried out on many Ukrainian cities not yet involved in combat, as well as sabotage and subversive activities.

The political and economic situation in Ukraine is monitored on an on-going basis by the Group as regards the actual and potential impact of the situation on the activities of the subsidiary Śnieżka-Ukraina and other Group companies.

⁴⁰ Source: Magyar Nemzeti Bank, Inflation Report (December 2023), <https://www.mnb.hu/letoltes/eng-ir-digitalis-23.pdf>.

⁴¹ Source: European Commission, Economic forecast for Hungary, November 2023, https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/hungary/economic-forecast-hungary_en

⁴² Source: <https://camiso.org.pl/aktualnosci/article/wegry-wobec-czlonkostwa-ukrainy-w-unii-lepszej-opinia/>.

The Company estimates that currently there are no indications that would indicate a permanent loss of the possibility of continuing business activities in Ukraine. The exposure to risk of assets held in Ukraine as at December 31, 2023 is presented in item 8.2.9 of the Report.

Due to the on-going war in Ukraine, there were external indications indicating the need to conduct impairment tests for non-current assets located in Ukraine in accordance with IAS 36 "Impairment of assets". Following the test, a result was obtained indicating no impairment of non-current assets. The assumptions adopted by the Group regarding the test are detailed in the Consolidated Financial Statements for 2023 in note 2.2.7.

The fixed assets of Śnieżka-Ukraina are located in the Lviv region, Yavoriv district, not far from the Polish border. According to the information held by the Company, the assets of this company are currently not at risk. Śnieżka-Ukraina has production capacity at the pre-war level, and one of the major challenges, it is currently facing, is ensuring the continuity of raw material supplies.

Despite rebuilding cooperation with its partners from areas of Ukraine not affected by warfare and better than expected sales revenues in the entire 2023, the on-going armed conflict in this country has a significant impact on the Śnieżka-Ukraina's bottom line and translates into the performance of the entire Group .

Still in Q1 of the previous year, the country was affected massive missile attacks on critical infrastructure, which in the case of the paints and varnishes industry resulted in unstable operation of production plants due to power cuts. In the following quarters, missile attacks were significantly less intense. Nevertheless, the Company recognizes the risk of increasing the scale of attacks, which may result in repeated disruptions in energy supplies at the production plant, affecting the operational efficiency of Śnieżka-Ukraina. These disruptions may also have a negative impact on citizens' renovation plans and, consequently, on a decline in demand.

Military operations hinder the supply of the Group's products. It cannot be completely ruled out that a possible escalation of the armed conflict in other regions of Ukraine may influence the decision to close the Ukrainian production plant again. Śnieżka-Ukraina manages the volume of production and sales on an on-going basis, adjusting them to the changing circumstances in Ukraine.

The consequences of military operations on the current macroeconomic situation in Ukraine is described in item 5.1 of the Report, and its impact on the paints and varnishes market in this country - in item 5.3.

Belarus

A specific risk for the Belarusian market is still the unstable socio-political situation, which affects the conditions for doing business. The Śnieżka Group, operating on the Belarusian market, must bear in mind the possibility of situations that may adversely affect its bottom line and assets located in the territory of Belarus.

There is a risk that the policy pursued by the Belarusian authorities will contribute to further sanctions imposed by the European Union, which will result in the reduction in exports, the fall of Belarus' GDP⁴³ and a further increase in currency risk (devaluation of the Belarusian ruble).

Another risk specific to Belarus is economic protectionism - activities carried out by the government to protect the domestic market against the influx of imported goods (customs duties, permits or expensive certificates). The actions of the Belarusian authorities may have significant restrictions in trade with the European Union the countries, including Poland, and accelerate the pace of integration with Russia.

In addition, the risk factors encompass consequences of Belarus's membership of the Eurasian Customs Union (i.a. Russia), including the related expansion to the Belarusian market of Russian manufacturers of construction materials.

⁴³ Source: <https://www.osw.waw.pl/pl/publikacje/analzy/2021-11-08/bialorus-fenomen-powiedzowego-wzrostu-gospodarczej> and <https://www.osw.waw.pl/pl/publications/osw-comments/2023-03-22/crisis-not-disaster-belarusian-economy-a-year-after-Russian>

Due to the introduction of further legal restrictions in Belarus, there were external premisses indicating the need to conduct impairment tests for fixed assets located in Belarus in accordance with IAS 36 "Impairment of assets". Following the test, a result was obtained indicating impairment of non-current assets. Therefore, in the Report for 2023, the Group recognized an impairment loss on these assets. The assumptions adopted by the Group regarding the test are detailed in the Consolidated Financial Statements for 2023 in note 2.2.7.

8.2.10. RISK ASSOCIATED WITH PRODUCT DEFECTS

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 the risk of product defects, the Śnieżka Group strives to:

- continuously improve research and development programs;
- control production processes;
- quality control of the finished product.

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, to the production process performed at the highest level, accompanied by quality control at every production stage. Also the stages of storage and distribution are subject to very strict internal standards, and are controlled on an on-going basis.

The Company has a procedure for dealing with non-compliant products, which defines the principles for dealing with products that do not comply with the required technical parameters. The current quality control activities allow to ensure specific parameters of raw materials and products as well as allow to take immediate action in the case of non-compliance.

8.3 IDENTIFIED NON-FINANCIAL RISKS

8.3.1. RISK ASSOCIATED WITH CLIMATE CHANGE

The analysis of the risks related to the impact of the Śnieżka Group on the environment and climate and the impact of climate change on the Group was the starting point for work on the *Climate Policy* and the *Śnieżka 2023+ Sustainable Development Strategy*. TCFD Guidelines (Task Force on Climate-related Financial Disclosures) and the analysis of emissions within scopes 1 and 2 developed based on the GHG Protocol were used in the above-mentioned process. The Group analysed both physical and transition risks.

- **Physical risks:** financial costs and losses resulting from the increasing severity and frequency of physical factors contributing to climate risk, i.e. the impact of extreme weather events (e.g. floods, sea level rise, droughts, fires, heat waves and storms, etc.) leading to e.g. damage to infrastructure, crops, disturbances in the supply chain.
- **Transition risks** – related to the transformation to a low-emission economy, including: with current and future regulatory, technological and market changes (disturbances in the current structure of demand and supply of electricity, natural raw materials, products and services rendered), as well as changes in market trends, including consumer attitudes and behaviour.

The risks that were deemed to have the highest potential impact and likelihood level were:

- acute physical risk resulting from specific events, in particular weather-related, such as storms, floods, fires or heat waves, which can cause damage and disrupt value chains.
- long-term physical risks arising from long-term climate change, such as temperature changes, rising sea levels, reduced water availability, biodiversity loss, and changes in land and soil productivity;
- policy risks, e.g. arising from energy efficiency requirements, carbon pricing mechanisms that drive up fossil fuel prices, or policies that support sustainable land management.
- market risk, e.g. risk of litigation due to failure to avoid or mitigate adverse climate impacts or failure to adapt to climate change.

Climate risks were also identified as part of the simplified materiality analysis process of the Śnieżka Group, during which the financial effects of the risks and the probability of their occurrence were subject to assessment. The Group identified both physical and transition risks - in addition to assessing the probability and financial scale, the analysis also determined the place in the value chain for each of the risks (more information in this respect can be found in the Report in item 10.6.2.).

Heat and frost waves and their impact on the Group's own operations were classified as **physical risks**. The materialization of risk would mean for the Śnieżka Group the need to adapt recipes and methods of storing products to new weather conditions and to increase expenditure related to maintaining optimal working conditions, including: installation of air conditioning and heating devices or ensuring the appropriate level of hydration of employees. During the simplified materiality analysis, the Group also considered a temporary reduction in production due to limited water availability as a **physical risk** in its own operations. This limitation may be caused by the so-called hydrological drought, i.e. a situation in which, as a result of atmospheric drought, river flows fall below long-term average values and local water resources are significantly depleted.

Transition risks identified in the dual materiality process include: increase in fuel prices. This risk is related to the entire value chain of the Śnieżka Group - higher fuel prices would mean for the Group both an increase in the costs of supplying raw materials necessary for production and higher costs of distributing its products to business partners. At a lower level of the value chain, the Group has also defined climate transition risk in the form of the need to calculate the carbon footprint of products. The Group intends to start work in this area in 2024-2025.

8.3.2. ENVIRONMENTAL RISKS RELATED TO THE STANDARDIZATION OF ENVIRONMENTAL MANAGEMENT STANDARDS

Environmental risk

The Group treats environmental risk in a multidimensional manner and strives to identify the full range of potential negative effects of its activities on the environment. The analyses are used to plan and take actions to mitigate risks and minimize negative impacts, and the entire process is part of the sustainable management of the Group companies.

All operations related to the core business of the Śnieżka Group may have a negative impact on the environment, including:

- collection and processing of raw materials,
- production,
- storage and transport of products.

These issues particularly concern the Group's value chain (scope 3), including the footprint related to the sourcing of raw materials and packaging by suppliers.

The Group identifies the following risks related to potential negative impact on the environment:

- significantly increased fees for using the environment,
- penalties for non-compliance with regulations,
- suspension of production activities,
- resignation of users and consumers from purchasing products that have a negative impact on the natural environment.

In addition, within the meaning of the provisions of Regulation 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investments (the so-called Taxonomy), part of the Group's activities do not comply with the nature of environmentally sustainable activities (item 10.3.2. of the Report).

Some activities in the Group's value chain feature high carbon intensity. This applies, for example, to the production of packaging from petroleum products or the acquisition of some raw materials. Therefore, the Group identifies the risk of impact on the business model and the results of future European Union regulations - they may limit the permissible emission and energy consumption of production plants in the EU. In order to prevent the materialization of this risk, the Group has adopted the obligations described in *the Śnieżka Group's 2023+ Sustainable Development Strategy*, *the Śnieżka Group's climate policy*, and *the Śnieżka Group's quality, environment and health and safety policy*.

Environmental and climatic aspects are monitored on a regular basis and managed in a responsible manner in the Śnieżka Group. Due diligence in this area is maintained, inter alia: by implementing its own good practices related to environmental protection and limiting the impact of its activities on the climate.

Due diligence of the Śnieżka Group in the area of environment:

- good practices and responsible management principles,
- monitoring the implementation of obligations towards the environment, natural resources and climate together with regular review of job responsibilities for environmental issues,
- strict compliance with regulations on environmental protection and combating climate change, including - where possible - implementation of solutions that also live up to the standards of the planned regulations,
- compliance with permissible emission levels (including VOCs) and protection of water and land,
- building ecological awareness among employees through responsible waste management, including hazardous waste,
- environmentally responsible selection of raw materials, as well as their strict control at the stages of developing new recipes and during production,
- analysis of recipes in terms of the possibility of using raw materials with a lower impact on the environment,
- control of the impact of interior and exterior products; the following is subject to analysis: emissions and impact on the environment and health,
- safe storage of finished products,
- preventing failures and the related negative impacts on the environment - the *Failure Prevention Program* was implemented at the production plant in Brzeźnica and the Logistics Centre in Zawada belonging to FFIL Śnieżka SA.

New investments within the Śnieżka Group also contribute to reducing the negative impact on the environment, an example of which is the Logistics Centre commissioned in 2022. Modern, energy-saving technologies allow to optimize the transport and logistics of the Group's products. The implementation of ecological solutions is also possible owing to the work of the Group's Research and Development Centre - more information on this subject can be found in the Report in item 10.3.4.4.

The Śnieżka Group also has insurance policies, including those against natural disasters (e.g. floods, wind, rain, hail, snow or ice pressure, lightning strikes, earthquakes, landslides and subsidence).

In addition, in 2023, the Śnieżka Group reduced the carbon footprint of the parent company, FFil Śnieżka SA. Detailed data on emissions in scopes 1, 2 and 3 can be found in the Report in item 10.3.3.1.

Risk related to the standardization of environmental management standards

The Śnieżka Group's objective is to adopt uniform environmental management standards in all Group companies. Individual entities strive to adopt the same internal regulations, including: in the area of:

- occupational health and safety,
- evaluation and classification of raw materials.

The challenge in this area is the differences in the development of the Group's individual markets and the national regulations applicable in these markets.

8.3.3. RISKS RELATED TO DEMOGRAPHIC CHANGES AND LIMITED AVAILABILITY OF QUALIFIED STAFF AND ATTRACTING AND RETAINING TALENTS

Risk associated with demographic changes

The Śnieżka Group is aware of the demographic challenges in the countries where it operates.

According to the Central Statistical Office's forecasts⁴⁴, the population aging process is to continue in Poland, which means:

- an increase in the percentage of people aged 65 and over,
- a large decline in the number of children and adolescents.

The working-age population will also shrink. Eurostat data⁴⁵ shows that in Poland between 2013 and 2023 there was the largest increase in the percentage of the population aged 65+ in the EU (5.5%). The progressive aging of the population and the decline in the number of people of productive age is also noticeable in Hungary, where, according to Eurostat data, in the years 2013-2023 the percentage of the population aged 65+ increased by 3.3%. In Hungary, as across the EU, European statisticians expect the share of older people in the total population to increase significantly in the coming decades. The demographic situation in Ukraine is obviously influenced by the war with the Russian Federation since 2022. According to the publications of the Institute of Central Europe⁴⁶, the number of working-age people shrank from 17.4 million in 2021 to 11.9 million at the beginning of 2023. This represents a decline of almost 32 percent.

In the Śnieżka Group, the processes of analysing employment and employee availability are carried out in a long-term perspective. Its activities in the area of HR - also in relation to multi-generational teams - are carried out in accordance with the *HR Policy* and the obligations included in the *Śnieżka 2023+ Sustainable Development Strategy*, which include the following:

- maintaining a low level of employee turnover,
- development opportunities,
- building employee commitment and satisfaction,

⁴⁴ Central Statistical Office, Population forecast for 2023-2060, <https://stat.gov.pl/obszary-tematyczne/ludnosc/prognoza-ludnosci/prognoza-ludnosci-na-lata-2023-2060,11,1.html> (access: February 26, 2024).

⁴⁵ Eurostat. Statistics Explained, Population structure and aging, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Population_structure_and_ageing (accessed: February 26, 2024).

⁴⁶ H. Bazhenova, Demographic challenges of Ukraine, [https://ies.lublin.pl/komentarze/demacyjne-wyzwonia-ukrainy/#:~:text=Against this background, quite realistic, pessimistic estimates quote the number of approximately](https://ies.lublin.pl/komentarze/demacyjne-wyzwonia-ukrainy/#:~:text=Against%20this%20background,%20quite%20realistic,%20pessimistic%20estimates%20quote%20the%20number%20of%20approximately) <https://ies.lublin.pl/komentarze/demografia-wyzwonia-ukrainy/> (accessed: February 26, 2024).

- a diverse and inclusive work environment.

Risk connected with limited availability of highly-qualified staff and talent attraction and retention

In 2023, the Śnieżka Group recorded a deficit of candidates with the sought-after competences in all key companies conducting recruitment - both in specialist and line positions. In the Group's opinion, the competitiveness of the specialist labour market is caused by:

- increasing importance of remote work,
- expected employment flexibility.

This issue also has an impact on the ability to retain qualified staff in the organization.

The Group minimizes the risk of limited availability of qualified employees by implementing a positive and credible employer image. In accordance with the *Śnieżka 2023+ Sustainable Development Strategy*, all employees of the Group can count on working in an organization strongly rooted in values, systematically managing employee commitment and satisfaction. To ensure their satisfaction, development talks in key companies are conducted at all levels of the organization (process implemented in Śnieżka SA and Śnieżka ToC, implemented in other foreign companies of the Group).

One of the key areas of the HR strategy implemented by the Śnieżka Group is the identification of appropriate qualifications and care for the employees who have them.. The Group makes sure so that its organizational culture and the best employee experience are present at every stage of their presence in the organization - from recruitment, through the offer of development and support for everyday work, to development talks. The Group's ambition is to enable all employees to fully use their potential, including diverse experiences and points of view.

Risk related to a decrease in employee motivation and involvement

Standardization of business processes in Śnieżka Group's subsidiaries accounts for changes in their methods of operation in numerous areas. The Group is aware that as for some employees, these changes may involve the risk of decreased motivation, commitment and effectiveness, and consequently - resignation from work. It increases in the case of incorrect, non-transparent information policy related to the implemented changes. To minimize the risk, the Group has implemented special rules for cascading key information. The role of subordinates was also strengthened, highlighting the need to provide appropriate and understandable justification of the changes introduced.

The Śnieżka Group also identifies potential reasons for the decline in employee motivation and commitment. The most important ones included:

- high dynamics of changes and the need for quick adaptation,
- weakening social bonds caused by working in dispersed teams,
- decreased sense of belonging to the team and company,
- the need to be rewarded and appreciated.

In order to mitigate these factors as much as possible, Śnieżka pays attention to issues that ensure a sense of security and appreciation, high evaluation by superiors and satisfaction with the workplace. It also conducts a personnel policy whose aim is to meet, to the greatest possible extent, not only financial expectations, but also those regarding development opportunities. All these activities are aimed at building a culture of high commitment, which is perceived as one of the crucial elements of the human resources management strategy.

8.3.4. RISK ASSOCIATED WITH WORK CONDITIONS, INCLUDING OCCUPATIONAL SAFETY AND HEALTH

The Śnieżka Group identifies potential risks of human rights violations related to working conditions, including the time and circumstances of performing professional activities. The Group effectively prevents risk by strictly following detailed procedures described in the Work Regulations applicable in the Group companies.

The Group pays special attention to occupational health and safety issues. All companies have implemented precise occupational health and safety procedures that comply with the law and the specificity of individual plants. Their compliance is strictly required and monitored.

More information about this can be found in the Report in item 10.4.2.

8.3.5. RISK ASSOCIATED WITH POTENTIAL CASES OF CORRUPTION, DISCRIMINATION AND MOBBING

Risk related to the possibility of occurring corruption events

The Śnieżka Group effectively counteracts the risk of corruption. This issue is precisely regulated in the Anti-Corruption Policy (described in more detail in the Report in item 10.5.1.3.). The document provisions were communicated to all employees of the Group. Each employee also has the opportunity to anonymously or by name report violations of law, procedures and ethical standards. These issues were the subject of training and were described in the materials handed out to employees.

Risk associated with potential cases of discrimination and mobbing

The Śnieżka Group counteracts the risk of incidents of mobbing or discrimination through a developed and implemented mobbing prevention procedure. The Group's parent company, FFIL Śnieżka SA, has established an Anti-Mobbing Committee, and the Company organizes anti-mobbing and anti-discrimination training for employees. More information about counteracting mobbing, along with a description of the applied Policy, can be found in the Report in item 10.4.1.1.

8.3.6. RISKS RELATED TO CHANGING CUSTOMER REQUIREMENTS, INCLUDING DECREASING INTEREST IN HIGH-EMISSION PRODUCTS AND PRODUCTS GENERATING A LARGE AMOUNT OF WASTE

Risks associated with the increasing customer requirements

The Śnieżka Group monitors customer expectations in terms of quality, parameters and the impact of products on the environment. The Group observes the trend of growing consumer awareness and increasing expectations, and at the same time the risk of increasing these expectations in some aspects, more than any modern technologies could mitigate.

The Group's response to these challenges is:

- implementation of an internal knowledge sharing system for people responsible for production technology,
- constant dialogue with suppliers about potential solutions and product innovations,
- innovative methods of developing and testing new products,
- implementing products with low impact on the environment and the user,
- obtaining certificates confirming these properties.

More information about this can be found in the Report in item 10.3.4.4.

Risk associated with decreasing interest in high-emission products and products generating a large amount of waste

Issues of growing social awareness were also identified in the Śnieżka Group in the process of simplified materiality analysis assessing the financial effects of risks and the likelihood of their occurrence. The analysis allowed for the isolation of two risks occurring at a lower level of the value chain:

- the risk of decreased interest of consumers and customers in high-emission products is mitigated by the Group by reducing the carbon footprint - in 2023 this footprint was reduced in FFIL Śnieżka SA (more information on this subject can be found in the Report in item 10.3.3.1.),
- the risk of reducing demand for products generating a large amount of waste is minimized by the Group by, on the one hand, minimizing production waste and, on the other hand, offering products on the market in packaging with an increasing share of recycled raw materials (more information on this subject can be found in the Report in items 10.3.3.4 and 10.3.3.6.).

8.3.7. SUPPLY CHAIN RISK

Risk associated with potential breaches of ethics in the supply chain

The Śnieżka Group is aware that (through image-related connections) ethical violations in the supply chain may affect the reputation of the Group itself. Therefore, to minimize this risk, the Group verifies the ethical standards of its suppliers. An essential action in this regard is the implementation of the *Supplier Code* in 2022 along with the *Supplier Self-Assessment Questionnaire* (more information on this subject can be found in the Report in item 10.3.5.)

Supply chain issues were also subject to materiality analysis. Two risks identified during the analysis are related to the Group's directional decision to verify suppliers in terms of ESG and cooperate with enterprises that care about sustainable development. The Group is aware that this decision - at a higher level of the value chain - generates the risk of higher costs of doing business, as the offer of suppliers complying with ESG standards may naturally be higher in price than the offer of companies developing in an unsustainable way. This issue is also related to the risk revealed in the materiality analysis at a lower level of the value chain, i.e. breaking business relationships resulting from the supplier's failure to maintain appropriate sustainable development standards. The Group is aware of this risk and treats it as an integral part of its decisions to cooperate only with companies that share its values and awareness of the need to develop in a sustainable manner.

8.3.8. RISKS ASSOCIATED WITH NEW REGULATIONS

The paint and varnish industry is obliged to operate in line with applicable regulations. Regulations introduced by national and EU institutions tend to constantly tighten requirements and, at the same time, are becoming more and more complex. This applies in particular to Śnieżka Group products certified as ecological products. The Group is aware that in some aspects it is difficult to reconcile legal requirements with the functional features of products expected by consumers. An example of such a situation may be the issue of biocides - the regulations regarding them are becoming more and more stringent, and at the same time, without these agents, ecological paints would quickly lose their properties due to natural decomposition processes.

The Group mitigates the risk related to new regulations by:

- constant and comprehensive monitoring of legal changes that may affect production,
- research and development work enabling the adaptation of technological process to dynamic updates of regulations.

8.3.9. RISK ASSOCIATED WITH COMMUNICATION

Risks related to crisis communication management

The Śnieżka Group is aware that the scale and complexity of its operations involve the risk of events requiring crisis communication. An interdisciplinary Rapid Response Team operates within the Group whose tasks include anti-crisis management related to reputation. This effectively minimizes the risk in the area of crisis communication management.

Risk associated with marketing communication

Conducting marketing communication entails the risk of developing inconsistent content with the communication standards of the Śnieżka Group and, consequently, damage to the image of the organization. In order to minimize such events, all advertising campaigns of the Śnieżka Group are verified at the planning stage and checked for consistency and compliance with internal guidelines developed on the basis of the Code of Ethics in Advertising. The Group has developed principles for approving marketing messages and a procedure for dealing with possible violations.

9. PARENT COMPANY

9.1 ŚNIEŻKA SA

Fabryka Farb i Lakierów Śnieżka SA has its roots in the Sub-Carpathian region, its history dates back to 1984. The Company is one of the leaders in the decorative paints and construction chemicals market in Poland. As the only one in the industry it has been listed on the Warsaw Stock Exchange since 2003. Śnieżka's offer is comprised of interior paints for walls and facades, agents for the protection and decoration of wood and metal, putties for walls and wood, as well as a building insulation system. The products are available under the following brands: Śnieżka, Magnat, Vidaron, Foveo-Tech, Rafil. The Company carries out advanced research on products and raw materials in its specialized laboratories.

Śnieżka's products are distributed through business partners, including wholesalers and construction materials warehouses, DIY markets, retail stores and e-commerce. This multi-channel distribution supports the growth strategy and minimizes the risk of dependence on a single channel. On foreign markets, sales is conducted mainly through wholesalers and DIY chains.

At the end of 2023, Śnieżka employed 611 staff, which constitutes more than half of the entire Group team.

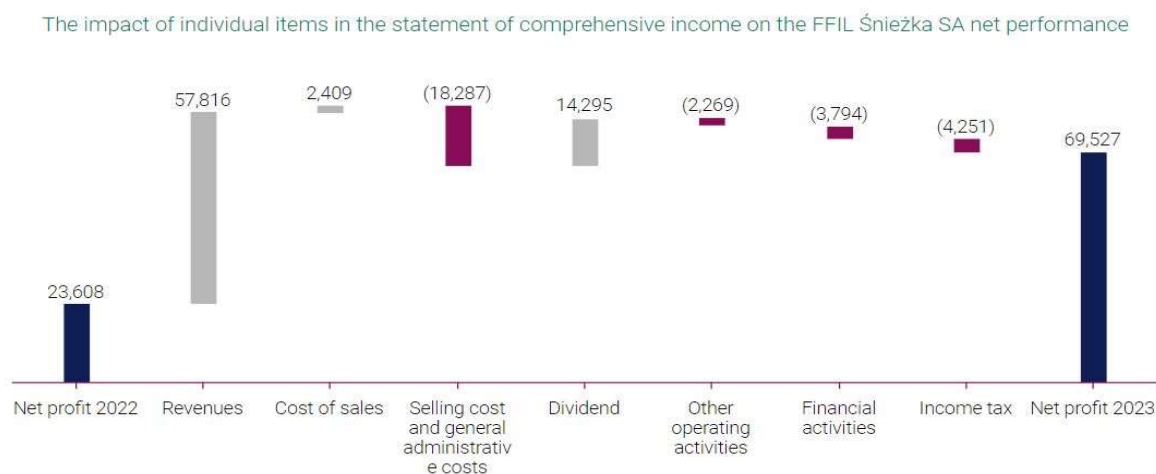
More detailed description of FFIL Śnieżka SA can be found in item 4.2 – FFIL ŚNIEŻKA SA's operations.

9.2 KEY FINANCIAL AND OPERATING PERFORMANCE

Fabryka Farb i Lakierów Śnieżka SA

In 2023 FFIL ŚNIEŻKA SA generated net profit in the amount of PLN 69,527 thousand, i.e. 194.5% higher than in 2022.

Figure 8. The impact of individual items in the statement of comprehensive income on the FFIL Śnieżka SA's net performance



The Company's bottom line in 2023 was primarily affected by:

- an increase in sales revenues by 11.3% to PLN 568,736 thousand;
- a decrease in selling costs by 0.6% to PLN 392,426 thousand, which was related to a decrease in sales in quantitative terms;
- an increase in selling costs by 8.2%, to PLN 27,346 thousand and an increase in general and administrative expenses by 26.0%, to PLN 78,644 thousand, resulting primarily from the increase in wages;
- income from dividends from subsidiaries in the amount of PLN 45,670 thousand, i.e. by 45.6% (PLN 14,295 thousand) higher than in the previous year;
- lower profit by PLN 2,269 thousand on other operating activities, stemming primarily from the revaluation of put options in the parent company's report (related to the possible acquisition by FFIL Śnieżka SA of the remaining 20% of shares in Poli-Farbe Vegyipari Kft);
- higher loss on financial activities by PLN 3,794 thousand, primarily due to higher interest on loans and borrowings;
- higher income tax by PLN 4,251 thousand.

Table 21. The basic elements of the profit and loss account of FFIL ŚNIEŻKA SA

	the period of 12 months ended as at 31 December 2023	for the period of 12 months ended as at 31 December 2022	Change (y/y)
Sales revenues	568 736	510 920	11.3%
Cost of sales	392 426	394 835	-0.6%
Selling costs	27 346	25 280	8.2%
General administrative costs	78 644	62 423	26.0%
Dividend income	45 670	31 375	45.6%
Profit from other operating activities	(4 032)	(1 763)	128.7%
Profit from financial activities	(36 064)	(32 270)	11.8%
Gross profit	75 894	25 724	195.0%
Profit from operating activities (EBIT)	111 958	57 994	93.1%
Profit from operating activities + depreciation (EBITDA)	136 963	79 202	72.9%
Income tax	6 367	2 116	200.9%
Net profit	69 527	23 608	194.5%

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

9.3 OWNERSHIP STRUCTURE

As at 31 December 2023, FFIL ŚNIEŻKA SA's share capital was comprised of 12,617,778 shares of nominal value of PLN 1.00 each.

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

The Company's share capital consists of the following series of shares:

- series A preferred registered shares - 100,000
- series B preferred registered shares - 400,000
- series C,D,E,F ordinary shares - 12,117,778

Series A and B registered shares are preferential for vote so that one share corresponds to 5 votes at the general meeting.

In addition, according to the Company's Articles of Association - series A shares entitle to elect three members of the supervisory board, including the chairman of the supervisory board, in a manner that every 30,000 shares entitle to appoint one member of the supervisory board, including the chairman of the supervisory board. If that preference expires over some series A registered shares, each remaining 20 000 series A shares give entitlement to indicate one supervisory board member, including the chairman of the supervisory board.

On March 26, 2024, the holders of series A and B shares were:

Table 22. he holders of series A and B shares as at 26 March 2024

Holders of series A shares	The number of shares held (items)
Stanisław Cymbor	33,334
Jerzy Pater	33,333
Piotr Mikrut	16,667
Rafał Mikrut	16,666
Holders of series B shares	The number of shares held (items)
Stanisław Cymbor	133,333
Jerzy Pater	133,334
Piotr Mikrut	133,333

Shares of all series are equally preferred as to dividends and return on equity.

No restrictions on the exercise of voting rights prevail at FFIL Śnieżka SA.

Restrictions regarding the transfer of ownership of the Company's securities concern holders of preferred registered shares of FFIL Śnieżka SA. The transfer of preferred registered shares under any legal title or their

conversion into bearer shares requires prior submission of purchase offer to all shareholders holding series A shares by a shareholder interested in transferring or converting into a bearer share.

The general meeting of the Company must express its consent on the decision on issuing or purchasing shares.

The Company did not have employee share schemes in 2023.

Company's shares held by managing and supervising persons

As at March 26, 2024, the Company's shares held by the managing and supervising persons were as follows:

Table 23. the Company's shares held by the managing and supervising persons as at 26 March 2024

Managing persons	The number of shares held (items)
Piotr Mikrut	1,270,833
Witold Waśko	198
Supervising persons	The number of shares held (items)
Stanisław Cymbor	2,541,667
Jerzy Pater	2,541,667
Rafał Mikrut	1,270,833

In the period from the date of publication of the last periodical report (for Q3 of 2023), i.e. on November 20, 2023, no changes in the ownership of the Company's shares by the managing and supervising persons occurred.

Ownership structure of significant blocks of shares of the Company

As at the date of publication of the Report, significant shareholders of FFIL Śnieżka SA, holding at least 5% of the total number of votes at the General Meeting of the Company were the following persons and entities:

Table 24. Shareholders of FFIL Śnieżka SA holding at least 5% of the total number of votes at the General Meeting of the Company as at 26 March 2024

	The number of shares held (items)	Share in the share capital (in %)	Number of votes	Share in the total number of votes at GMS (in %)
Jerzy Pater *	2,541,667	20.14	3,208,335	21.95
	including directly 166,667	1.32	833,335	5.7
Stanisław Cymbor **	2,541,667	20.14	3,208,335	21.95
	including directly 166,667	1.32	833,335	5.7
Piotr Mikrut	1,270,833	10.07	1,870,833	12.8
Rafał Mikrut	1,270,833	10.07	1,337,497	9.15
Powszechne Towarzystwo Emerytalne Allianz Polska	1,816,307	14.39	1,816,307	12.43

Powszechne Towarzystwo Emerytalne Nationale-Nederlanden	1,185,323	9.39	1,185,323	8.11
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*Jerzy Pater holds the Company's shares indirectly by PPHU Elżbieta i Jerzy Pater Sp. z o.o. (PPHU Elżbieta i Jerzy Pater Sp. z o.o. holds 2,375,000 shares, i.e. 18.82% share in the share capital and 16.25% in the total votes at the General Meeting of Shareholders).

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

In the period from November 20, 2023, i.e. the date of publication the report for Q3 of 2023, based on the information available to the Company, no changes in the significant block of shares issued by the Company occurred.

Figure 9. Shareholding structure at FFIL ŚNIEŻKA SA – share in the share capital (as at 26.03.2024, data in %)

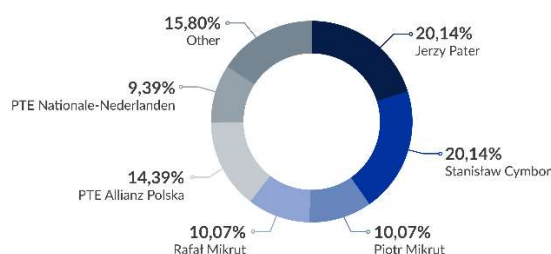
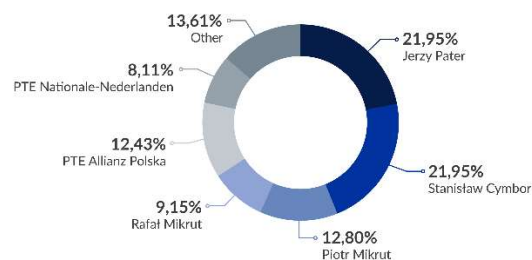


Figure 10. Shareholding structure at FFIL ŚNIEŻKA SA – share in the total number of votes (as at 26.03.2024, data in %)



9.4 DIVIDEND

Since the debut at the Warsaw Stock Exchange FFIL ŚNIEŻKA SA has been regularly distributing dividends. The sum of dividends paid to shareholders in this period is PLN 504,223 thousand.

On April 27, 2023, the General Meeting of FFIL ŚNIEŻKA SA adopted a resolution on the dividend distribution from the 2022 profit in the amount of PLN 2.00 (two zlotys) per share, i.e. in the total amount of up to PLN 25,235,556. The dividend date was established to May 16, 2023, and the dividend payment was carried out on May 31, 2023. The number of shares covered by the dividend as at April 27, 2023 was 12,617,778.

In the coming years - until the net debt ratio is reduced to one-time the consolidated EBITDA - the Management Board of Śnieżka intends to recommend to Śnieżka's shareholders the payment of a dividend at the level of 50% of the consolidated net profit of the Śnieżka Group attributable to the shareholders of the parent company - Śnieżka - for individual financial years. In the event of circumstances that justify a change in the Management Board's recommendation, the Company will provide information in the appropriate ESPI report.

Table 25. Dividend

Dividend (from a year's profit)	Dividend per share (in PLN)	The amount of dividend (in PLN '000)
2022	2.0	25 236
2021	2.5	31,544
2020	3.6	45,424
2019	2.6	32,806
2018	2.6	32,806
2017	2.2	27,759
2016	3.2	40,377
2015	3.15	39,746
2014	3.1	39,115

2013	2.5	31,545
2012	2.5	31,545
2011	1.35	17,034
2010	1.7	23,036
2009	1.6	21,686
2008	1.35	18,297
2007	1.1	15,235
2006	1	13,850
2005	0.44	6,248
2004	0.42	5,964
2003	0.35	4,970
		504 223

The Company's shares are included in WIGdiv dividend index. The WIGdiv index includes companies that have distributed regularly dividends over the last 5 financial years. The WIGdiv is a total return index and its calculation takes into account both the prices of its shares as well as dividend and subscription rights income.

9.5 STOCK EXCHANGE LISTINGS ON THE WSE

Stock exchange listings

The shares of FFil Śnieżka SA have been listed on the Warsaw Stock Exchange since December 31, 2003 (the rights to shares debuted two days earlier - December 29).

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

In 2023, the price of FFil Śnieżka SA shares increased by 31.4%. For comparison, the main index of the Warsaw Stock Exchange, WIG, increased by 36.5% and WIG Budownictwo increased by 86.9%.

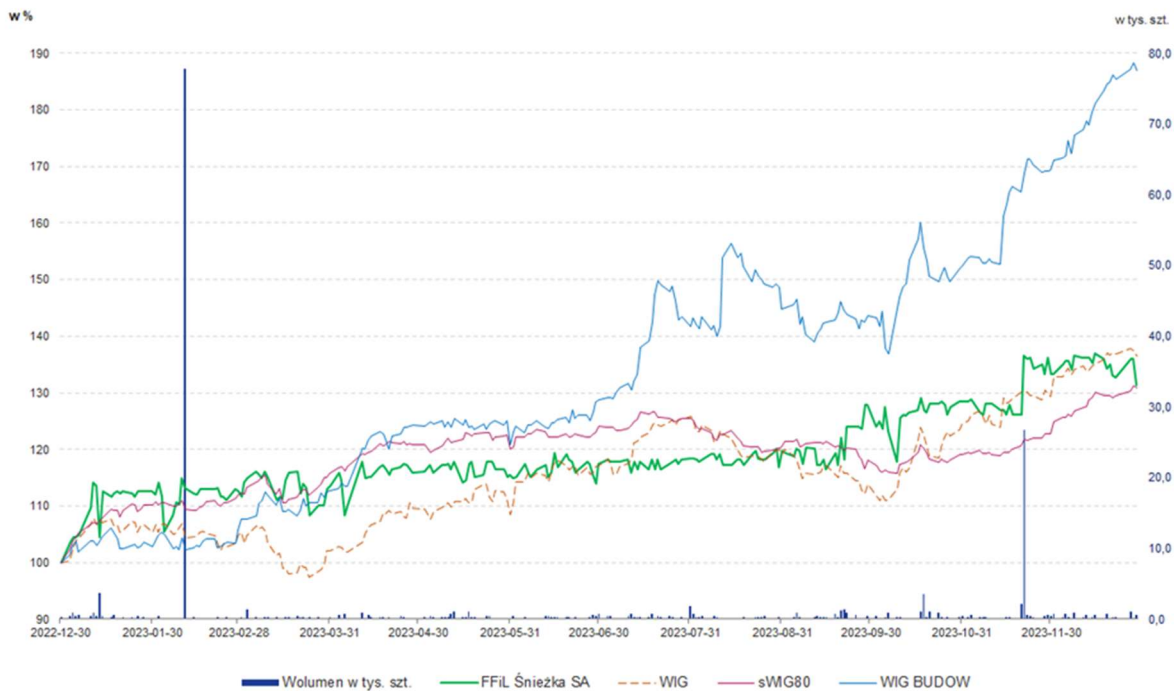
In 2023, the closing price of FFil Śnieżka SA shares on the Warsaw Stock Exchange ranged from PLN 61.80 (30 December 2022) to PLN 84.60 (15 December 2023).

At the end of 2023, the market value of FFil Śnieżka SA increased to PLN 1,02 billion (from PLN 0.78 billion at the end of 2022).

The P/BV ratio (share price/book value per share attributable to shareholders of the parent company) was 2.95 (vs. 2.66 in 2022), and P/E (price/earnings per ordinary share attributable to shareholders of the parent company) was at the level of 13.20 (vs. 21.26 in 2022).

Figure 11. FFIL ŚNIEŻKA SA's listings on WSE in 2023

30.12.2022 = 100%, beginning 29.12.2023 = the end of the period



9.6 INVESTOR RELATIONS

In 2023, the Śnieżka Group conducted investor relations in a transparent and effective manner, ensuring professional communication with institutional and individual investors, as well as with sell-side analysts. A characteristic element of these activities was regular organization of meetings with stakeholders, which included regular meetings and quarterly teleconferences. These sessions allowed participants to gain a deeper understanding of the company's finances and development plans.

Another key aspect of IR's activities was organizing an investor chat in liaison with the stockwatch.pl portal. This initiative enabled direct and open communication with individual investors, strengthening the company's trust and transparency.

Also in 2023, the company was present in the media, participating in live TV programs on channels such as Biznes24, which allowed it to reach a wide audience and strengthen the brand image in the business environment.

The presence in renowned financial magazines, such as Forbes, Puls Biznesu or Gazeta Giełdy i Inwestorów Parkiet, additionally strengthened the position of the Śnieżka Group as a transparent and dynamic entity on the market.

However, the most important event in the field of IR was the September visit of several dozen stakeholders to the company's headquarters. This two-day meeting gave investors and analysts direct insight into the company's operations, its potential and organizational culture, which is vital in building long-term and valuable rapport with the capital market.

IR key figures 2023

- 5 – meetings with the capital market in online and regular form
- 185 – participants of meetings with the company
- 72 – media publications in key business media

10. NON-FINANCIAL INFORMATION DISCLAIMER

10.1 CORPORATE GOVERNANCE

10.1.1. CORPORATE GOVERNANCE PRINCIPLES AND A STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE

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

Corporate Governance is composed of two categories of internal acts:

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

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

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

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

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

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

The key due diligence policies and procedures will be presented in the sections that follow, while this chapter is dedicated to the general practice indicating the Group's care for observance of the strictest due diligence standards in all aspects of the organization's activities. The Book of Organizational Values adopted by the Company (described in section 10.5.1.2 of the Report) and the Code of Ethics of the Śnieżka Group (described in section 10.5.1.1 of the Report) are also of key importance herein.

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

Access to knowledge about the adopted documents is a condition for their proper implementation. Employees are automatically notified of any change in the documentation and have quick access to its current version at any time.

As regards the documents considered to be of key importance, the principle of obligatory familiarization with them is additionally applied - this should be confirmed in the monitoring system.

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

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

Other information on due diligence procedures

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

Best Practices of WSE Listed Companies

FFIL ŚNIEŻKA SA applies recommendations and principles of corporate governance specified in "Best Practices of WSE Listed Companies 2021" document. Its content is available at: https://www.gpw.pl/pub/GPW/pdf/Uch_13_1834_2021_DPSN2021.pdf.

From the date of entry into force *Best Practices of WSE Listed Companies 2021*, the Management Board of FFiL Śnieżka SA strives to ensure that the principles and recommendations referred to in this document are applied to the Company to the widest possible extent. At the same time, the Management Board declares that in 2022 the Company withdrew from applying or applied partially the following principles/ recommendations:

Principle/Recommendation	FFiL ŚNIEŻKA SA's comment
1. INFORMATION POLICY AND COMMUNICATION WITH INVESTORS	
<p>1.2. A company facilitates to get acquainted with its financial results included in the periodic report as soon as possible after the end of the reporting period, and if it is not possible for justified reasons, it publishes at least preliminary estimated financial results as soon as possible.</p>	<p>The principle is applied.</p>
<p>1.3 In its business strategy, a company also takes into account ESG issues, in particular including:</p>	
<p>1.3.1. environmental issues, including measures and risks related to climate change and sustainable development issues;</p>	<p>Company's comment:</p> <p>The Company did not disclose the business strategy document to the public. Concurrently, the Company developed the Śnieżka 2023+ Sustainable Development Strategy (hereinafter referred to as the Sustainable Development Strategy, Strategy), which is described in the Statement on non-financial information for 2022. The shape of the Sustainable Development Strategy is the result of previous activities, external analyses, involvement of employees, management staff and the Management Board, as well as research of the Company's stakeholders. The final step was to develop a materiality matrix, which was the starting point for defining strategic objectives.</p> <p>The strategy includes 3 key pillars of responsibility towards the environment and actions for sustainable development. As part of them, a total of 9 areas were determined that define the priorities for the further development of Śnieżka in the spirit of sustainable development.</p> <p>As part of the Strategy, 21 strategic and 71 operational objectives have been defined, which will be implemented by FFiL Śnieżka SA and Śnieżka ToC Sp. z o.o., both in the short and long term. In order to effectively implement the Strategy, responsibility has been assigned at the level of specific organizational units.</p> <p>By implementing the assumptions of the new Strategy, the Company is performing selected UN Sustainable Development Objectives for 2030: "Good health and quality of life", "Clean and accessible energy", "Less inequalities", "Responsible consumption and production" and "Climate action".</p> <p>Information on the implementation of the Strategy and on sustainable development (including ESG indicators and data) will be published on the Company's website and in annual reports of the Management Board on the activities of the Śnieżka Group (part of the annual report).</p>
<p>1.3.2. social and employee matters, concerning, inter alia, actions taken and planned to ensure gender equality, proper working conditions, respect for employees' rights, dialogue with local communities, relations with clients.</p>	<p>The principle is not applied, see the comment to item 1.3.1 above.</p>
<p>1.4. In order to ensure proper communication with stakeholders, in the scope of the adopted business strategy, a company publishes on its website information</p>	<p>The principle is not applied, see the comment to item 1.3.1 above.</p>

on the assumptions of its strategy, measurable goals, in particular long-term objectives, planned activities and progress in its implementation, determined by means of financial and non-financial measures. Information on the strategy in the ESG area should, inter alia:

1.4.1. explain how the decision-making processes in a company and its group entities take account of climate change issues, pointing to the resulting risks;

The principle is not applied, see the comment to item 1.3.1 above.

1.4.2. present the value of the equal wage ratio paid to its employees, calculated as the percentage difference between the average monthly remuneration (including bonuses, awards and other allowances) of women and men for the last year, and provide information on actions taken to eliminate any inequalities in this respect, along with with the presentation of related risks and the time horizon in which it is planned to achieve equality.

The principle is not applied, see the comment to item 1.3.1 above.

In addition, the Company indicates that its objective is to maintain the comparability of salaries of women and men employed in similar positions. This objective is monitored gradually, starting with FFIL Śnieżka SA and Śnieżka ToC Sp. z o. o. In 2023, the adjusted wage gap was 3,41% (this indicator means the difference between the average remuneration of men and women, expressed as a percentage of the average remuneration of men by employment category).

2. MANAGEMENT BOARD AND SUPERVISORY BOARD

2.1. A company ought to have a diversity policy towards the management board and supervisory board, adopted respectively by the supervisory board or the general meeting. The diversity policy defines the diversity objectives and criteria in such areas as gender, field of education, specialist knowledge, age and professional experience, as well as indicates the date and method of monitoring the achievement of the objectives in question. In terms of gender diversity, the condition for ensuring the diversity of the company bodies is the participation of the minority in a given body at a level not lower than 30%.

The principle is not applied.

The Company has not developed and does not apply any diversity policy towards the management board and supervisory board. The fundamental criteria for selection for management and supervisory positions in the Company are competences and meeting the requirements for a given position. Characteristics such as gender or other factors, such as age, do not influence the evaluation of candidates as they may lead to discrimination.

Diversity in the Group has a practical aspect. For example, women hold (and have historically held) managerial and supervisory positions within the Group companies.

At the end of 2023, the number of women managers was 63, which constituted a total of 32% of all staff hired in these positions. According to the definition adopted in the Company, only persons managing teams of employees are classified as managerial positions.

2.2. The decision-makers on the appointment of members of the management board or supervisory board of a company should ensure the versatility of these bodies by selecting persons who ensure diversity in their composition, enabling, inter alia, achieving the target minimum minority participation rate set at a level of not less than 30%, in line with the objectives set out in the adopted diversity policy referred to in principle 2.1.

The principle is not applied.

In the Company's opinion, the right to appoint members of the supervisory board lies upon the shareholders, and members of the management board - upon the supervisory board.

2.11. In addition to the activities resulting from legal provisions, once a year the supervisory board draws up and presents an annual report for approval to the ordinary

The principle is not applied.

The Company does not apply this principle due to the waiver of principle 2.1.

general meeting. The report referred to above contains at least: 2.11.6. information on the degree of implementation of the diversity policy in relation to the management board and the supervisory board, including the achievement of the objectives referred to in principle 2.1.

3. INTERNAL SYSTEMS AND FUNCTIONS

3.1. A listed company maintains effective systems of: internal control, risk management and supervision of compliance with the law, as well as an effective internal audit function, appropriate to the size of the company and the type and scale of activities, for which the management bears responsibility.

The principle is not applied.
The Company maintains internal control, risk management and compliance systems, but no internal audit unit has been organisationally separated.

3.3. A company belonging to the WIG20, mWIG40 or sWIG80 index appoints an internal auditor in charge of the internal audit function, acting in accordance with generally recognized international standards of the professional practice of internal audit. In other companies where no internal auditor was appointed to meet the above-mentioned requirements, the audit committee (or the supervisory board, if it serves as an audit committee) assesses annually whether there is a need to appoint such a person.

The principle is not applied.
The Company maintains internal control, risk management and compliance systems, but no internal audit unit has been organisationally separated.

3.4. Remuneration of persons responsible for risk management and compliance and the head of internal audit should depend on the performance of assigned tasks, and not on the short-term performance of the company.

The principle is not applied.
There are designated persons responsible for risk management and compliance in the Company, but there is no person in charge of internal audit.

3.6. The head of internal audit reports organisationally to the president of the management board, and functionally to the chairman of the audit committee or the chairman of the supervisory board, if the board performs the function of the audit committee.

The principle is not applied.
The Company has no person in charge of internal audit.

3.7. Principles 3.4 - 3.6 are also applicable to entities comprising the company's group that are significant for its operations, if they have designated persons to perform these tasks.

The principle is not applied.
The Company does not apply this principle due to the waiver of principle 3.4. and 3.6.

3.10. At least once every five years in a company belonging to the WIG20, mWIG40 or sWIG80 index, an independent auditor, appointed by the audit committee, reviews the internal audit function.

The principle is not applied.
The Company does not apply this principle due to the waiver of principle 3.1.

4. SHAREHOLDER MEETING AND SHAREHOLDER RELATIONS

4.1. A company should enable its shareholders to participate in the general meeting by means of electronic communication (e-general meeting), if it is justified in view of the shareholders' expectations reported to the company, and if it is able to provide the technical infrastructure necessary to conduct such a general meeting.

The principle is not applied.
In the Company's opinion, the current mode of holding general meetings, carried out pursuant to the provisions of the Commercial Companies Code, is sufficient.

4.3. A company provides publicly available real-time broadcast of the general meeting.

The principle is not applied.

The Company strives to conduct general meetings as efficiently as possible. Due to efforts to limit additional technical and organizational burdens, the Company does not broadcast the proceedings in real time.

6. REMUNERATION

6.4. The Supervisory Board performs its tasks continuously, therefore the remuneration of board members cannot depend on the number of meetings held. The remuneration of committee members, in particular the audit committee, should take into account the additional workload related to work in these committees.

The principle is not applied.

The remuneration of Supervisory Board members is determined in accordance with the Remuneration Policy for Members of the Management Board and Supervisory Board of Fabryka Farb i Lakierów Śnieżka S.A. adopted by the resolution of the Ordinary General Meeting of June 16, 2020.

The remuneration of the Supervisory Board members is, as a rule, permanent, related to the continuous performance of supervisory tasks. The amount of remuneration of the Supervisory Board members does not depend on the number of meetings of the Supervisory Board held in a given calendar month. The Supervisory Board members delegated to perform supervisory activities independent are entitled to additional remuneration.

The lack of the principle application is related to the fact that the Supervisory Board members are not entitled to remuneration for a given calendar month if, for unjustified reasons, they did not participate in any of the meetings of the Supervisory Board formally convened in a given calendar month and the lack of additional remuneration in connection with work in Supervisory Board committees.

10.1.2 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESSES OF PREPARING FINANCIAL STATEMENTS

The key guidelines, standards and legal provisions applied in the Śnieżka Group in relation to the process of preparing financial statements and consolidated financial statements (in the context of internal control and risk management systems) are:

- International Accounting Standards (IAS);
- International Financial Reporting Standards (IFRS), related interpretations announced in the form of Regulations of the European Commission;
- The Accounting Act (in the areas not governed by IAS/IFRS),
- the internal procedures for preparing periodic reports, made public in relation to the status of a public company.

As far as ownership supervision over subsidiaries is concerned, the supervision is exercised by the Corporate Governance Department of FFIL Śnieżka SA.

10.1.3. THE ARTICLES OF ASSOCIATION

FFIL ŚNIEŻKA SA operates on the basis of the Articles of Association. The Articles of Association is available at the Company's website: <https://sniezkagroup.com/relacje-inwestorskie/lad-korporacyjny/>. Any amendments to the Articles of Association require a consent of the Shareholder Meeting and the entry into the Register of Entrepreneurs in the National Court Register.

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

- General Meeting,

- Supervisory Board,
- Management Board.

In 2023 the Articles of Association was not subject to change.

10.1.4. GENERAL MEETING

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

The competences of the General Meeting of the Company, apart from issues specified in legal regulations and other provisions of its Articles of Association, include:

- adopting the regulations of the shareholder meeting,
- approving the Regulations of the Supervisory Board,
- determining the rules for remunerating members of the Supervisory Board and members of the Management Board,
- appointing a representative to conclude contracts with board members,
- acquiring of own shares by the Company,
- determining the amount of remuneration for members of the Supervisory Board, delegated to permanent individual performance of supervision.

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

Pursuant to the Articles of Association, general meetings of FFIL Śnieżka SA are held in Warsaw (where the Company's registered seat is located), in Brzeźnica or in Dębica.

The manner of operation of the General Meeting, as well as the rights of shareholders and the manner of their implementation are specified in the provisions of the Code of Commercial Companies and Regulations of the General Meeting, available on the Company's website at: <https://sniezkagroup.com/relacje-inwestorskie/lad-korporacyjny/>

10.1.5. SUPERVISORY BOARD AND AUDIT COMMITTEE

The rules for appointing members of the supervisory board

Pursuant to § 12 of the Company's Articles of Association, a supervisory body consists of five to seven members appointed by the general meeting for a joint three-year term of office. The number of members of the supervisory board is determined by the general meeting. Members of the Supervisory Board are elected by the General Meeting, provided that three members of the Supervisory Board including the Chairman of the Supervisory Board are elected by shareholders holding series A shares, in such a way that for every 30 000 of series A shares give entitlement to indicate a candidate for one member of the Supervisory Board, including the Chairman of the Supervisory Board. If that preference expires over some series A registered shares, each remaining 20 000 series A shares give entitlement to indicate one Supervisory Board Member, including the Chairman of the Supervisory Board.

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

Composition of the Supervisory Board

In 2023, from January 1 to April 27, the Supervisory Board of the ninth term of office was composed of:

- Jerzy Pater - Chairman of the Supervisory Board
- Stanisław Cymbor - Vice-Chairman of the Supervisory Board
- Rafał Mikrut - Secretary of the Supervisory Board
- Zbigniew Łapiński - Member of the Supervisory Board
- Ewa Hałucha Member of the Supervisory Board

- Dariusz Orłowski - Member of the Supervisory Board
- Piotr Kaczmarek - Member of the Supervisory Board

The current Supervisory Board was appointed at the General Meeting of the Company held on May 31, 2022. Detailed information on the members of the Supervisory Board was included by the Company in the current report no. 14/2022.

On March 31, 2023, Ewa Hałucha submitted a statement of resignation from the function of a Member of the Supervisory Board of Śnieżka, effective as of the closing of the Supervisory Board meeting, the agenda of which will include the assessment of the Management Board's reports on the Company's activities in 2022 and the Company's financial statements for 2022, i.e. as at April 27, 2023. The Company informed about it in the current report no. 5/2023.

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

In 2023, from April 27 to December 31, the Supervisory Board of the ninth term of office was composed of:

- Jerzy Pater - Chairman of the Supervisory Board
- Stanisław Cymbor - Vice-Chairman of the Supervisory Board
- Rafał Mikrut - Secretary of the Supervisory Board
- Anna Sobocka - Member of the Supervisory Board,
- Piotr Kaczmarek - Member of the Supervisory Board
- Zbigniew Łapiński - Member of the Supervisory Board
- Dariusz Orłowski - Member of the Supervisory Board

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 firm, making statements in all matters that require resolutions of the general meeting, issuing opinions on all matters addressed to it by the management board.

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 27 January 2023.

The most important tasks of the Audit Committee include: supervision over the operation and monitoring of the Company's accounting, intermediation between the external auditor and the Supervisory Board, preparation of recommendations for the Supervisory Board regarding the financial reporting process in the Company and the Capital Group and selection of an audit company.

Until April 27, 2023, the Audit Committee, appointed by the Supervisory Board of the ninth term of office on May 31, 2022, operated in the company. It was composed of:

- Ewa Hałucha - Chairman of the Audit Committee
- Piotr Kaczmarek- Member of the Audit Committee
- Dariusz Orłowski - Member of the Audit Committee

On March 31, 2023, Ewa Hałucha submitted a statement of resignation from the function of a Member of the Supervisory Board of Śnieżka, which is tantamount to resignation from the position of Chairwoman of the Audit Committee effective as of the closing of the Supervisory Board meeting, the agenda of which will include the assessment of the Management Board's reports on the Company's activities in 2022 and the Company's financial statements for 2022, i.e. as at April 27, 2023. The Company informed about it in the current report no. 5/2023.

On April 27, 2023, the Supervisory Board of the ninth term of office appointed new members of the Audit Committee appointing Anna Sobocka. The new composition of the Audit Committee:

- Anna Sobocka - Chairwoman of the Audit Committee
- Piotr Kaczmarek- Member of the Audit Committee
- Dariusz Orłowski - Member of the Audit Committee

As at the date of preparation of this report, the composition of the Audit Committee remains unchanged.

Independent Members of the Audit Committee within the meaning of Art. 129 sec. 3 of the Acts are as at the date of preparation of this report: Anna Sobocka (Chairwoman of the Audit Committee) and Piotr Kaczmarek.

All members of the Audit Committee have knowledge and skills in accounting or auditing financial statements.

Members of the Audit Committee, Anna Sobocka and Dariusz Orłowski, have knowledge and skills in the industry in which the Company operates.

Ten meetings of the Audit Committee were held in 2023.

10.1.6. MANAGEMENT BOARD

The rules for appointing members of the management board

Pursuant to § 15 of the Company's Articles of Association, the management board consists of one to five members appointed for a joint three-year term. The number of board members is determined by the Supervisory Board. The Supervisory Board appoints the President of the Management Board and - at his request - other members of the management board. The President of the Management Board manages the work of the board, chairs its meetings and coordinates the work of other board members. The president has the right to appoint vice presidents from among other members of the board. The appointed vice president of the board substitutes the president during his absence.

The composition of the Management Board

Members of the Management Board of FFIL Śnieżka SA in 2023:

- Piotr Mikrut - President of the Management Board
- Witold Waško – Vice President of the Management Board, CFO
- Joanna Wróbel-Lipa – Vice President of the Management Board, Sales Director
- Zdzisław Czerwiec - Vice President of the Management Board, Supply Chain Management Director

The Management Board in the above composition was appointed for the ninth term of office on April 27, 2023.

The current composition of the Management Board of FFIL ŚNIEŻKA SA:



Piotr Mikrut -
President of the
Management Board



Witold Waško – Vice
President of the
Management Board, CFO



Joanna Wróbel-Lipa –
Vice President of the
Management Board,
Sales Director



Zdzisław Czerwiec - Vice
President of the
Management Board,
Supply Chain
Management Director

The duties of members of the management board

The Management Board executes strategic objectives and oversees the execution of the Company's operational objectives. Management board members perform their duties in person, in accordance with the function each time indicated by the supervisory board in the resolution on appointment to the management board.

The division of assignments between the individual members of the management board is specified in the "Organizational Regulations of Fabryka Farb i Lakierów Śnieżka Spółka Akcyjna". In addition, the president of the board manages the work of the board, chairs its meetings and coordinates work of other board members.

The scope of activities of the management board includes managing the Company's affairs, operations and its assets, as well as representing the Company - except for matters reserved for other bodies.

Two members of the management board or one board member together with a proxy are required to make declarations of will on behalf of the Company.

While managing the Company's affairs, the management board is subject to limitations resulting from the provisions of law, the Articles of Association and resolutions of the general meeting and the supervisory board. The general meeting and the supervisory board may not issue binding instructions to the management board regarding the conduct of the Company's affairs.

Activities requiring a resolution of the management board performed without a relevant resolution may be subsequently confirmed by a resolution of the management board.

The special responsibilities of the management board include:

- arranging the Company's accounting - in accordance with the applicable regulations and the Company's interests and ensuring that it is properly maintained,
- preparation of the financial statements by March 30 of the following financial year, introducing the annual report on the company's activities to the financial statements and submitting reports to the supervisory board
- submitting annual reports to the registry court in the form and time limits specified by applicable law,
- keeping records of the minutes of the general meeting and issuing certified copies of resolutions,
- providing oral and written explanations and drawing up reports at the request of the supervisory board and shareholders present at the general meeting,
- developing draft resolutions regarding decisions which, on the basis of the Commercial Companies Code and the Company's Articles of Association, fall within the competence of the general meeting,
- requesting a meeting of the supervisory board together with the agenda and requesting it to approve the draft resolutions of the general meeting,
- carrying out post-audit recommendations.

10.1.7. AUDITING FIRM SELECTION

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 9, 2023, the Supervisory Board selected - in accordance with applicable regulations - the entity PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. to audit and review the statutory separate financial statements of Fabryka Farb i Lakierów Śnieżka SA and the consolidated financial statements of the Śnieżka Group for the years 2023-2025. On July 19, 2023, the Company concluded an agreement with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. in the above-mentioned scope.

On February 27, 2024, in connection with the Corporate Sustainable Reporting Directive (CSRD), which enters into force on January 1, 2024, a decision was made to subject selected non-financial disclosures for 2023 to independent certification. On February 27, 2024 the Company concluded an agreement with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. The selection of the service provider was dictated by:

- the emerging market practice aimed at attesting both reports (financial and non-financial data) by one entity;
- experience of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. in the certification of non-financial data of companies listed on the WSE;
- ensuring consistency in the attestation of both reports and the competitiveness of the price offer.
- the need to confirm 2 indicators required as part of SSL financing provided by Bank BNP Paribas Polska in 2022.

Subject of the agreement

The subject of the above-mentioned agreements with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. is the following:

- audit of the financial statements of the Company and the Group for the period from January 1, 2023 to December 31, 2023 and from January 1, 2024 to December 31, 2024 and from January 1, 2025 to December 31, 2025, carried out in accordance with the requirements of the Accounting Act of September 29, 1994 and the National Auditing Standards. conducting a review of the interim financial statements of the Company and the Group - for the period from January 1, 2023 to June 30, 2023 and

for the period from January 1, 2024 to June 30, 2024 and for the period from January 1, 2025 to June 30, 2025 year – in accordance with the requirements of the Accounting Act and the National Auditing Standards.

- certification of disclosures for the period from January 1, 2023 to December 31, 2023 in the field of carbon footprint, sales of ecologically and allergy-certified products and selected non-financial disclosures included in the Statement on non-financial information resulting from the provisions of the CSRD Directive.

Independence and impartiality

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. was entered by the National Council of Statutory Auditors on the list of auditing firms under no. 144.

The aforementioned auditing firm and members of the audit team of the Company and the Group fulfilled the conditions for preparing an impartial and independent audit report on the annual financial statements in accordance with applicable regulations, professional standards and ethics.

Rotation and grace period

FFiL Śnieżka SA adheres to the applicable regulations related to the rotation of the auditing firms and the key statutory auditor and mandatory grace periods.

The Company has already taken advantage of the PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k.'s services regarding audit and review of financial statements from 2016 to 2022.

Auditing firm's remuneration

The auditing firm's remuneration, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., due for the annual audit and review of the interim financial statements of the Group and the Company for the financial year ended December 31, 2023 amounts in total PLN 570 thousand with reference to the parent company:

- a) PLN 330 thousand for statutory audit within the meaning of Art. 2 item 1 of the Act on statutory auditors,
- b) PLN 86 thousand for the review of the interim financial statements, PLN 22 thousand for other certification services (report on the compliance of the format of the consolidated financial statements with the requirements of the European Single Electronic Format "ESEF").
- c) PLN 105 thousand for certification services regarding carbon footprint disclosures, sales of ecologically and allergy-certified products and selected non-financial disclosures included in the Statement on non-financial information and PLN 27 thousand for certification services Assessment of the remuneration report for 2023.

Within the scope of services described above:

- Remuneration of the audit company PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. for the financial years from January 1, 2024 to December 31, 2024 and from January 1, 2025 to December 31, 2025, will be in the same amount as the remuneration for services relating to the financial year from January 1, 2023 to December 31, 2023 and will be increased accordingly by the percentage of the increase in the average salary in the national economy in the previous year determined on the basis of the Announcement of the President of the Central Statistical Office issued on the basis of Art. 20 (1) (a) the Act of 17 December 1998 on pensions and annuities from the Social Insurance Fund, relating to the year preceding the given year of the audit.
- In addition, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. will be reimbursed direct costs such as travel, accommodation, etc. up to a maximum of 5% of the net remuneration. In connection with the requirements referred to in art. 55 of the Act on Statutory

Auditors, the remuneration will also be increased by costs in the amount of 2.18% of the supervision fee.

- The Company also concluded an agreement with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. regarding the assessment of the Remuneration Report prepared by the Supervisory Board for 2023, for 2024 and 2025. The remuneration in this respect will amount to PLN 27 thousand for each year.
- If the growth rate of the average salary in the national economy in the previous year determined on the basis of the Announcement of the President of the Central Statistical Office issued pursuant to Art. 20 (1) (a) of the Act of December 17, 1998 on pensions and annuities from the Social Insurance Fund, relating to the preceding year exceeds 5% (five percent), then the remuneration for services in the scope of assessing the Remuneration Report prepared by the Supervisory Board for 2024 and 2025 will be increased by the percentage of the increase in the average salary in the national economy in the previous year, determined on the basis of the Announcement of the President of the Central Statistical Office issued on the basis of Art. 20 (1) (a) of the Act of 17 August 1998 on pensions and annuities from the Social Insurance Fund.

In connection with the requirements referred to in Art. 55 of the Act on Statutory Auditors, the remuneration for the assessment of the Report on remuneration prepared by the Supervisory Board will also include the assessment remuneration in the amount of 2.18% for supervision fee.

The auditing firm's remuneration, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., for auditing the annual and reviewing the interim financial statements of subsidiaries amounts in total PLN 416 thousand for the period between January 1 and December 31, 2023.

Remuneration of the audit company PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. for the financial years from January 1, 2024 to December 31, 2024 and from January 1, 2025 to December 31, 2025, will be in the same amount as the remuneration for services relating to the financial year from January 1, 2023 to December 31, 2023 and will be increased accordingly by the percentage of the increase in the average salary in the national economy in the previous year determined on the basis of the Announcement of the President of the Central Statistical Office issued on the basis of Art. 10 (1) (a) the Act of 17 December 1998 on pensions and annuities from the Social Insurance Fund, relating to the year preceding the given year of the audit.

In addition, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. was reimbursed direct costs such as travel, accommodation, etc. up to a maximum of 5% of the net remuneration. In connection with the requirements referred to in art. 55 of the Act on Statutory Auditors, the remuneration also included costs in the amount of 2.18% of the supervision fee.

VAT tax was added to the above amounts at the applicable rate.

VAT will be added to the above amounts at the applicable rate.

Neither did the Company conclude with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. other agreements, nor did it pay remuneration for auditors other than mentioned above.

Policy on selecting an auditing firm

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

Selection of an auditing firm is carried out in accordance with the Policy on selecting an auditing firm to conduct the audit and review of financial statements (available at the Company's website: <https://sniezka.com/relacje-inwestorskie/lad-korporacyjny/>) adopted by a resolution of the Audit Committee on January 27, 2023.

The policy corresponds to the Procedure on selecting an auditing firm prepared by the Audit Committee and adopted by a resolution of January 27, 2023. The policy on selecting an auditing firm to conduct the audit and review of financial statements determines the guidelines and principles that the audit committee should be driven by at the stage of preparing recommendations and the supervisory board by selecting an entity empowered to audit the financial statements of the Company and the Śnieżka Group. They take into account the requirements resulting from the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, and in particular:

- the need to maintain the impartiality and independence of the auditing firm and the statutory auditor;
- previous experience of the auditing firm in the audit and review of public interest entities and capital groups;
- potential to perform the scope of services whose performance is to be entrusted to the auditing firm (i.e. statutory audit and review of separate and consolidated financial statements);
- holding (in the appropriate value) an insurance policy against the civil liability by an auditing firm;
- professional qualifications and experience of persons directly involved in audit activities;
- the price proposed by an auditing firm;
- time of conducting the audit and review of the financial statements;
- the maximum period of uninterrupted duration of audit orders and statutory reviews carried out by the same audit firm or an audit firm related to that audit firm or any member of the network operating in the European Union to which these audit firms belong, not exceeding 10 years;
- the interval between the audits and statutory inspections carried out in the same public interest entity for a period of 10 years, amounting to at least the next 4 years, counting from the end of the last audit and statutory inspection;
- the key statutory auditor may not conduct audit and statutory review in the same public interest entity for a period longer than 5 years. The key statutory auditor may conduct the statutory audit and review in the entity referred to in the preceding sentence again after at least 3 years have elapsed from the end of the last statutory audit and review.

The policy corresponds to the Procedure on selecting an auditing firm, which takes into account cooperation of a member of the management board - the CFO, the audit committee and the supervisory board. The aim of the procedure is to efficiently and effectively collect bids from auditing firms, which are subsequently analysed by the audit committee, in order to submit to the supervisory board an appropriate recommendation on selecting entities authorized to perform the audit. The recommendation covers at least two auditing firms together with the justified preference of the audit committee for one of the presented entities. The final decision regarding the selection of an auditing firm is made by the supervisory board. However, if the supervisory board decides to select another entity than recommended by the audit committee, it should provide reasons for departing from the audit committee's recommendation and provide such justification to the shareholder meeting of the Company.

Additional services provided by an auditing firm are set out in the "Policy of providing by an audit firm conducting audits and reviews of financial statements by entities related to this auditing firm and by a member of the auditing firm network of permitted non-audit services" adopted by the resolution of the Audit Committee of January 27, 2023.

The indicated policy has been in force at FFIL Śnieżka SA since 2023. The core assumption of this document is to minimize the risk that a statutory auditor or an auditing firm conducting audits of the Company's financial statements (or other entities mentioned in the title of this policy) provides directly or indirectly to the audited entity, its parent company or its subsidiaries within the European Union, any prohibited services other than auditing or auditing activities. The exceptions are services set out in art. 136 sec. 2 of the act on statutory auditors, auditing firms and public supervision (The act on Statutory Auditors), the provision of which is possible only to the extent not related to the tax policy of FFIL Śnieżka SA, after carrying out by the audit committee an assessment of threats and safeguards of independence and expressing a relevant consent. In addition, if the statutory auditor

or auditing firm provides the services referred to above, these entities are obliged to comply with the regulations contained in art. 69-73 of the act on Statutory Auditors determining solutions aimed at ensuring the independence and objectivity of the statutory auditor and the auditing firm.

10.1.8. REMUNERATION POLICY

As at 31 December 2023, the Company applied the Remuneration Policy for Members of the Management Board and Supervisory Board of Fabryka Farb i Lakierów "Śnieżka" S.A. ("Remuneration Policy"), which was developed on the basis of the act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies. The purpose of its development was to ensure corporate transparency and supervision over the remuneration of members of the management board and supervisory board of the Company.

The Remuneration Policy was adopted by Resolution of the General Meeting of the Company of June 16, 2020. The Remuneration Policy takes into account the experience of applying the solutions currently in force in the Company, relating to the establishment and payment of remuneration to members of the management board and supervisory board, which - as shown by the increase in the value of the Company and its harmonious and stable development - are part of the Company's business strategy, whose foundation is a long-term leading position in the segment of decorative paint markets of Central and Eastern Europe. The Remuneration Policy is also in line with its long-term interests, objectives and values.

The principles of determining and paying remuneration implemented in the Company will allow to adjust the personal goals of persons acting as members of the management board and supervisory board with the long-term interests of FFIL Śnieżka SA. The remuneration principles encourage members of the management board and supervisory board to take actions focused on long-term objectives and results as well as the sustainable development of the Company and the entire Śnieżka Group, while ensuring the stability of the Company's operations.

The Remuneration Policy - considering the organizational values indicated in the HR Policy of Śnieżka Group - is an integral part of building high commitment in the Company. It enables to align the common interests of the Company, members of the management board and the supervisory board while maintaining an appropriate relationship between these interests, ensuring the avoidance of conflicts of interest and contributing to the long-term success of FFIL Śnieżka SA.

The Company published the Remuneration Policy and the resolution on it (along with the date of its adoption and voting results) on its website: <https://sniezkagroup.com/relacje-inwestorskie/lad-korporacyjny/>

Remuneration of members of the management board

The remuneration of management board members may consist of fixed and variable components. They may receive additional non-cash benefits related to their function or position. The general meeting of the Company is responsible for establishing the principles of remunerating the board members. The amount of fixed components of remuneration for members of the management board and the rules for calculating variable components of remuneration may be established by the supervisory board on the basis of the general meeting's authorization.

In order to stimulate the development of the Company, take into account the short-term objectives of the Company and maintain the stability of employment in key management positions, the remuneration of management board members may include variable remuneration components, including an annual bonus and awards for special achievements. The president of the management board may be entitled to apply to the supervisory board for bonuses and awards for members of the management board resulting from additional tasks, special achievements or jubilees.

Variable remuneration components

Variable remuneration components may be based on all or some of the following criteria:

- 1) financial criterion - the financial results achieved by the Company or the Group in the period the variable remuneration component is awarded for;
- 2) loyalty criterion - the period of performing the function of a management board member;
- 3) social involvement criterion - considering social interests in the activities of the Company or the Group;
- 4) environmental criterion - considering in the operations of the Company or the Group its contribution to environmental protection;
- 5) CSR criterion - supporting the implementation activities undertaken by the Company or the Group in the area of corporate social responsibility of the Company or the Group;
- 6) criterion - individual, covering individual qualifying elements of a management board member, including special achievements, additional tasks or professional jubilees.

Variable remuneration components in the form of a financial instrument for members of the management board may also be awarded under incentive programs. In addition to the awarded remuneration, members of the management board may be entitled to other cash and non-cash benefits, which include in particular:

- 1) the option of taking advantage of the benefits specified in the Regulations of the Company Social Benefit Fund;
- 2) the option of taking advantage of MyBenefit program;
- 3) the option of joining the pension scheme operating in the Company on the terms provided for the Company's employees;
- 4) defrayal of premium costs for third party liability insurance of persons holding managerial positions (the so-called D&O); life and health as well as lost remuneration due to incapacity for work due to illness or accident;
- 5) the right to take advantage of training to improve professional qualifications indicated for the performance of the function of a management board member;
- 6) the option of taking advantage of a company vehicle for private purposes;
- 7) any other non-wage benefits that are available to employees (or associates) of the Company according to the basis of employment;
- 8) any other benefits resulting from the labour code and due to members of the management board on the basis of employment based on an employment contract;
- 9) any other benefits resulting from other mandatory provisions of law.

The sum of the variable remuneration components - including bonuses and other cash and non-cash benefits (including in the form of financial instruments) paid in a calendar year - ought to be in the range from 0 to 9 times the sum of the fixed components of the remuneration of the management board member. The maximum proportion is taken taking into account the potential level of payments that would include the results "higher than target ones."

Remuneration amount

Table 26. Remuneration of Members of the Management Board of FFIL Śnieżka SA in 2022 and 2023

	Remuneration and bonuses 2023	Income earned in subsidiaries 2023	Remuneration and bonuses 2022	Income earned in subsidiaries 2022
Piotr Mikrut	1 428.8	-	596.5	-
Witold Waśko	1 432.9	-	681.8	-
Joanna Wróbel-Lipa	1 199.2	235.2	373.1	240.0

Zdzisław Czerwiec	1 444.6	-	615.4	
Total	5 505.5	235.2	2 266.8	240.0

As at 31 December 2023, members of the management board did not have any debts due to loans granted by the Company.

In 2023, 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.

Remuneration of members of the supervisory board

Remuneration of members of the supervisory board may only be composed of fixed components. This solution is a measure to implement the strategy of the long-term objectives of the Company, separating substantially the remuneration of supervisory board members from the short-term objectives of the Company.

Supervisory board members do not receive any additional non-cash benefits related to the performance of their functions. They are not entitled to bonuses or other additional cash or non-cash benefits. The general meeting is responsible for establishing the detailed principles of remunerating the supervisory board members.

Remuneration amount

Table 27. Remuneration of Members of the Supervisory Board of FFIL Śnieżka SA in 2022 and 2023

	Remuneration and bonuses 2023	Income earned in subsidiaries 2023	Remuneration and bonuses 2022	Income earned in subsidiaries 2022
Stanisław Cymbor	417.9		373.2	-
Jerzy Pater	417.9		373.2	-
Jarosław Wojdyła	-		62.2	-
Zbigniew Łapiński	169.7		151.5	-
Rafał Mikrut	167.2		149.3	-
Dariusz Orłowski	169.5		149.3	-
Ewa Hałucha	55.7		87.5	-
Piotr Kaczmarek	169.7		88.4	-
Anna Sobocka	113.3		-	-
Total	1 680.9		1 434.8	-

As at 31 December 2023, supervisory bodies did not have any debts due to loans granted by the Company. In addition, in 2023, 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.

10.2. APPROACH TO SUSTAINABLE DEVELOPMENT

10.2.1. CORE ASSUMPTIONS

Sustainable development is treated as a necessary condition for achieving business objectives and an element that builds both business resilience to changes in the environment and value for shareholders and other stakeholders. Conscious and systematized management of ESG issues allows the Group's companies to be better prepared for market expectations and future challenges.

Sustainable development and management of ESG issues in the Śnieżka Group are based on policies and codes formally adopted by the Group and the parent company. These are in particular:

- *Code of Ethics,*
- *Supplier Code,*
- *Book of Organizational Values*
- *Śnieżka 2023 + Sustainable Development Strategy,*
- *Personnel Policy of the Śnieżka Group,*
- *Climate Policy of the Śnieżka Group,*
- *Quality, Environmental and Health and Safety Policy of the Śnieżka Group,*
- *Social Involvement Policy of the Śnieżka Group,*
- *Diversity Policy of the Śnieżka Group,*
- *Respect for Human Rights Policy of the Śnieżka Group,*
- *Anti-corruption policy of Fabryka Farb i Lakierów Śnieżka SA.*

These documents determine the approach of the Group's companies to social, environmental and corporate governance issues. They define issues of shaping employee relations, corporate values, requirements towards contractors and the Group's climate commitments. Detailed information about the provisions of the above-mentioned regulations can be found in the thematically corresponding chapters of this statement.

The Śnieżka Group monitors progress in the field of sustainable development through non-financial performance indicators. They are defined in *Śnieżka 2023 + Sustainable Development Strategy* and assigned to operational objectives. The implementation of these objectives and the metrics are disclosed in this statement in the "Environment", "People" and "Business" chapters referring to the strategic areas of sustainable development of the Śnieżka Group.

Due diligence

A full analysis of the due diligence process in line with ESRS requirements is planned for 2024. The Group also analysed the due diligence process as part of the preparation of the so-called taxonomic disclosures, using the 2023 OECD Guidelines for Multinational Enterprises.

The individual parts of this Report contain the existing due diligence procedures applied by the Group in relation to the following issues: natural environment and climate (items 8.3.2., 10.3.1.), suppliers (item 10.3.5.), employees and diversity (item 10.4. .1.1.), social (item 10.4.3.1.), respect for human rights (item 10.5.1.2.), counteracting corruption (item 10.5.1.3.) and cybersecurity (item 10.5.2.).

10.2.2. IDENTIFIED IMPACTS AND OPPORTUNITIES

As part of the preparation to the new reporting requirements, the Group carried out a simplified dual materiality analysis process (described in the Report in item 10.6.2.), which allowed for the identification of impacts, risks and opportunities related to sustainable development. The starting point for their identification was a thorough analysis of the Śnieżka Group's value chain. Some provisions of the currently applicable policies refer to the

management of areas overlapping with identified impacts, risks and opportunities. The impacts described below have been ranked from the most significant to the least significant according to an internally adopted scale.

Positive impacts

1. **Meeting payment deadlines and ensuring safe contract terms for suppliers** - actual impact at an upstream level of the value chain. As a leading entity on the paints and varnishes market, the Group promotes good practices related to payments to its subcontractors and suppliers, particularly small and medium-sized enterprises for which Śnieżka may be one of the largest and therefore most important customers. Owing to this, it maintains market standards at a high level, encouraging other entities to follow them through its own example.
2. **Implementation of the *Supplier Code* into the purchasing process** - actual impact at an upstream level of the value chain. The process, together with the supplier self-assessment questionnaire and the *Purchasing Policy*, allows to establish collaboration with entities that comply with the requirements set by Śnieżka in the field of sustainable development, including environmental protection and human rights. It is a factor that strengthens the motivation for positive changes for other enterprises.
3. **Developing organizational and corporate culture and transferring it to all levels of the organization's activities (including suppliers, employees)**. Communicating values, mission and vision through various channels, taking them into account while verifying the suitability of candidates to work for Śnieżka, in employee development conversations, in contact with customers, etc. - actual impact located throughout the entire value chain. A clear, transparent message based on the *Book of Organizational Values* allows it to maintain its integrity both internally (for employees who are familiar with their requirements) and from the perspective of business entities with which the Group cooperates throughout the value chain, expecting specific standards of conduct from them.
4. **Providing safe working conditions in sites** - actual impact in the value chain at the level of own operations. The Group takes occupational health and safety issues seriously, requiring compliance with the rules specified by law and conducting training in this area, both those to which Śnieżka is obliged (including Polish legislation and by complying with the provisions of the *Quality, Environmental and Health and Safety Policy*) and additional, e.g. first aid. It also conducts research to verify potential harmfulness of working conditions of staff hired in plants, such as verifying the permissible noise level. Thanks to this, it records a low number of accident events - in 2023, three minor individual accidents at work were recorded (in FFiL Śnieżka SA), and 7 within the Group.
5. **Providing safe employment conditions** - actual impact in the value chain at the level of own operations. Safe work is not only about complying with occupational health and safety law. The Group strives to create circumstances for the performance of professional duties so that its employees feel employment stability in a place that cares about them and strives to develop their competences, based on the provisions of the *Personnel Policy* and *the Policy on Respect for Human Rights*.
6. **Providing appropriate remuneration for employees** - actual impact in the value chain at the level of own operations. The Group strengthens its position on local labour markets by providing its employees with fair, competitive pay, appropriate to the position held, competences and scope of the contract. The basis for maintaining coherence and transparency of the remuneration system is the *Personnel Policy*, including the job evaluation system.
7. **Conducting training for employees in the area of corruption and bribery** - actual impact in the value chain at the level of own operations. The Group ensures compliance with the *Code of Ethics* and internal documents of individual companies, such as the *Anti-Corruption Policy of Fabryka Farb i Lakierów Śnieżka SA*, by organizing training courses during which the organization's values in this area and practical ways of reporting violations are discussed.
8. **Attention to the development of employee competences** - actual impact in the value chain at the level of own operations. Expanding the range of skills of employees allows to retain and develop talents in the organization, thus mitigating the risk of losing valuable human capital.

9. **Building a diverse and inclusive work environment** - actual impact in the value chain at the level of own operations. The organization has adopted a *Diversity Policy* and promotes the values to which it refers, which is a clear message of non-acceptance of discriminatory behaviour. The Group is aware that only through an inclusive culture it is able to effectively take advantage of the potential of its employees, and they can develop it in safe conditions.
10. **Care for consumers' health confirmed by certificates** - potential impact at a downstream level of the value chain. When using products manufactured by the Group, customers apply them on surfaces of their rooms, where they spend many hours, which is why the product parameters related to the safety of end users are so essential. Certificates confirming the hypoallergenicity of paints or the safety of toys covered with Śnieżka products allow consumers to make informed and responsible purchasing decisions.
11. **Transparent communication about pro-environmental and pro-customer product features** - potential impact at a downstream level of the value chain. Responsible marketing allows for a clear message regarding the key parameters of the Group's products, which confirm its sustainable operations. This communication is carried out on packaging by placing symbols on them relating to product classes and certificates they have obtained, including: Ecolabel, proving the pro-environmental paint features.

Negative impacts

1. **Greenhouse gas emissions in three scopes** - actual impact throughout the value chain. The Group is aware of its impact resulting from its business activities, which is why it counts its carbon footprint in three scopes and has set reduction goals, which can be read in the Report in item 10.3.3.1.
2. **Water consumption for production** - actual impact at an upstream level of the value chain. The production of paints involves high water consumption, both as a component of water-based paints, but primarily in the production process. Śnieżka takes measures to reduce water consumption, including: by recycling the washings in the washing process.
3. **Consumption of raw materials and materials, including packaging, cartons, foils, pallets, etc.** - actual impact at an upstream level of the value chain. The manufacturing process of the Group's products requires the use of packaging allowing for their proper storage and transport, and to protect them, also the use of cardboard boxes and pallets (obtained from valuable raw materials) and plastic waste foil. However, the organization makes every effort to use recycled and recyclable products in this regard.
4. **Generation of waste by customers and end users (packaging, cartons, foils, pallets, etc.)** - actual impact at a downstream level of the value chain. The Group is aware that the materials it uses to protect the product and allow it to be stored at the end user's premises constitute waste for the customer. Therefore, it increases the share of raw materials used, allowing for the processing and reuse of e.g. empty packaging.
5. **Generation of own waste (including washings)** - actual impact in the value chain at the level of own operations. Despite optimizing the use of materials and raw materials, Śnieżka is unable to avoid the generation of waste. Entities with which the Company signs appropriate contracts are responsible for their disposal. However, it minimizes the amount of production residues by recycling part of the washings.

Opportunities

1. **Obtaining energy from renewable energy sources (in Hungary, Ukraine), guarantees of energy origin in Poland - no carbon dioxide emission fees** - opportunity throughout the entire value chain, identified during the analysis of climate change issues in the simplified materiality analysis process. Technologies based on renewable energy sources use resources derived directly from the natural environment. Energy generated from renewable energy sources emits small amounts of greenhouse gases and other pollutants into the atmosphere. This means it is safe for the environment as it leaves a smaller carbon footprint than coal-based energy. Although energy from renewable energy sources still involves

significant costs, its use will become more and more profitable (e.g. due to the rising costs of carbon dioxide emissions). In addition, guarantees of origin help to build the image of a sustainable organization, which is increasingly important for both investors and contractors, as well as consumers.

2. **A stable supply chain thanks to cooperation with socially responsible and environmentally sustainable entities, based on long-term relationships** - an opportunity throughout the entire value chain, resulting from the impact identified as "implementation of the supplier code into the purchasing process". In addition to the benefits indicated, a stable supply chain also accounts for the opportunity of sustainable development of the organization in the long term, which contributes to production security and, consequently, also work security for people hired within the Group.
3. **Increased trust in the company by building the image of a sustainable organization** - an opportunity throughout the entire value chain, resulting from the impact identified as "developing organizational and corporate culture and translating it to all levels of the organization's activity (including suppliers, employees)...". Owing to the implemented Sustainable Development Strategy, FFIL Śnieżka SA and Śnieżka ToC transparently communicate with their stakeholders in the ESG area.
4. **Higher employee competences, better functioning of the organization and higher organizational revenues** - an opportunity in the value chain at the level of own operations, resulting from the impact identified as "care for the development of employee competences". Developing the potential of people employed in the Group is an opportunity both for the Group itself, due to maximizing the benefits from its own human and intellectual resources, but also for the employees themselves - expanding the range of skills, both hard and soft, increases their promotion opportunities (including retraining to another department), higher earnings and better job satisfaction. In the longer run, this contributes to increased efficiency and higher revenues of the Group.
5. **Greater availability of qualified employees, better functioning of the organization and higher organizational revenues** - an opportunity in the value chain at the level of own operations, resulting from the impact identified as "creating a diverse and inclusive work environment". Ensuring appropriate conditions for performing professional duties and offering competitive pay are particularly vital in the process of recruiting and retaining already employed specialists due to the unique and sometimes narrow, but at the same time desirable scope of their competences. Building an organization that is aware of its various resources, able to combine and use them, allows to develop a unique offer on the market.
6. **Recycling e.g. water or products withdrawn from the market** - an opportunity in the value chain at the level of own operations, resulting from the impact identified as "generation of waste for customers and end users (packaging, cartons, foils, pallets, etc.)". Due to the environmental benefits, the idea of a circular economy is gaining more and more importance. Śnieżka processes goods withdrawn from the market and reverses the water cycle in the production process, reducing the amount of waste. Activities in the area of circular economy, apart from reducing costs, have a positive impact on the assessment of the organization by both consumers and rating agencies.
7. **Stable relationships with business partners** - an opportunity at a downstream level of the value chain, resulting from the impact identified as "meeting payment deadlines and ensuring safe contract terms for suppliers.". The Group's business model assumes the purchase of raw materials and semi-finished products from suppliers at a higher level of the value chain and the sale of manufactured goods by direct customers at a lower level.
8. **Higher quantitative availability and lower costs of more sustainable (ecological) semi-finished products / raw materials due to their increasing popularity** - an opportunity at an upstream level of the value chain, resulting from the impact identified as "consumption of raw materials and materials (including packaging, cartons, foils, pallets etc.)". With the increasing ecological awareness of the market and the corresponding provisions of the European *Green Deal*, it is expected that the cost of environmentally friendly materials used in the manufacture of products offered by Śnieżka will be lower.

9. **Expanding the range of low-emission products** - an opportunity throughout the value chain, resulting from the impact identified as "greenhouse gas emissions in three scopes". The Group sees the likelihood of increased customer interest in an offer with low emission indicators, therefore, in the short term, it intends to calculate the carbon footprint of its products and develop products whose production and transport will generate lower emissions than in the case of the standard offer, which may contribute to maintaining sales or its growth.
10. **Increased customer confidence thanks to a more friendly product formula; creating and communicating safe products for consumers (e.g. Magnat Be Eko paint)** - an opportunity throughout the entire value chain, resulting from the impact identified as "transparent communication about pro-environmental and pro-customer product features". The safety of end users is crucial for the Śnieżka Group, which is why the Company offers allergy-certified and ecological products. A unique example of such a product are *Magnat Be Eko* paints, in which 30% of ingredients are of natural origin. This paint has obtained the Hypoallergenic Certificate. Transparent communication of product features contributes to, inter alia: gain customer trust.
11. **Boosting sales and gaining customer trust thanks to care for consumers' health (confirmed by certificates)** - an opportunity at a downstream level of the value chain, resulting from the impact identified as "care for consumers' health additionally confirmed by certificates". The Śnieżka Group develops recipes in its Research and Development Centre that live up to higher and higher expectations of consumers.

Risks

1. **The need to calculate the carbon footprint of products** - risk at a downstream level of the value chain, resulting from the impact identified as "greenhouse gas emissions in three scopes".
2. **Temporary reduction in production due to limited water availability** - a risk at an upstream level of the value chain resulting from the impact identified as "water consumption for production".
3. **Increase in fuel prices - increase in supply and distribution costs** - risk throughout the entire value chain, identified during the analysis of climate change issues in the simplified materiality analysis process.
4. **Physical risk - heat and frost waves - the need to change recipes and the method of storing products to adapt products to new weather conditions** - risk in the value chain at the level of own operations, identified during the analysis of climate change issues in the simplified materiality analysis process.
5. **Decreased interest of consumers and customers in high-emission products** - risk at a downstream level of the value chain, resulting from the impact identified as "greenhouse gas emissions in three scopes".
6. **Higher costs of doing business as a result of selecting suppliers who comply with the highest standards of sustainable development** - risk at an upstream level of the value chain, resulting from the impact identified as "implementation of the supplier code into the purchasing process".
7. **Reducing the demand for products generating a large amount of waste (including non-recyclable - contaminated e.g. with paint)** - risk at a downstream level of the value chain, resulting from the impact identified as "generation of waste at customers and end users (packaging, cartons, foils, pallets etc.)".
8. **Physical risk - heat and frost waves - the need to ensure optimal working conditions (e.g. additional air conditioning)** - risk in the value chain at the level of own operations, resulting from the topic "climate change", discussed in the simplified materiality analysis process.
9. **Breaking business relationships resulting from failure to maintain appropriate sustainable development standards** - risk at a downstream level of the value chain, resulting from the impact identified as "developing organizational and corporate culture and translating it to all levels of the organization's activities (including suppliers, employees)"

The identified risks and the risk management system are described in more detail in the Report in Chapter 8.
Risk management

10.2.3. ŚNIEŻKA 2023 + SUSTAINABLE DEVELOPMENT STRATEGY

The fundamental document defining the vision of managing the Group's sustainable development is *Śnieżka's 2023+ Sustainable Development Strategy*. The document is the organization's response to the growing awareness and expectations of consumers and business partners, and at the same time, the solutions adopted in the Strategy allow the Group to adapt to market changes and legal regulations. The provisions of the Strategy are presented in a long-term perspective and relate it to the business model. The document was drawn up for the parent company of the Group - FFil Śnieżka SA - and Śnieżka Trade of Colours. Both of the entities play key roles in the current operating model of the Śnieżka Group. Ultimately, the Strategy is to cover all companies both in Poland and beyond.



Śnieżka's 2023+ Sustainable Development Strategy is divided into three pillars and describes nine priority areas, 21 strategic objectives and 71 operational ones assigned to them. For each of the defined key areas, the Strategy determines a specific organizational unit responsible for its implementation. The operational objectives described in the document have specific metrics and time horizons.

I PILLAR: ENVIRONMENT

We are responsible for the impact of our activities on the environment and climate.

The Śnieżka Group undertakes to assume full responsibility for its products throughout their entire life cycle. It combines high quality products with concern for their impact on the health and safety of users and the environment. These issues are considered at the initial stages - design and determination of the recipe composition. The Group also strives to strengthen sustainable development in its supply chain, including: by using ESG criteria in purchasing processes. The Company's ambition is also to minimize the environmental footprint, including: by increasing production efficiency and optimizing media consumption.

Product liability

Strategic objectives	<ul style="list-style-type: none"> ▪ Development of products featuring a low environmental impact
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Responsible entity	Product Development Director
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Location in the Report	10.3.4. Product liability
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Responsible purchasing

Strategic objectives	<ul style="list-style-type: none"> ▪ Strengthening the sustainability of the supply chain ▪ Use of packaging containing a certain percentage of recycled material
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Responsible entity	Procurement Director
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Location in the Report	10.3.5. Responsible purchasing
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Impact of operations on the environment and climate

Strategic objectives	<ul style="list-style-type: none"> ▪ Reduction of waste generation ▪ Sustainable water management ▪ Increasing energy efficiency ▪ Transformation towards green energy ▪ Management and reduction of GHG emissions
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Responsible entity	Director of Quality and Climate Management
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Location in the Report	10.3.3. Impact of operations on the environment and climate
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II PILLAR: PEOPLE

We are responsible for employees and we carry out activities for the benefit of local communities

This pillar describes the Śnieżka Group's approach to building rapport with employees and local communities. Its strategic commitment is to enable the development of professional competences of all employees, to create a safe, diverse and inclusive work environment and to take absolute care of safe working conditions. The Group - based on competences - also participates in the implementation of social projects; is engaged in the development of children and youth, especially from small towns.

Staff involvement and development

Strategic objectives	<ul style="list-style-type: none"> • Creating an organizational culture based on values • Building a diverse and inclusive work environment • Managing employee engagement and satisfaction • Staff development • Maintaining a low level of employee turnover
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Responsible entity	Director of the People Department
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Location in the Report	10.4.1. Staff involvement and development
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Occupational Health and Safety

Strategic objectives	<ul style="list-style-type: none"> • Building a safety culture and minimizing risks to employees
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Responsible entity	Manager of the Occupational Safety Department
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Location in the Report	10.4.2. Occupational Health and Safety
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Social involvement

Strategic objectives	<ul style="list-style-type: none"> • Implementation of social projects based on Śnieżka Group's competences and brands • Support for the local community at the place of conducting business activities • Employee involvement in social activities
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Responsible entity	Corporate Communication and ESG Director
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Location in the Report	10.4.3. Social involvement
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III PILLAR: BUSINESS

We build an organization based on an effective management system and business ethics.

In the Business pillar, the Śnieżka Group declares the strategic compliance of its activities with legal provisions, internal regulations and adopted standards. It also commits to adopting a formal, comprehensive approach to risk management, including climate risk. The Group companies also ensure IT security of the organization's resources.

Compliance

Strategic objectives	<ul style="list-style-type: none"> • Active implementation of the compliance function • Management of the anti-corruption and fraud area
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Responsible entity	Corporate Governance Officer
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Location in the Report	10.5.1. Compliance
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Cybersecurity

Strategic objectives	<ul style="list-style-type: none"> • Comprehensive cybercrime protection and data security management
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Responsible entity	Digital Transformation and IT Director
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Location in the Report	10.5.2. Cybersecurity
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Risk management

Strategic objectives	• Formalization of a comprehensive risk management system
Responsible entity	Management Board
Location in the Report	8. Risks in the group's operations

The strategy supports the implementation of six of the 17 UN Sustainable Development Goals. This is a global initiative supporting solutions to the most important social, ecological and economic challenges facing the world. The adoption of the goals in 2015 and the time limit for their implementation - in most cases - 15 years (until 2030) was an expression of the belief that common global cooperation is key to creating a better, more sustainable world in which every entity has a chance for a decent life.

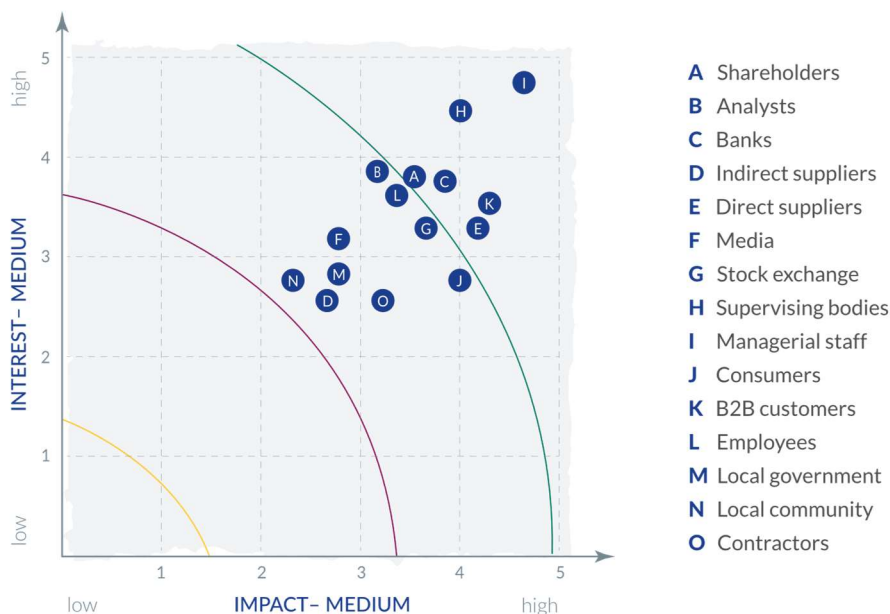


10.2.4. COMMUNICATION WITH STAKEHOLDERS

The Śnieżka Group communicates with stakeholders in a true, reliable and complete manner. This issue is regulated by the parent company in the *Information Policy of FFIL Śnieżka SA*. The document sets out framework principles for managing information and data about the Company. The records are addressed to the management staff, employees and associates managing information and data on behalf of FFIL Śnieżka SA. The basic principles of the *Information Policy* include: strict compliance with the law and adopted standards, providing information reflecting the specificity of a given situation, counteracting the dissemination of false information and observing business secrets. The policy is also an obligation of FFIL Śnieżka SA to absolute avoidance of hate speech and discrimination in communication.

Its implementation is supervised by the Corporate Governance Officer. He is also obliged to review the Policy on an annual basis and present the conclusions of his analysis to the Management Board. FFIL Śnieżka SA's subsidiaries conduct their own information policies consistent with the document adopted by the parent company.

Stakeholder matrix



The list of the most important stakeholders for the Śnieżka Group was updated in consultation with the Management Board during work on drawing up this Report. Śnieżka Group companies communicate with each stakeholder group in channels tailored to their needs and expectations. The feedback obtained during the dialogue is treated as one of the ways of verifying the activities undertaken in the Śnieżka Group.

The most common methods of communication between the Śnieżka Group and its stakeholders

- A. **Shareholders** - general meetings, reports (periodic and current), traditional meetings and videoconferences and chats
- B. **Analysts** – opinion surveys, social media, the Group's website
- C. **Banks** – telephone/email contact and meetings, opinion surveys, the Group's website
- D. **Indirect suppliers** – tenders and meetings, telephone/email contact, conferences and industry events, opinion surveys
- E. **Direct suppliers** – meetings, telephone/email contact, conferences and industry events, opinion surveys
- F. **Media** – briefings, post-results meetings and on-going contact contact (via the press office and direct), social media, the Group's website
- G. **Stock exchange** – telephone/email contact, the Group's website
- H. **Supervision institutions** – telephone/email contact, the Group's website
- I. **Managerial staff** – meetings, telephone/email contact, training, internal communication
- J. **Consumers** – satisfaction surveys, social media, communication at points of sale, competitions and promotional campaigns and advertising in various communication channels (including the Group's website)
- K. **B2B customers** – meetings, telephone/e-mail contact, training, "Customer Service Office" portal (bok.sniezka.pl), satisfaction/opinion surveys, the Group's website
- L. **Employees** - telephone/e-mail contact, internal magazine, employee newsletter, intranet and the Group's website, information screens, posters and contact via selected employee representatives, employer branding activities, satisfaction/opinion surveys, training, social media

- M. **Local government** – direct relations (including meetings), telephone, e-mail and traditional communication, opinion surveys, social media, the Group's website
- N. **Local community** - meetings, social campaigns addressed to the local community, activities of the Śnieżka Foundation, information provided to local media and via social media, opinion surveys, websites of the Group and the Foundation
- O. **Contractors** – meetings, telephone/email contact, opinion surveys, training, social media, the Group's website

10.3. ENVIRONMENT

10.3.1. APPROACH TO ENVIRONMENTAL ISSUES

The Śnieżka Group systematically and responsibly manages the impact of its activities on the natural environment. Issues related to environmental protection and impact on the climate are regulated by the *Quality, Environmental and Health and Safety Policy of the Śnieżka Group*, the *Śnieżka 2023+ Sustainable Development Strategy* (described in the Report in item 10.2.2) and the *Climate Policy of the Śnieżka Group*.

During the reporting period, the Śnieżka Group companies did not commit any non-compliance in the field of environmental protection and did not incur any related fines. The Group did not incur any financial or non-financial sanctions for violating environmental laws or regulations, and the Group's activities in relation to it were not the subject of any complaints regarding a negative impact on its resources.

Quality, Environmental and Health and Safety Policy of the Śnieżka Group

The policy covers the Group's value chain at its upstream and downstream levels, own operations and supporting activities primarily in Poland, but also in Ukraine, Hungary and Belarus. In accordance with its provisions, the Śnieżka Group companies strive to reduce their impact on the natural environment through the following:

- continuous formal and legal supervision and implementation of obligations set out in environmental decisions,
- efficient use of raw materials and energy,
- normative emission of pollutants to air, water and soil,
- rational waste and packaging management,
- applying solutions that improve the operational safety of technological installations.

The policy obliges the Group's companies to monitor the impact on the environment on an on-going basis and keep records of data on the use of the environment, including media consumption, pollutant emissions as well as waste generated and packaging introduced. The Group has all the necessary environmental decisions, pays fees for the use of the environment and participates in the creation and maintenance of a system for collecting, transporting, recovering or neutralizing packaging waste generated from the introduced packaging.

Quality, environmental and health and safety policy defines the methods of achieving the environmental goals of the Śnieżka Group. These include:

- reduction of harmful impact on the environment,
- promotion of environmental awareness among employees, contractors, customers and the local community,
- designing products to minimize their impact on the environment at as many stages of the product's life as possible,
- using raw materials and components only from qualified suppliers, using technologies and producing environmentally friendly products,
- quality control at individual stages of the production process,
- preventing environmental failures through constant monitoring of equipment and systems,

- striving to constantly improve occupational health and safety.

All companies comprising the Śnieżka Group are obliged to comply with it. Supervision over its compliance is performed by the Quality and Climate Management Department, and in the field of occupational health and safety - by the Occupational Safety Department. It obliges all subsidiaries of the Śnieżka Group to communicate its provisions to employees.

When implementing the provisions of the *Quality, Environmental and Health and Safety Policy*, the Group companies apply a number of good practices in the field of environmental protection, including: effective use of raw materials, water and energy, emissions of pollutants into the air, as well as waste and packaging management.

The best recipes and technological solutions are searched, the use of which is to reduce the Group's impact on the natural environment and employee safety. All new investments of the Group are based on the best technological solutions and take into account the above assumptions.

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

Climate Policy of the Śnieżka Group

The document defines the Śnieżka Group's approach to managing the impact of its activities on the climate throughout the entire value chain. The Policy expands environmental protection issues to include climate-related issues and is a complement to the *Quality, Environmental and Health and Safety Policy of the Śnieżka Group*. The document presents climate goals and information on the manner of managing and mitigating climate risks by Śnieżka.

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

In its approach to climate change, the Group places great emphasis on data analysis, based on which it sets long-term reduction targets. This approach applies to strategic decisions and operational activities throughout the entire value chain: starting from research and development processes (work on a portfolio of products with the lowest possible environmental impact), selection and purchase of raw materials, through efficiency and optimization of production, logistics and storage, and ending with sales and marketing processes.

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

- **Energy efficiency** – in order to be able to define priority actions in the field of consumption reduction, tools, systems and processes for measuring energy consumption are implemented in the Group companies.
As part of the expansion of the management system, the Group intends to introduce full metering of energy consumption broken down by locations, buildings and processes. Based on the analysis of the obtained data, projects contributing to the best results in terms of energy efficiency will be defined and implemented.
- **Transformation towards green energy** - purchase and/or generation of green energy by investing in our own photovoltaic system.
- **Emission management** - the Group's carbon footprint is calculated in accordance with the Greenhouse Gas Protocol (GHG Protocol) standard and covers scopes 1, 2 and 3 for all the Group companies. Based on the calculations, the Group develops a long-term reduction plan.

Data on the Group's emissions in all three scopes in 2023 can be found in the Report in item 10.3.3.1.

10.3.2. TAXONOMIC DISCLOSURE

Taxonomy is a classification tool designed to help investors, financial institutions and enterprises make informed investment decisions regarding environmentally sustainable business activities. As a result, the Taxonomy is the basic element of the activity classification system - broken down into sustainable and not classified as sustainable. The establishment of the above-mentioned system and classification criteria aims to implement the "European Green Deal" development strategy - including the transition to a safe, climate-neutral, climate-resilient and more resource-efficient circular economy.

In accordance with the Taxonomy Regulation (i.e. Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on establishing a framework to facilitate sustainable investment, OJ L 198, 22.6.2020, p. 13— 43) In the annual report, the Group is obliged to disclose:

- percentage share of turnover coming from products or services related to environmentally sustainable activities,
- percentage share of capital expenditures (CapEx) corresponding to assets or processes related to environmentally sustainable activities,
- percentage of operating expenses (OpEx) corresponding to assets or processes related to environmentally sustainable activities.

To determine whether an activity is environmentally sustainable, it is necessary to examine whether it meets all four of the following criteria:

- the activity makes a significant contribution to one or more environmental objectives;
- the activity does not cause significant harm to any of the environmental objectives;
- operating in accordance with the minimum guarantees,
- meeting the technical selection criteria, i.e. Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing technical selection criteria to determine the conditions under which a given economic activity qualifies as making a significant contribution to the sustainable use and protection of water and marine resources, to the transition to a circular economy, in the prevention and control of pollution or in the protection and restoration of biodiversity and ecosystems, and in determining whether those economic activities do not cause serious harm to any other environmental objective, OJ L, 2023/2486, 21/11/2023, and Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing technical screening criteria for determining the conditions under which an economic activity qualifies as making a significant contribution to mitigating or adapting to climate change, and determining whether those economic activities do not cause serious harm to any of the other environmental objectives, OJ L 442 of 9/12/2021, pp. 1-349, (TKK).

The environmental goals referred to above are:

- climate change mitigation,
- adaptation to climate change,
- sustainable use and protection of water and marine resources,
- transition to a circular economy,
- pollution prevention and control,
- protecting and restoring biodiversity and ecosystems.

Detailed requirements regarding the disclosure of the above-mentioned indicators are regulated by Commission Delegated Regulation (EU) 2021/2178, which details the principles set out in Art. 8 EU Taxonomy.

As part of this year's reporting, the Group is obliged to prepare a full report regarding the first two goals, i.e. climate mitigation and adaptation, and regarding the remaining goals only to report to what extent its activities are included in the taxonomy. This year, the Group voluntarily decided to fully report under the 6 objectives of the EU Taxonomy.

The Group is obliged to report on the extent to which its activities are sustainable within the meaning of the EU Taxonomy. For this purpose, the Group developed and carried out a process of examining compliance with the EU Taxonomy, which was divided into four stages: records, identification, allocation and verification.

Taxonomy compliance testing process:

- records – in order to start examining the compliance of activities with the Taxonomy, data on the Group's activities are collected. All departments are indirectly involved in this process, but the leading role is played by the Corporate Communication and ESG Department, the Controlling Department, the Financial Department, the Corporate Governance Department, the Purchasing Department, the Technical and Investment Department and the Maintenance Department. Individual departments cooperate with the Corporate Communication and ESG Department to obtain all relevant data,
- identification – the stage consisted in reviewing the activities conducted by the Group and determining whether a given type of activity qualifies for the taxonomy. The group identifies activities qualifying for the taxonomy on the basis of the descriptions of economic activities contained in the annexes to the delegated regulations establishing the technical qualification criteria of the EU Taxonomy. The Group was supported in this respect by an external advisor. In case of doubts, the NACE taxonomy, guidelines and other documents prepared by the European Commission and the Platform for Sustainable Finance were used, primarily the European Commission's notices containing interpretations of certain legal provisions of delegated acts. In addition, the practice of other European non-financial enterprises in the field of taxonomic reporting was reviewed, which shows that the taxonomy criteria are still interpreted divergently and it is necessary to further specify them by the EU institutions,
- allocation – assigning the value of turnover, capital expenditure and operational expenditure to individual values identified in the first stage of activity. The allocation principles are described in item 1.5. Accounting principles.
- verification – to assess whether a given activity is sustainable in the light of the EU Taxonomy criteria, the Group carried out a study of the criteria of significant contribution and not causing serious harm based on TKK. At this stage, an assessment was also carried out of whether the activity complied with the criteria for not causing serious damage. An assessment was also performed as to whether the Minimum Guarantees were met.
- Calculation - Based on the information obtained during the taxonomy compliance testing process, the Group prepared tables containing the required information and developed supplementary information, in accordance with the requirements of the annexes to Commission Delegated Regulation (EU) 2021/2178. The entire reporting procedure was overseen by an appointed member of the Management Board.

Verification of compliance with the Technical Qualification Criteria (TKK)

The Group verified compliance with the Technical Qualification Criteria for selected types of activities eligible for the taxonomy. The individual criteria of making a significant contribution and not causing serious harm specified in the TTK were analysed.

The Group generates revenues mainly from the sale of decorative paints and construction chemicals, which are intended for decoration and protection of substrates. Currently, there is no TKK model for this activity, therefore

it does not qualify for the EU Taxonomy. It should be highlighted, however, that the Group's operations are conducted taking into account the implementation of sustainable development goals, including in accordance with the highest standards of environmental protection.

Verification of compliance with “DO NO SIGNIFICANT HARM” (DNSH) criteria

The condition of DNSH aims to ensure that there is no situation in which the implementation of one of the environmental goals would be achieved at the expense of the others.

During the analysis of the compliance of the Group's activities with the EU Taxonomy, compliance with the DNSH criteria was verified for all activities that met the criteria for making a significant contribution.

The Group conducted a climate risk and climate change vulnerability assessment to identify which production locations may be at risk from physical climate risks. The climate risk assessment was carried out based on the guidelines contained in Appendix A to the TKK. Identified risks were assessed in relation to the local environment and, where necessary, measures were developed to minimize them.

The Group takes action to maintain water quality and avoid water scarcity. The Group takes all reasonable actions related to maintaining high water quality and avoiding water deficits in order to achieve good status of the aquatic environment.

The Group takes steps to transition to a circular economy, and the circular economy guidelines are the direction of the Group's development.

In order to implement the DNSH principle of pollution prevention and control in relation to the use and presence of chemicals, the Group strives not to produce, distribute or use substances listed in Appendix C to the TKK and operates in accordance with the principles expressed therein.

Care for biodiversity protection is taken into account in the Group's activities. The assessment of risks to biodiversity and general standards of conduct was carried out based on the guidelines contained in Appendix D to the TKK. To ensure compliance with requirements regarding biodiversity and ecosystems, the Group conducts continuous monitoring of the implementation of the requirements imposed on it by environmental protection law.

Verification of compliance with Minimum Guarantees

Pursuant to Art. 18 EU Taxonomy:

1. *"The minimum guarantees referred to in Art. 3 item c) are procedures followed by a business enterprise to ensure compliance with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight core conventions identified in the ILO Declaration on Fundamental Principles and Rights at Work and the principles and rights set out in the International Bill of Human Rights.*
2. *Using the procedures referred to in section 1 of this Article, enterprises shall comply with the principle "do no significant harm" referred to in Art. 2(17) of Regulation (EU) 2019/2088.*

It is worth pointing out that in June 2023, the OECD Council adopted an update of the OECD Guidelines, including: expanding their scope and specifying issues related to environmental protection. Particularly important changes in the OECD Guidelines concerned: introducing recommendations to align its environmental goals with internationally agreed climate change and biodiversity goals and introducing recommendations to include issues related to new technologies and the use of data in the due diligence process.

In recent years, the Group has already verified compliance with the Minimum Guarantees.

The Group takes measures to protect all universally recognized human rights and has no information that any human rights violations have occurred within its value chain.

Moreover, the Group has verified that no serious or systematic human rights violations have been reported in relation to its activities.

However, due diligence is a process to which the Group pays special attention. For this reason, in order to fully meet the minimum guarantees during the current reporting period, the Group cooperated with an external advisory entity. During the work it was determined that due to the update of the OECD Guidelines, the Group, as a socially responsible entity, cannot declare its compliance with the minimum guarantees in this reporting period. It should be emphasized that the Group does not have a negative impact on areas covered by the minimum guarantees, and does not violate generally protected human and employee rights.

The failure to meet the minimum guarantees in 2023 is primarily related to the update of the OECD Guidelines, including the failure to adopt measurable long-term emission reduction goals.

However, the Group does not stop its efforts and intends to devote the entire year 2024 to continuing the initiated work to fully implement the minimum guarantees. At the stage of preparing this report, work is pending to develop measurable, science-based environmental goals.

Accounting principles

The basis for the calculation of turnover indicators, capital expenditure (CAPEX) and operational expenditure (OpEx) were the definitions set out in Annex I to the Commission Delegated Regulation (EU) 2021/2178.

Turnover - the basis was the total revenues of the Group in 2023, disclosed in the consolidated statements of comprehensive income under "Sales revenues" item (described in note 3.2.1 to the consolidated financial statements). The turnover calculated in this manner is the denominator that allows to calculate the activity indicators qualifying for the taxonomy broken down into environmentally sustainable and environmentally unsustainable activities. The indicator numerator should present revenues from activities eligible for the taxonomy, broken down into activities environmentally sustainable and unsustainable.

Capital expenditure (CAPEX) constitutes capital expenditure in the Group, recognized entirely in the consolidated financial statements as at December 31, 2023 in the table of movements in expenditure on fixed assets under construction (Tangible fixed assets - note 3.8) and in the table of movements in expenditure on intangible assets (note 3.10). The expenditure is the denominator for calculating the activity indicators eligible for the taxonomy, broken down into activities environmentally sustainable and unsustainable. This denominator includes the increase in tangible fixed assets and intangible assets during a given financial year, including the capitalization of external financing costs, before accumulated depreciation write-offs. The numerator of indicators in turn discloses the part of CAPEX that concerns the types of activities qualifying for taxonomies divided into activities environmentally sustainable and unsustainable. The numerator here equals to the part of capital expenditure (CAPEX) that concerns assets or processes related to business activities consistent with the taxonomy, concerns the purchase of products from business activities consistent with the taxonomy, or when they are part of a plan aimed at meeting the criteria.

Operational expenditure (OPEX) - the basis were all non-capitalized costs, including: costs for the current operation of the Group's assets and maintaining them in good condition. These costs include, inter alia, personnel costs of employees responsible for maintenance and repairs, costs of repairs and overhauls of devices, inspections, cleaning costs, fire protection costs, building protection costs. The sum of these costs is the denominator for calculating the activity indicators eligible for the taxonomy, broken down into activities environmentally sustainable and unsustainable. In the indicator numerator, it discloses the part of OPEX costs

that relates to the types of activities eligible for the taxonomy, broken down into activities environmentally sustainable and unsustainable.

No changes were introduced in relation to the last reporting period.

Other information

The data used for the calculations come from the financial and accounting systems of individual companies belonging to the Capital Group.

In the report for 2023, the Group discloses for the second time the share of activities consistent with the taxonomy making a significant contribution to achieving the goals of mitigating climate change and adapting to climate change. For the first time, the Group also voluntarily reports in full the share of activities consistent with the taxonomy that make a significant contribution to the achievement of other environmental goals, despite the lack of a legal obligation. The disclosure applies to the period from 01.01.2023 to 31.12.2023.

The analysis did not identify activities contributing to more than one environmental goal. There was therefore no need to apply special procedures to avoid double counting for different environmental goals.

The Group does not conduct, finance or have exposure to the activities referred to in sections 4.26 - 4.31 of Annexes I and II to Commission Delegated Regulation (EU) 2021/2139, i.e. activities related to the production of energy through nuclear processes and production of energy from gaseous fossil fuels.

Performance**Turnover**

As a result of the analysis carried out at the level of the Group and the Company, no categories of revenues generated by the Group or the Company in 2023 were identified that would qualify for the taxonomy included in the annexes to delegated acts on environmental objectives.

Table 28. Percentage share of turnover from the sale of products or services related to business activity in accordance with the taxonomy - disclosure applies to 2023 - Śnieżka Group

Fiscal year 2023	Year			Criteria for significant contribution						Criteria for the DNSH policy „do no significant harm”						Share of activities consistent with the taxonomy (A.1.) or qualifying for the taxonomy (A.2.) Turnover, 2022 (18)	Category supporting activity (19)	Category transition activity (20)	
	Code or codes (2)	Turnover (3)	Turnover percentage year 2023 (4)	Mitigating climate change (5)	Adaptation to climate change (6)	Water and marine resources (7)	Contamination (8)	Circular economy (9)	Biodiversity (10)	Mitigating climate change (11)	Adaptation to climate change (12)	Water and marine resources (13)	Contamination (14)	Circular economy (15)	Biodiversity (16)				Minimum guarantees (17)
Text		Currency [in PLN '000]	%	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/E L	T; N; N/EL	T; N; N/E L	T/N	T/N	T/N	T/ N	T/N	T/ N	T/ N	%	E	T
A. ACTIVITIES ELIGIBLE FOR THE TAXONOMY																			
A.1 Types of environmentally sustainable activities (in line with the taxonomy)																			
Turnover from environmentally sustainable activities (according to the taxonomy) (A.1)		0.0	0.0%	N	N/EL	N/EL	N/E L	N/EL	N/E L		T					N	0.0%	E	
Turnover from environmentally sustainable activities (according to the taxonomy) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0 %	0.0%	0.0 %								0.0%		
Including supporting		0.0	0.0%	0.0%	0.0%	0.0%	0.0 %	0.0%	0.0 %								0.0%	E	
Including transition activity		0.0	0.0%	0.0%													0.0%		T

A.2 Activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities)																		
			EL; N/EL	EL; N/EL	EL; N/EL	EL; N/E L	EL; N/EL	EL; N/E L										
Turnover from activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities) (A.2)		0.0	0.0%	EL	N/EL	N/EL	N/E L	N/EL	N/E L							0.0%		
Turnover from activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities) (A.2)		0.0	0.0%	0.0%	0.0%	0.0%	0.0 %	0.0%	0.0 %							0.0%		
A. Turnover from activities eligible for the taxonomy (A.1+A.2)		0.0	0.0%	0.0%	0.0%	0.0%	0.0 %	0.0%	0.0 %							0.0%		
B. ACTIVITIES NOT ELIGIBLE FOR THE TAXONOMY																		
Turnover from activities not eligible for the taxonomy		857 773	100.0%															
TOTAL		857 773	100.0%															

Table 29. Percentage share of turnover from the sale of products or services related to business activity in accordance with the taxonomy - disclosure applies to 2023 - FFIL Śnieżka SA

Fiscal year 2023	Year			Criteria for significant contribution						Criteria for the DNSH policy „do no significant harm”						Minimum guarantees (17)	Share of activities consistent with the taxonomy (A.1.) or qualifying for the taxonomy (A.2.) Turnover, 2022 (18)	Category supporting activity (19)	Category transition activity (20)
	Business activity (1)	Code or codes (2)	Turnover (3)	Turnover percentage year 2023 (4)	Mitigating climate change (5)	Adaptation to climate change (6)	Water and marine resources (7)	Contamination (8)	Circular economy (9)	Biodiversity (10)	Mitigating climate change (11)	Adaptation to climate change (12)	Water and marine resources (13)	Contamination (14)	Circular economy (15)				
Text		Currency [in PLN '000]	%	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T/N	T/N	T/N	T/N	T/N	T/N	T/N	%	E	T
A. ACTIVITIES ELIGIBLE FOR THE TAXONOMY																			
A.1 Types of environmentally sustainable activities (in line with the taxonomy)																			
Turnover from environmentally sustainable activities (according to the taxonomy) (A.1)		0.0	0.0%														0.0%	E	
Turnover from environmentally sustainable activities (according to the taxonomy) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								0.0%		
Including supporting		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								0.0%	E	
Including transition activity		0.0	0.0%	0.0%													0.0%		T

A.2 Activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities)													
			EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL				
Turnover from activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities) (A.2)		0.0	0.0%	EL	N/EL	N/EL	N/EL	N/EL	N/EL			0.0%	
Turnover from activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities) (A.2)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	
A. Turnover from activities eligible for the taxonomy (A.1+A.2)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	
B. ACTIVITIES NOT ELIGIBLE FOR THE TAXONOMY													
Turnover from activities not eligible for the taxonomy		568 736	100.0%										
TOTAL		568 736	100.0%										

CAPEX

As part of the examination of compliance with the Taxonomy, all investment projects implemented in 2023 in the Group and in the Company were subject to analysis. Due to the failure to meet minimum guarantees, the Group cannot indicate any activity that is consistent with the EU Taxonomy.

The activities included in the taxonomy include:

- CCM 4.1 production of electricity using photovoltaic technology - construction of a photovoltaic system on the ground in the Poli-Farbe KFT company,
- CCM 6.5 transportation by motorbikes, passenger cars and light commercial vehicles - purchase and rental of passenger cars for management and sales representatives,
- CCM 6.6 road freight transport services - purchase of a truck intended for own transport of finished products between production facilities and the Logistics Centre,
- CCM 6.13 infrastructure for personal mobility, bicycle logistics - construction of a shelter for keeping bicycles,
- CCM 7.3 installation, maintenance and repair of equipment boosting energy efficiency - replacement of basic and emergency lighting in Brzeźnica office buildings with LEDs, installation of motion sensors in toilets (automatic light switching off), installation of elements for automatic shutdown of air conditioning when windows are opened, installation of tap aerators limiting the flow water in bathrooms and social rooms,
- CCM 7.5 installation, maintenance and repair of instruments and devices for measuring, regulating and controlling the energy performance of the building - installation of a utility metering system - electricity, gas, water, heat (installation of smart meters, cabling and connection to the BMS system), modernization of the BMS system (migration, purchase of licenses, building reporting functionality, including utility consumption, preparation of mechanical ventilation scheduling functionality in the Zawada Logistics Centre), purchase of switches for the BMS system, purchase of a portable thermal imaging camera,
- CCM 7.6 installation, maintenance and repair of renewable energy technology systems - construction of a photovoltaic system on the roofs of warehouse shelters at Śnieżka Ukraina.

Expenditures in this group account for 15.7% of all capital expenditures of the Group and 11.5% of all capital expenditures of the Company.



Table 30. Percentage share of capital expenditure for products or services related to business activity in accordance with the taxonomy - disclosure applies to 2023 - Śnieżka Group

Fiscal year 2023		Year		Criteria for significant contribution						Criteria for the DNSH policy „do no significant harm”						Minimum guarantees (17)	Share of activities consistent with the taxonomy (A.1.) or qualifying for the taxonomy (A.2.) Capital expenditures 2022 (18)	Category supporting activity (19)	Category transition activity (20)
Business activity (1)	Code or codes (2)	Capital expenditures (3)	Percentage of capital expenditures 2023 (4)	Mitigating climate change (5)	Adaptation to climate change (6)	Water and marine resources (7)	Contamination (8)	Circular economy (9)	Biodiversity (10)	Mitigating climate change (11)	Adaptation to climate change (12)	Water and marine resources (13)	Contamination (14)	Circular economy (15)	Biodiversity (16)				
Text		Currency [in PLN '000]	%	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T/N	T/N	T/N	T/N	T/N	T/N	T/N	%	E	T
A. ACTIVITIES ELIGIBLE FOR THE TAXONOMY																			
A.1 Types of environmentally sustainable activities (in line with the taxonomy)																			
Installation, maintenance and repair of instruments and devices for measuring, adjusting and controlling the energy performance of a building.	CCM 7.5	0.0	0.0%	N	N/EL	N/EL	N/EL	N/EL	N/EL		T					N	1.5%	E	
Capital expenditure related to environmentally sustainable activities (according to the taxonomy) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								1.5%		
Including supporting		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								1.5%	E	
Including transition activity		0.0	0.0%	0.0%													0.0%		T
A.2 Activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities)																			

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				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL											
Production of electricity using photovoltaic technology	CCM 4.1	1 565.7	4.6%	EL	N/EL	N/EL	N/EL	N/EL	N/EL									0.0%		
Transportation by motorbikes, passenger cars and light commercial vehicles	CCM 6.5	2 573.9	7.6%	EL	N/EL	N/EL	N/EL	N/EL	N/EL									1.7%		
Road freight transport services	CCM 6.6	465.3	1.4%	EL	N/EL	N/EL	N/EL	N/EL	N/EL									0.0%		
Infrastructure for personal mobility, bicycle logistics	CCM 6.13	42.0	0.1%	EL	N/EL	N/EL	N/EL	N/EL	N/EL									0.0%		
Installation, maintenance and repair of energy efficiency equipment	CCM 7.3	554.8	1.6%	EL	N/EL	N/EL	N/EL	N/EL	N/EL									0.4%		
Installation, maintenance and repair of instruments and devices for measuring, adjusting and controlling the energy performance of a building.	CCM 7.5	954.0	2.8%	EL	N/EL	N/EL	N/EL	N/EL	N/EL									0.0%		
Installation, maintenance and repair of renewable energy technology systems	CCM 7.6	723.1	2.1%	EL	N/EL	N/EL	N/EL	N/EL	N/EL									0.0%		
Capital expenditure related to activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities) (A.2)		5 313.1	15.7%	15.7%	0.0%	0.0%	0.0%	0.0%	0.0%									2.1%		
A. Capital expenditure related to activities eligible for the taxonomy (A.1+A.2)		5 313.1	15.7%	15.7%	0.0%	0.0%	0.0%	0.0%	0.0%									3.6%		
B. ACTIVITIES NOT ELIGIBLE FOR THE TAXONOMY																				
Capital expenditure related to activities not eligible for the taxonomy		28 534,1	84.3%																	
TOTAL		33 847,2	100.0%																	

Table 31. Percentage share of capital expenditure for products or services related to business activity in accordance with the taxonomy - disclosure applies to 2023 - FFIL Śnieżka SA

Fiscal year 2023	Year			Criteria for significant contribution						Criteria for the DNSH policy „do no significant harm”						Share of activities consistent with the taxonomy (A.1.) or qualifying for the taxonomy (A.2.) Capital expenditures 2022 (18)	Category supporting activity (19)	Category transition activity (20)	
	Business activity (1)	Code or codes (2)	Capital expenditures (3)	Percentage of capital expenditures 2023 (4)	Mitigating climate change (5)	Adaptation to climate change (6)	Water and marine resources (7)	Contamination (8)	Circular economy (9)	Biodiversity (10)	Mitigating climate change (11)	Adaptation to climate change (12)	Water and marine resources (13)	Contamination (14)	Circular economy (15)				Biodiversity (16)
Text		Currency [in PLN '000]	%	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T/N	T/N	T/N	T/N	T/N	T/N	T/N	%	E	T
A. ACTIVITIES ELIGIBLE FOR THE TAXONOMY																			
A.1 Types of environmentally sustainable activities (in line with the taxonomy)																			
Installation, maintenance and repair of instruments and devices for measuring, adjusting and controlling the energy performance of a building.	CCM 7.5	0.0	0.0%	N	N/EL	N/EL	N/EL	N/EL	N/EL		T					N	1.6%	E	
Capital expenditure related to environmentally sustainable activities (according to the taxonomy) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								1.6%		
Including supporting		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								1.6%	E	
Including transition activity		0.0	0.0%	0.0%													0.0%		T

A.2 Activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities)																	
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL								
Transportation by motorbikes, passenger cars and light commercial vehicles	CCM 6.5	607.7	2.7%	EL	N/EL	N/EL	N/EL	N/EL	N/EL						0.9%		
Road freight transport services	CCM 6.6	465.3	2.0%	EL	N/EL	N/EL	N/EL	N/EL	N/EL						0.0%		
Infrastructure for personal mobility, bicycle logistics	CCM 6.13	42.5	0.2%	EL	N/EL	N/EL	N/EL	N/EL	N/EL						0.0%		
Installation, maintenance and repair of energy efficiency equipment	CCM 7.3	554.8	2.4%	EL	N/EL	N/EL	N/EL	N/EL	N/EL						0.2%		
Installation, maintenance and repair of instruments and devices for measuring, adjusting and controlling the energy performance of a building.	CCM 7.5	954.0	4.2%	EL	N/EL	N/EL	N/EL	N/EL	N/EL						0.0%		
Capital expenditure related to activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities) (A.2)		2 624.3	11.5%	11.5%	0.0%	0.0%	0.0%	0.0%	0.0%						1.1%		
A. Capital expenditure related to activities eligible for the taxonomy (A.1+A.2)		2 624.3	11.5%	11.5%	0.0%	0.0%	0.0%	0.0%	0.0%						2.7%		
B. ACTIVITIES NOT ELIGIBLE FOR THE TAXONOMY																	
Capital expenditure related to activities not eligible for the taxonomy		20 143,4	88.5%														
TOTAL		22 767,7	100.0%														

OPEX

As part of the examination of compliance with the Taxonomy, operational expenditures implemented in 2023 in the Capital Group and in the Company were subject to analysis. Due to the failure to meet minimum guarantees, the Group cannot indicate any activity that is consistent with the EU Taxonomy.

The activities included in the taxonomy include:

- CCM 7.3 covers activities related to the installation, maintenance and repair of equipment aimed at increasing energy efficiency. First of all, it focuses on ventilation and air conditioning systems in production and administrative buildings.
- CE 4.1 focuses on providing data-driven solutions in the IT/OT area, activities include the use of computer software to assess the life cycle of both equipment and infrastructure, and make recommendations on necessary measures to prevent operational failures, maintain equipment in optimal condition technical, extending its useful life and reducing resource consumption and waste generation.

Expenditures in this group account for 0.8% of all operational expenditures of the Group and 0.9% of all operational ones of the Company.

Table 32. Activities no CCM7.3 and CE4.1

Business activity	Cost
Activity no CCM7.3	
Activities in the are of building renovation	0
Leasing	0
Maintenance and repair costs	PLN 51.44 thousand
Other	0
Total	PLN 51.44 thousand
Activities no CE4.1	
Research and development	0
Activities in the are of building renovation	0
Leasing	0
Maintenance and repair costs	PLN 46.88 thousand
Other	0
Total	PLN 46.88 thousand

Table 33. Percentage share of operational expenditures from the sale of products or services related to business activity in accordance with the taxonomy - disclosure applies to 2023 - Śnieżka Group

Fiscal year 2023	Year			Criteria for significant contribution						Criteria for the DNSH policy „do no significant harm”						Minimum guarantees (17)	Share of activities consistent with the taxonomy (A.1.) or qualifying for the taxonomy (A.2.) Operational expenditures, 2022 (18)	Category supporting activity (19)	Category transition activity (20)
	Business activity (1)	Code or codes (2)	Capital expenditures (3)	Percentage of capital expenditures 2023 (4)	Mitigating climate change (5)	Adaptation to climate change (6)	Water and marine resources (7)	Contamination (8)	Circular economy (9)	Biodiversity (10)	Mitigating climate change (11)	Adaptation to climate change (12)	Water and marine resources (13)	Contamination (14)	Circular economy (15)				
Text		Currency [in PLN '000]	%	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T/N	T/N	T/N	T/N	T/N	T/N	T/N	%	E	T
A. ACTIVITIES ELIGIBLE FOR THE TAXONOMY																			
A.1 Types of environmentally sustainable activities (in line with the taxonomy)																			
Installation, maintenance and repair of energy efficiency equipment.	CCM 7.3	0.0	0.0%	N	N/EL	N/EL	N/EL	N/EL	N/EL		T					N	1.5%		
Operational expenditure related to environmentally sustainable activities (according to the taxonomy) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								1.5%		
Including supporting		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								1.5%	E	
Including transition activity		0.0	0.0%	0.0%													0.0%		T
A.2 Activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities)																			

				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL													
Installation, maintenance and repair of energy efficiency equipment.	CCM7.3.	51.44	0.4%	EL	N/EL	N/EL	N/EL	N/EL	N/EL											0.9%		
Providing data-driven IT/OT solutions to reduce leakages	CE4.1	46.88	0.4%	N/EL	N/EL	EL	N/EL	N/EL	N/EL											0.0%		
Operational expenditure related to activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities) (A.2)		98.32	0.8%																	0.9%		
A. Operational expenditure related to activities eligible for the taxonomy (A.1+A.2)		98.32	0.8%																	2.6%		
B. ACTIVITIES NOT ELIGIBLE FOR THE TAXONOMY																						
A. Operational expenditure related to activities not eligible for the taxonomy		12 393,30	99.2%																			
TOTAL		12 491,6	100.0%																			

Table 34. Percentage share of operational expenditures from the sale of products or services related to business activity in accordance with the taxonomy - disclosure applies to 2023 - FFIL Śnieżka SA

Fiscal year 2023	Year			Criteria for significant contribution						Criteria for the DNSH policy „do no significant harm”						Share of activities consistent with the taxonomy (A.1.) or qualifying for the taxonomy (A.2.) Operational expenditures, 2022 (18)	Category supporting activity (19)	Category transition activity (20)	
	Business activity (1)	Code or codes (2)	Capital expenditures (3)	Percentage of capital expenditures 2023 (4)	Mitigating climate change (5)	Adaptation to climate change (6)	Water and marine resources (7)	Contamination (8)	Circular economy (9)	Biodiversity (10)	Mitigating climate change (11)	Adaptation to climate change (12)	Water and marine resources (13)	Contamination (14)	Circular economy (15)				Biodiversity (16)
Text		Currency [in PLN '000]	%	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T; N; N/EL	T/N	T/N	T/N	T/N	T/N	T/N	T/N	%	E	T
A. ACTIVITIES ELIGIBLE FOR THE TAXONOMY																			
A.1 Types of environmentally sustainable activities (in line with the taxonomy)																			
Installation, maintenance and repair of energy efficiency equipment.	CCM 7.3	0.0	0.0%	N	N/EL	N/EL	N/EL	N/EL	N/EL		T					N	1.5%		
Operational expenditure related to environmentally sustainable activities (according to the taxonomy) (A.1)		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								1.5%		
Including supporting		0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%								1.5%	E	
Including transition activity		0.0	0.0%	0.0%													0.0%		T
A.2 Activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities)																			

				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Installation, maintenance and repair of energy efficiency equipment.	CCM7.3.	51.44	0.5%														1.5%		
Providing data-driven IT/OT solutions to reduce leakages	CE4.1	46.88	0.4%														0.0%		
Operational expenditure related to activities eligible for the taxonomy but not environmentally sustainable (non-taxonomy activities) (A.2)		98.32	0.9%														1.5%		
A. Operational expenditure related to activities eligible for the taxonomy (A.1+A.2)		98.32	0.9%														3.0%		
B. ACTIVITIES NOT ELIGIBLE FOR THE TAXONOMY																			
A. Operational expenditure related to activities not eligible for the taxonomy		10 551,91	99.1%																
TOTAL		10 650,2	100.0%																

10.3.3. IMPACT OF OPERATIONS ON THE ENVIRONMENT AND CLIMATE

10.3.3.1. EMISSIONS AND CARBON FOOTPRINT MANAGEMENT

Objective of *sustainable development strategy*

Strategic objectives:

- Management and reduction of GHG emissions

Operational objectives for 2023:

- Setting reduction targets for Scopes 1 and 2
- Obtaining data from suppliers in Scope 3

Achievement of objectives:

- Setting greenhouse gas emission reduction targets for FFIL Śnieżka SA and Śnieżka TOC in scopes 1 and 2 calculated using the market-based method in relation to 2020:
 - Reduction target for 2023: 45% reduction
 - Reduction target for 2025: 50% reduction
- Carbon footprint reduction by 68%

Disclosures consistent with ESRS, based on GHG calculation (including other greenhouse gases).

[W1 – own indicator: Greenhouse gas emissions in scope 1 and 2 calculated for FFIL Śnieżka SA and Śnieżka ToC in accordance with the requirements of the Greenhouse Gas Protocol (The Greenhouse Gas Protocol "A Corporate Accounting and Reporting Standard Revised Edition", GHG Protocol "Scope 2 Guidance)]

The Śnieżka Group set greenhouse gas emission reduction targets for FFIL Śnieżka SA and Śnieżka TOC in scopes 1 and 2 calculated using the market-based method in relation to 2020 at 45% (in 2023) and 50% (in 2025). The reduction ratio amounted to 68%.

Table 35. Greenhouse gas emissions of FFil Śnieżka SA and Śnieżka ToC in scopes 1 and 2 in 2023[t CO₂e]

Year	Information regarding past					Intermediate targets and years covered by the target		
	Base year emissions		Emissions in the reporting period		Percentage change compared to the year preceding the reporting year	2025	2030	Reduction target achieved by the base year (%)
	2020	2021	2022	2023				
Scope 1 greenhouse gas emissions								
Scope 1 greenhouse gas emissions gross emissions (t of carbon dioxide equivalent)	1967.89	2679.11	1672.69	1907.70	14.05%			
Percentage of scope 1 greenhouse gas emissions from regulated emissions trading systems (%)	n/a	n/a	n/a	n/a	n/a			
Scope 2 greenhouse gas emissions								
Gross Scope 2 greenhouse gas emissions according to the location-based method (t of carbon dioxide equivalent)	4972.94	4783.15	4800.41	4321.62	-9.97%			
Scope 2 greenhouse gas emissions according to the market-based method (t of carbon dioxide equivalent)	4039.34	3623.57	0	0	0.00%			
TOTAL 1+2								
Scope 1 and 2 greenhouse gas emissions according to the location-based method (t of carbon dioxide equivalent)	6940.83	7462.26	6473.1	6229.32	-3.77%			
Scope 1 and 2 greenhouse gas emissions according to the market-based method (t of carbon dioxide equivalent)	6007.23	6302.68	1672.69	1907.70	14.05%	45%	50%	68.24%

[ESRS E1-6]

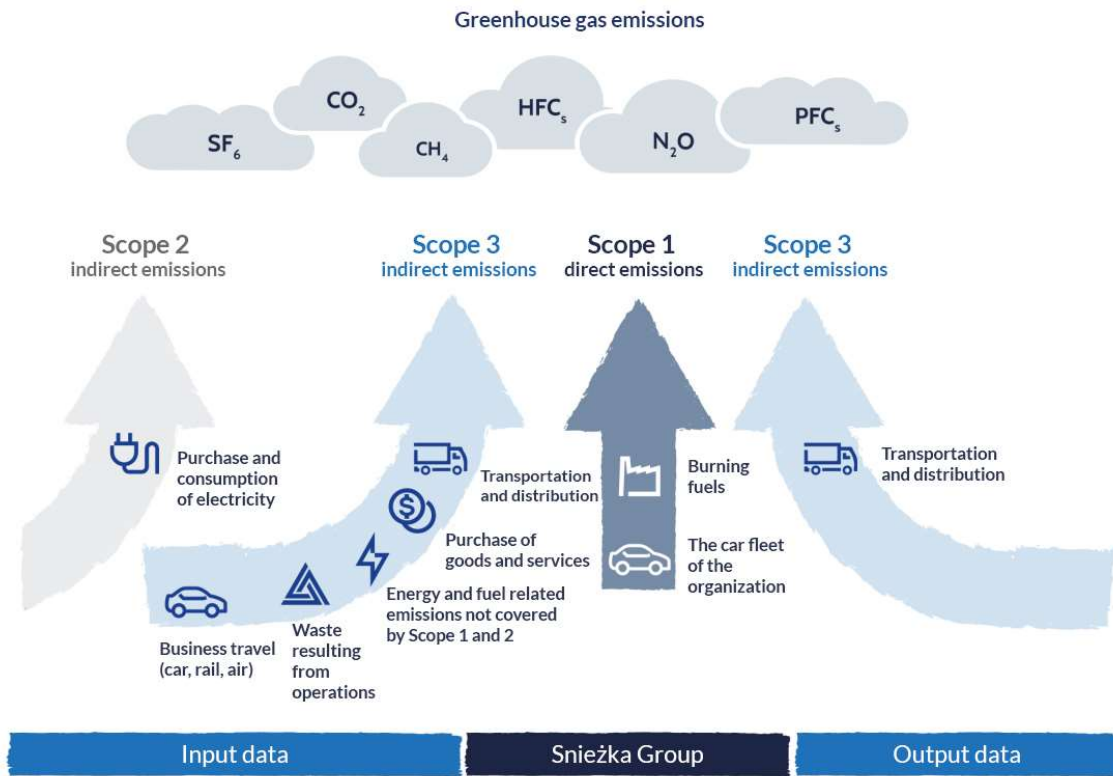


Figure 12. Carbon footprint in scope 1 and 2 for FFIL ŚNIEŻKA SA [t CO₂e] and intensity index [kg CO₂e/t] calculated using the market-based method in relation to the production volume

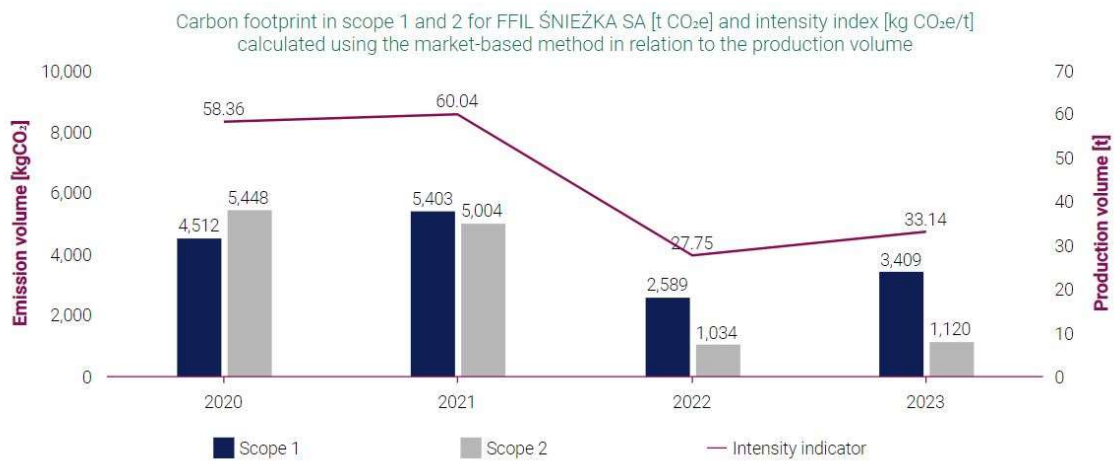


Figure 13. Carbon footprint in scope 1 and 2 for the Śnieżka Group [t CO₂e] and intensity index [kg CO₂e/t] calculated using the location-based method in relation to the production volume



Table 36. Greenhouse gas emission intensity on net revenues in the Śnieżka Group

Year	Intensity in the year		Percentage change compared to the year preceding the reporting year
	preceding the reporting year	Intensity in the reporting period	
	2022	2023	
Total greenhouse gas emissions (according to the location-based method) on net revenues (t CO ₂ e /in PLN '000)	0.202	0.173	-14.36%
Total greenhouse gas emissions (according to the market-based method) on net revenues (t CO ₂ e /in PLN '000)	0.193	0.167	-13.47%

The total carbon footprint of FFIL Śnieżka SA in 2023 amounted to 98,120 t CO₂e (including scope 2 calculated using the market-based method), which denotes a decline in the carbon footprint compared to the base year by approximately 33%.

The reduction of GHG emissions by the Company occurred in all three scopes of the carbon footprint, i.e. it covered both indirect and direct emissions. This result is related to a lesser amount of purchased raw materials and the purchase of energy derived only from renewable sources. Scope 1 emissions, including direct emissions, increased compared to the previous year.

In 2023, FFIL Śnieżka SA used green energy in all its branches, which was 100% covered by guarantees of origin and documents confirming their redemption issued by the Polish Power Exchange. This allowed to achieve zero carbon footprint emissions in scope 2 using the market-based method⁴⁷. In calculations using the location-based method, the carbon footprint in scope 2 in 2023 decreased compared to the base year (2020) despite the expansion of the number of the Company's branches (the Śnieżka GroupLogistics Centre has been operating since

⁴⁷ FFIL Śnieżka SA and Śnieżka Group performed calculations using two methods: location-based and market-based. The first method considers the average national energy emission index in the calculations, while the market-based method takes into account the index provided by the energy seller. The rest of the report presents the results of carbon footprint calculations in scope 2 for both calculation methods.

2022). The decrease is followed by a reduction in energy consumption in all the Company's branches, which in turn is caused by a reduction in production levels.

Table 37. Greenhouse gas emissions of FFIL Śnieżka SA and Śnieżka ToC in scopes 1 and 3 in 2023 [t CO₂e]*

	Information regarding past				Percentage change compared to the year preceding the reporting year
	Base year emissions	Emissions in the year preceding the reporting year	Emissions in the year preceding the reporting year	Emissions in the reporting period	
Year	2020	2021	2022	2023	
Scope 1 greenhouse gas emissions					
Scope 1 greenhouse gas emissions gross emissions (t of carbon dioxide equivalent)	1968.1	1815.51	991.58	1191.59	20.2%
Percentage of scope 1 greenhouse gas emissions from regulated emissions trading systems (%)	no data	no data	no data	no data	no data
Scope 2 greenhouse gas emissions					
Gross Scope 2 greenhouse gas emissions according to the location-based method (t of carbon dioxide equivalent)	4647.55	4198.55	4368.42	4077.72	-6.65%
Scope 2 greenhouse gas emissions (t of carbon dioxide equivalent)	3545.24	3186.82	0	0	0.00%
Significant Scope 3 greenhouse gas emissions					
Total indirect greenhouse gas emissions (Scope 3) according to the market-based method (t of carbon dioxide equivalent)	140356.23	126671.4	99855.56	96928.74	-2.93%
1 Purchased goods and services	134530.01	125201.46	99347.17	96369.51	-3.00%
[Optional subcategory: Cloud computing and data centre services]	no data	no data	no data	no data	no data
2 Investment goods	no data	no data	no data	no data	no data
3 Fuel and energy activities (not included in scope 1 or 2)	1401.31	1230.03	226.83	279.4	23.18%
4 Upstream transport and distribution	3657.55	129.98	170.07	176.53	3.80%
5 Waste generated by the operation	92.73	104.53	93.8	71.53	-23.75%
6 Business trips	6.91	3.17	15.38	31.2	102.79%
7 Employees' commute to work	no data	no data	no data	no data	no data
8 Leased upstream assets	no data	no data	no data	no data	no data
9 Downstream transport	667.73	2.23	2.3	0.57	-75.33%
10 Processing of sold products	no data	no data	no data	no data	no data
11 Use of sold products	no data	no data	no data	no data	no data
12 Processing of sold products at the end of their useful life	no data	no data	no data	no data	no data
13 Leased downstream assets	no data	no data	no data	no data	no data
14 Franchises	no data	no data	no data	no data	no data
15 Investments	no data	no data	no data	no data	no data
Total greenhouse gas emissions					
Total greenhouse gas emissions (location-based method) (t of carbon dioxide equivalent)	147234.65	132928.00	106360.00	103268.37	-2.91%
Total greenhouse gas emissions (market-based method) (t of carbon dioxide equivalent)	145869.56	131673.73	100847.14	98120.33	-2.70%

* The reduction targets set for FFIL Śnieżka SA are indicated in the Report in item 10.3.3.1. (at the beginning of this chapter).

The Śnieżka Group's carbon footprint in 2023 amounted to 143,620 t CO₂e (including scope 2 calculated using the market-based method). Compared to 2022, emissions decreased by 6.2%, and compared to the base year 2020 – by 31%. The Group has a steady decline in its carbon footprint in both direct and indirect emissions.

Indirect emissions included in scope 3 of the carbon footprint in 2023 accounted for 96.8% of total Group's carbon footprint and amounted to 139,091 t CO₂e.

The Śnieżka Group's carbon footprint in scope 1 also dropped compared to the base year 2020. In 2023, it amounted to 3,409 t CO₂e and was lower by approximately 24% compared to 2020. At the same time, compared to 2022, the Group's carbon footprint in scope 1 went up by over 31%.

In 2023, the Group's carbon footprint in scope 2 amounted to 5,456 t CO₂e using the location-based method and 1,120 t CO₂e using the market-based method. The decrease in GHG emissions in scope 2 stems from the reduction of energy consumption in all Group companies. In turn, the difference in the results of calculations with the use of particular methods is caused by the fact that FFIL Śnieżka SA uses only energy from renewable energy sources.

Table 38. Greenhouse gas emissions of the Śnieżka Group in scopes 1 and 3 in 2023 [t CO₂e]*

Information regarding past					
	Base year emissions	Emissions in the year preceding the reporting year	Emissions in the year preceding the reporting year	Emissions in the reporting period	Percentage change compared to the year preceding the reporting year
Year	2020	2021	2022	2023	
Scope 1 greenhouse gas emissions					
Scope 1 greenhouse gas emissions gross emissions (t of carbon dioxide equivalent)	4512.5	5402.93	2588.72	3408.89	31.68%
Percentage of scope 1 greenhouse gas emissions from regulated emissions trading systems (%)	no data	no data	no data	no data	no data
Scope 2 greenhouse gas emissions					
Gross Scope 2 greenhouse gas emissions according to the location-based method (t of carbon dioxide equivalent)	7897.31	8113.8	7320.85	5455.82	-25.48%
Scope 2 greenhouse gas emissions according to the market-based method (t of carbon dioxide equivalent)	4911.25	5003.57	1033.84	1120.22	8.36%
Significant Scope 3 greenhouse gas emissions					
Total indirect greenhouse gas emissions (Scope 3) according to the market-based method (t of carbon dioxide equivalent)	199107.9	189384.97	149503.53	139091.33	-6.96%
1 Purchased goods and services	188128.8	179013.01	141151.07	129353.37	-8.36%
[Optional subcategory: Cloud computing and data centre services]	no data	no data	no data	no data	no data
2 Investment goods	no data	no data	no data	no data	no data
3 Fuel and energy activities (not included in scope 1 or 2)	2410.7	2661.94	1014.45	1056.99	4.19%
4 Upstream transport and distribution	7066.07	6176.7	5820.29	7522.54	29.25%
5 Waste generated by the operation	355.37	413.57	296.36	219.37	-25.98%
6 Business trips	10.76	7.64	55.71	59.49	6.80%
7 Employees' commute to work	no data	no data	no data	no data	no data
8 Leased upstream assets	no data	no data	no data	no data	no data

9 Downstream transport	1136.24	1112.11	1165.65	879.57	-24.54%
10 Processing of sold products	no data	no data	no data	no data	no data
11 Use of sold products	no data	no data	no data	no data	no data
12 Processing of sold products at the end of their useful life	no data	no data	no data	no data	no data
13 Leased downstream assets	no data	no data	no data	no data	no data
14 Franchises	no data	no data	no data	no data	no data
15 Investments	no data	no data	no data	no data	no data
Total greenhouse gas emissions					
Total greenhouse gas emissions (location-based method) (t of carbon dioxide equivalent)	211780.7	203179.29	160301.39	149090.38	-6.99%
Total greenhouse gas emissions (market-based method) (t of carbon dioxide equivalent)	208531.7	199791.47	153126.09	143620.44	-6.21%

* The Group has set reduction targets for FFIL Śnieżka SA and Śnieżka TOC, which are indicated in the Report in item 10.3.3.1. (at the beginning of this chapter).

For data from 2023, biogenic emissions related to the addition of biofuel to diesel oil and gasoline in Poland were calculated.

These are out of scope emissions.

Table 39. Biogenic emissions of FFIL ŚNIEŻKA SA and Śnieżka Group in t CO_{2e}

Biogenic emissions	FFIL ŚNIEŻKA SA	Śnieżka Group*
Gasoline	7.32	31.75
Diesel	4.01	12.58
Biomass (wood)	0	59.70
Total	11.33	104.03

* Due to the lack of confirmation of the content of bio additives in fuels used by BelPol and Poli-Farbe Kft., these companies were not included in the calculations of fuel emissions.

Carbon footprint calculation methodology

The Śnieżka Group calculates the organization's carbon footprint and treats the results as one of the measures of its impact on the natural environment. The calculations in 2023 were carried out in accordance with the standards:

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

The organizational boundaries of the GHG emission calculations covered the activities of the Śnieżka Group, divided into companies: FFIL Śnieżka SA, Śnieżka Trade of Colors Sp. z o. o., RAFIL SA, Poli-Farbe Vegyipari Kft., Śnieżka-Ukraina Sp. z o. o., Śnieżka-BelPol Sp. z o. o. The results were consolidated according to operational control at the Group level, thus accounting for 100% of emissions from each company. The data on the basis of which the calculations were made came from internal registers and company data.

Conversion factors

The calculations were started by updating the conversion factors to the unit changes. All conversion factors are subject to update once a year. Source of conversion factors:

- Calorific values: "Calorific values and CO₂ emission indicators (WE) in 2020 for reporting under the Emissions Trading System for 2023" (KOBIZE).
- Regulation of the Minister of the Environment of December 13, 2018 on lists containing information and data on the scope of use of the environment and the amount of fees due.
- DEFRA database tables: Conversion factors 2023: full set (for advanced users).

Emission factors

Emission factors have been updated using:

- KOBIZE Calorific values (WO) and CO₂ emission factors (EC) in 2020 for reporting under the Emissions Trading System for 2023 - natural gas, gasoline, diesel, LPG, hard coal
- CO₂, SO₂, NO_x, CO and total dust emission factors for electricity based on information contained in the National Database on emissions of greenhouse gases and other substances for 2022 (used for calculations for 2023) KOBIZE
- DEFRA factors 2023
- Electricity emission factors for individual countries: website www.irena.org
- Other factors for which data from paid databases were used in previous years, such as Ecoinvent, have not been updated
- Delivery LCA – the emission factor was provided by the supplier.

Selected calculations for scope 3.

- Category 1 - raw materials and services

All raw materials acquired externally⁴⁸ were included in the carbon footprint of a company that made the purchase. In the case of internal⁴⁹ flow, attention was paid to not to duplicate the value of a given raw material, i.e. the consumption of this raw material should be included in a company to which it is ultimately addressed. For example, FFIL Śnieżka SA purchases resin and transfers it to Śnieżka-Ukraine, therefore the value of this resin should be recognized in Śnieżka-Ukraine and deducted from the value in FFIL Śnieżka SA.

- Category 3 - Energy and fuel related emissions not covered by scope 1 and 2

It covers indirect emissions from the use of energy and fuels. Calculations are made based on data from calculations for scopes 1 and 2.

- Category 4 – upstream – transport and distribution

In order to calculate the carbon footprint of this category, appropriate tonne-kilometer values (weight of cargo multiplied by distance in km) for individual modes of transport were applied.

- Category 5 - waste generated as a result of activities

In order to calculate the carbon footprint of this category, appropriate amounts of waste generated were introduced, considering: the location in which the waste was generated (this applies to companies with more than one branch) and the type of waste processing. For calculation purposes, three types of waste processing were distinguished: reused, recycled, disposed of/sent to a landfill.

- Category 6 - business trips

The number of passenger kilometres was counted separately for each means of transport, i.e. car (including taxis), train, plane, bus (including bus and public transport). The total number of passenger kilometres was used to calculate emissions.

- Category 9 - downstream - transport and distribution

⁴⁸ "External" flow means purchasing raw material from an external company.

⁴⁹ "Internal" flow means the transfer of raw materials between companies of the Śnieżka Group.



Appropriate tonne-kilometer values (weight of cargo multiplied by distance in km) were entered for individual means of transport - separately for cars and separately for trains.

Emissions of volatile organic compounds and dust

The emission of volatile substances (volatile organic compounds - VOC) into the air depends on the size and type of production. Therefore, in 2023, there was a decrease in VOC emissions at the FFIL Śnieżka SA plants. Whereas, VOC emissions in relation to production volume remained at a similar level.

Figure 14. VOC and dust emissions into the air from technological and accompanying processes per production volume [t/t] – FFIL ŚNIEŻKA SA

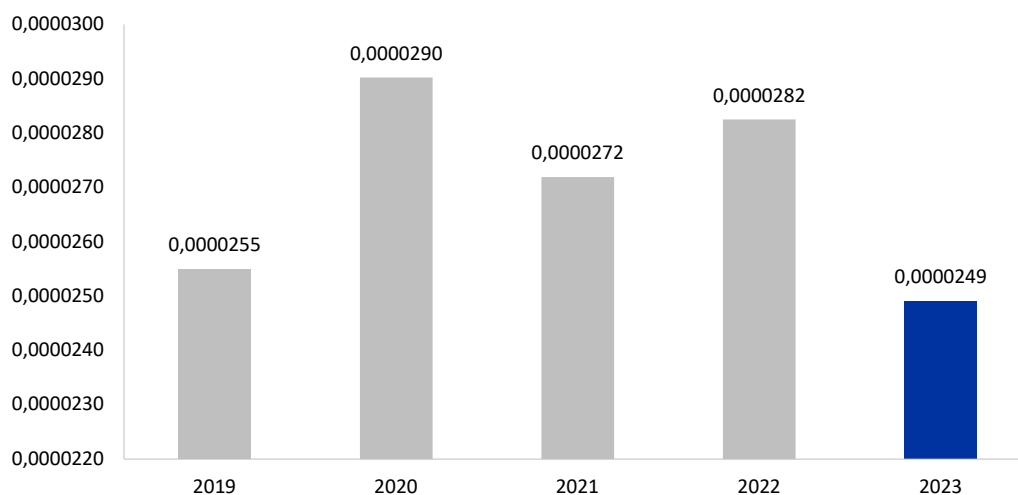
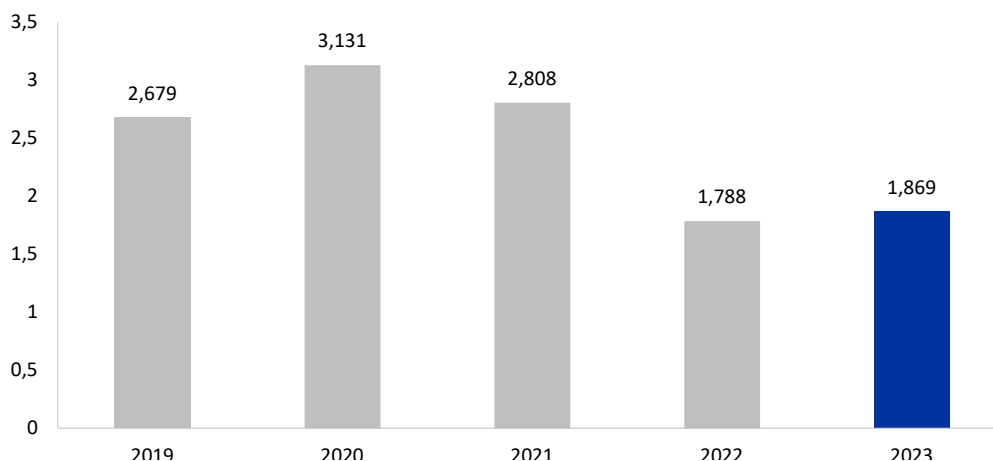


Figure 15. VOC and dust emissions into the air from technological and accompanying processes [t] – FFIL ŚNIEŻKA SA



The volume of VOC and dust emissions and the volume of VOC emissions in relation to production in 2023 in the Śnieżka Group decreased compared to the previous year. This was conditioned by a decrease in production compared to 2022.

Figure 16. VOC and dust emissions into the air from technological and accompanying processes per production volume [t/t] – the Śnieżka Group

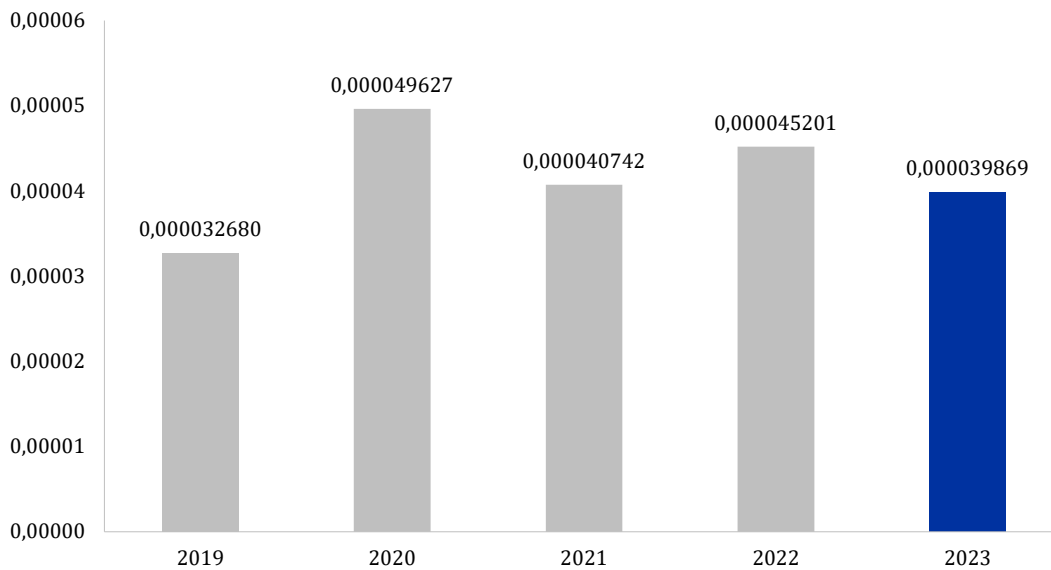
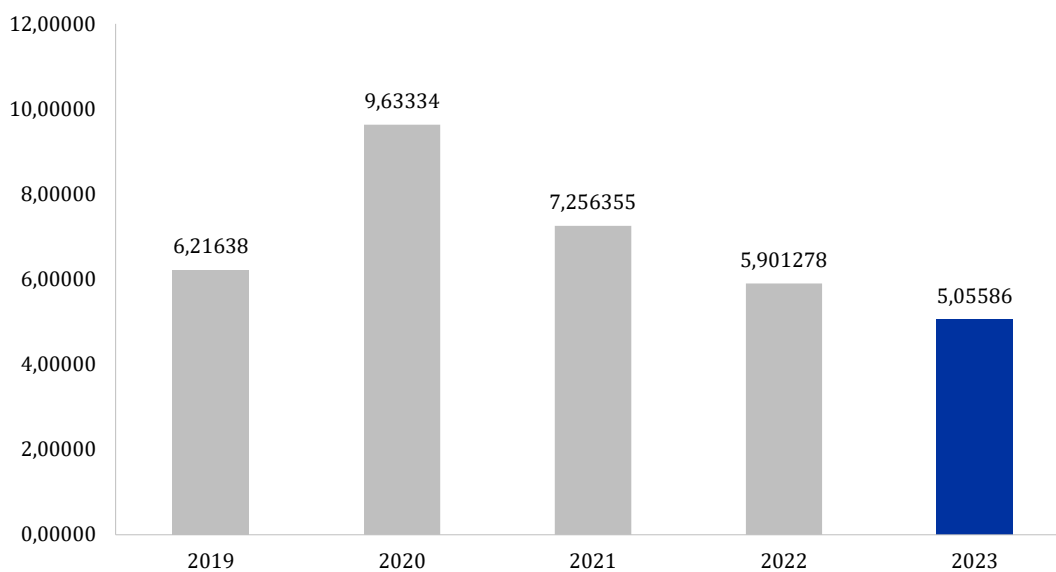


Figure 17. VOC and dust emissions into the air from technological and accompanying processes [t] – the Śnieżka Group





10.3.3.2. WATER

Objective of *sustainable development strategy*

Strategic objectives:

- Sustainable water management

Operational objectives for 2023:

- Implementation of the selected solution aimed at reducing industrial water consumption:
 - Implementation of pressure rinsing in Lubzina aimed at reducing industrial water consumption
 - Pilot installation of scrapers in tanks in Lubzina
- Implementation of a water consumption measurement and monitoring system, data collection, analysis of possible solutions, budget planning
- No defined leaks

Achievement of objectives:

- Reduction of industrial water consumption in Lubzina by 15%
- Implementation of a water consumption measurement and monitoring system
- No defined leaks

Due to the use of water in the production of paints (both as a component of products and in production-related processes), the Group uses significant amounts of it, but also monitors the consumption of this resource and takes measures to reduce it. Śnieżka uses water primarily for production and sanitary purposes. It is collected from water supply networks or wells (in the Rafil company) (the intake is selected taking into account the location of each branch).

Water flow



Compared to the previous year, water consumption (both for production and sanitary purposes) went down in 2023, which was the result of lower production capacity. The exception were the branches of FFIL Śnieżka SA in Pustków and Lubzina, where rise was recorded. In Ukraine, water consumption for sanitary purposes has returned to pre-war levels.

In 2023, no leaks were identified in the Group.

Figure 18. Water consumption between 2020-2023 in the Śnieżka Group [m³]

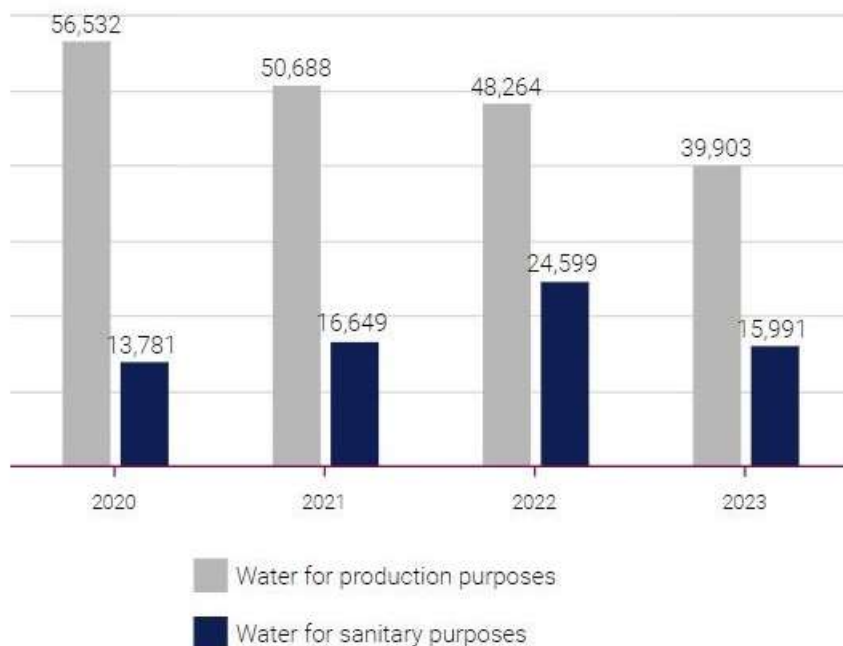
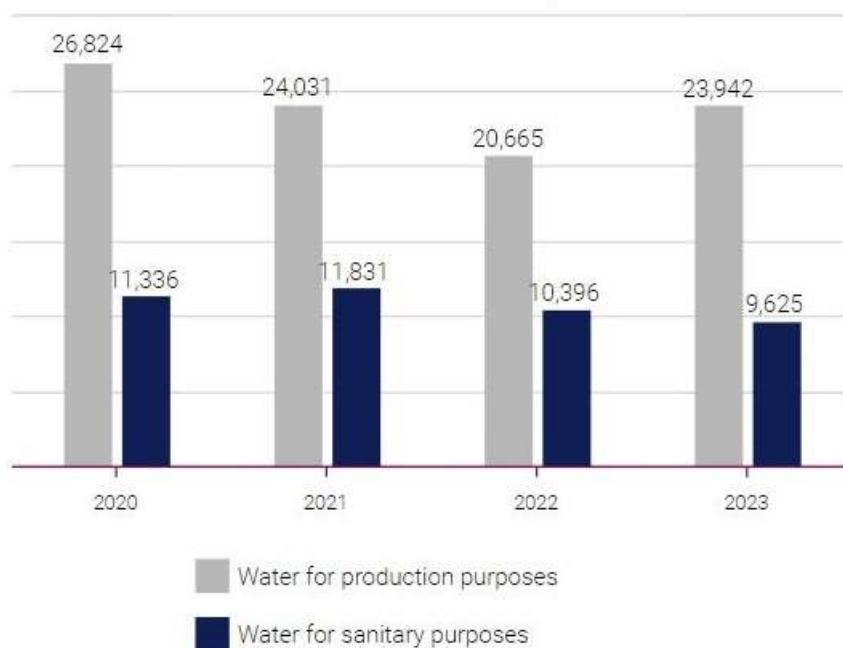


Figure 19. Water consumption between 2020-2023 at FFIL ŚNIEŻKA SA [m³]



Municipal wastewater generated by the Śnieżka Group is transferred to wastewater treatment plants appropriate for the location of individual plants. During the reporting period, the amount of wastewater generated remained at a similar level as year before.

Figure 20. Municipal wastewater generated between 2020-2023 in the Śnieżka Group [m³]

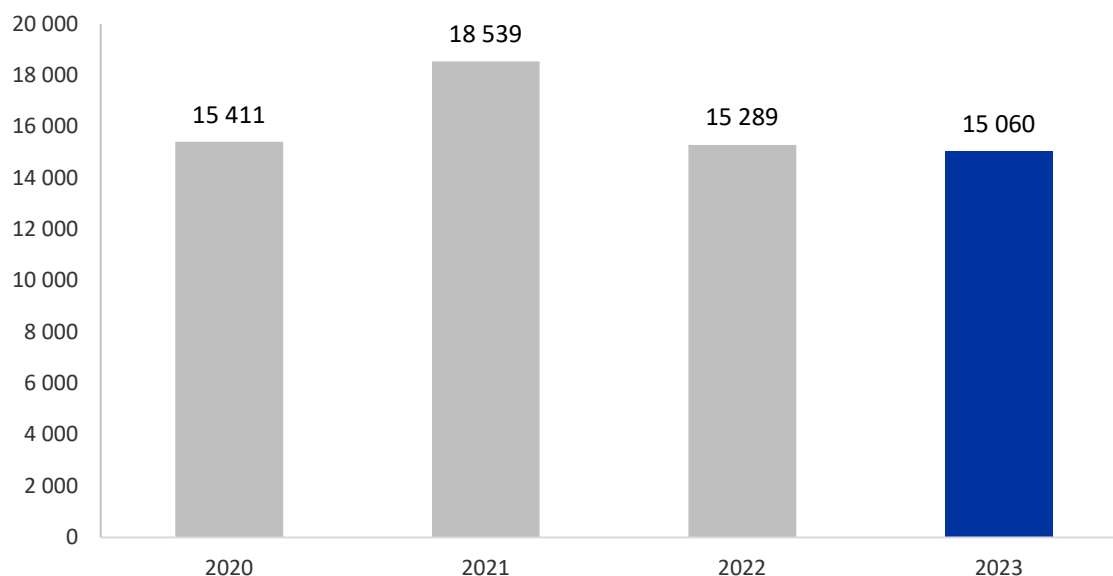
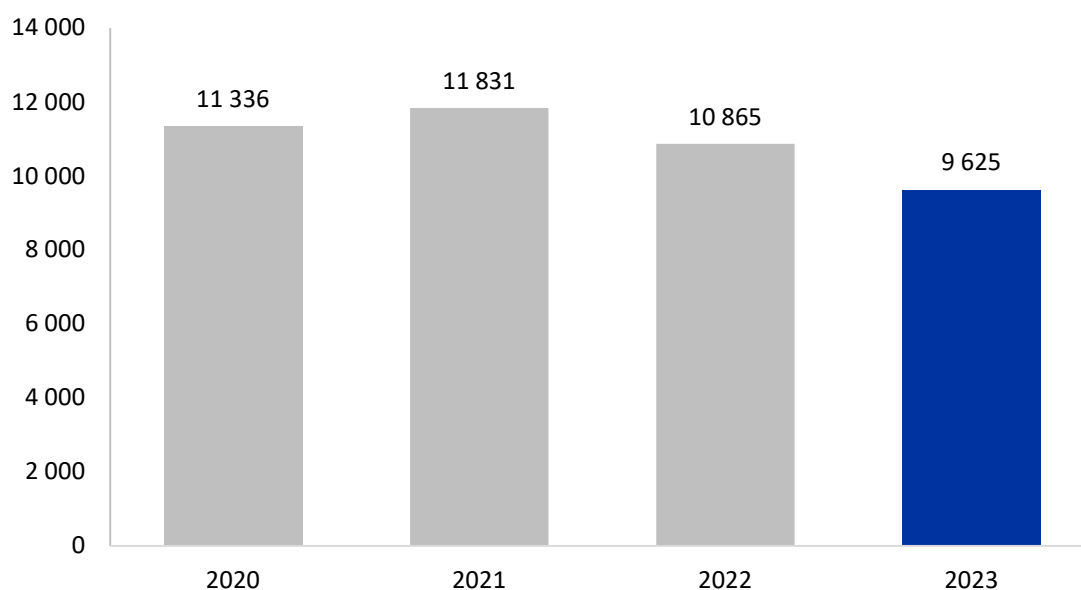


Figure 21. Water consumption between 2020-2023 at FFIL ŚNIEŻKA SA [m³]



The Hungarian company Poli-Farbe has a permit to run an industrial wastewater treatment plant with the use of infiltration drainages and constantly monitors the quality of groundwater around the drainage system by periodically testing these waters.

Measures to reduce water consumption

Śnieżka SA consciously uses limited water resources, therefore it has taken measures to reduce their consumption both in the production process and water intended for social and living purposes.

The reduction in the use of production water began with the selection of places with the highest degree of its use and the potential for savings. The process of washing devices, tanks and systems in a plant producing colour paints was analysed. Measurement of water consumption for washing was initiated at the beginning and then changes

were introduced in the process, such as pre-cleaning the elements by taking advantage of compressed air. Employees were subject to training in a standardized method of cleaning industrial systems.

The Company also saw possibility to reduce water consumption in pressure and automatic tank washing. Numerous trials and tests were carried out in this regard, but they did not bring satisfactory results, and therefore these activities were discontinued. Experimentally, "scrapers" were installed to reduce the amount of paint remaining on the walls of the tank after emptying it. Their installation contributed to easier and more economical cleaning of tanks and higher mixing efficiency.

In 2023, Śnieżka commenced work on the reuse of washings generated in the production process - i.e. waste from the group of slurry paints and varnishes, which are treated as liquid industrial waste. In 2023, installation designs were prepared along with the necessary equipment and software, a system for sequencing the production of individual colours was developed, and tests were performed using various methods of purification and treatment of washings. All these measures constitute a solid basis for further work towards closing the water cycle and reducing the amount of washings intended for disposal by an external entity (the washings are not discharged into the sewage system).

15% - this is the percentage of washings decreased in the Lubzina plant compared to 2022 due to the introduced innovations (2019.83 t in 2022 vs. 1,710.43 t in 2023)

Approx. 1,000 m³/year - estimated water savings due to the installation of tap aerators in all sanitary and social rooms at FFil Śnieżka SA, which reduces the water flow by up to 80%.

The Company is aware of how important a role education plays in reducing the use of resources, which is why it ran the "Don't waste!" campaign. Its aim was to draw employees' attention to ecological and economic issues of water saving. Several ways were also introduced among grass-roots to reduce water consumption, including: reporting leaks in fittings, using a two-stage flush system in toilets or using available dishwashers in "eco" mode.

10.3.3.3. ENERGY

Objective of *sustainable development strategy*

Strategic objectives:

- Increasing energy efficiency
- Transformation towards green energy

Operational objectives for 2023:

- Implementation of a system for measuring and monitoring consumed energy
- Analysis of the potential for reducing electricity and heat consumption
- Defining and implementing projects with a short payback period that provide results in the field of energy efficiency
- Replacement of heat sources - replacement of an inefficient gas boiler or a system of heat pumps (reduction of gas consumption)
- Analysis and implementation of measures to optimize energy consumption in production processes (improving energy efficiency)
- Energy education of employees
- Implementation of PV systems (erection of photovoltaic farms in three locations)
- Purchase of green energy confirmed by a guarantee of origin

Achievement of objectives:

- Implementation of a system for measuring and monitoring energy consumption
- Analysis of the potential for reducing electricity and heat consumption
- Implementation of the process of replacing light sources with energy-saving ones, installing motion sensors
- Replacement of heat sources - installation of heat pumps
- Analysis of measures to optimize energy consumption in production processes
- „Don't waste!" campaign – employee education



- Implementation of PV systems in Ukraine and Hungary
- Purchase of 100% green energy confirmed by a guarantee of origin

The Śnieżka Group monitors the electricity used in its plants. The related environmental impact has been determined since 2020 through scope 2 emissions and carbon footprint calculations. Both in the Group and in the parent company FFIL Śnieżka SA, an approximately 10% decrease in electricity consumption was recorded in 2023 - which resulted, inter alia, from conscious and economical use of energy and process optimization. Only in the case of the Śnieżka-Ukraina production plant, an increase in energy consumption by approximately 5% was recorded, which is the result of higher production volume, by approximately 25%.

100% electricity purchased by FFIL Śnieżka SA in 2023 came from renewable energy sources, which is confirmed by guarantees of origin and documents confirming their redemption issued by the Polish Power Exchange. The percentage of energy consumed from renewable energy sources in the Śnieżka Group in 2023 was as much as 69%. In the next year, we intend further growth due to the erection of photovoltaic systems in Ukraine and Hungary and the contracting of the supply of energy from renewable energy sources in 2024 by Śnieżka SA, Śnieżka ToC and Rafil SA.

Figure 22. Electricity consumption between 2019-2023 at FFIL ŚNIEŻKA SA [MWh]

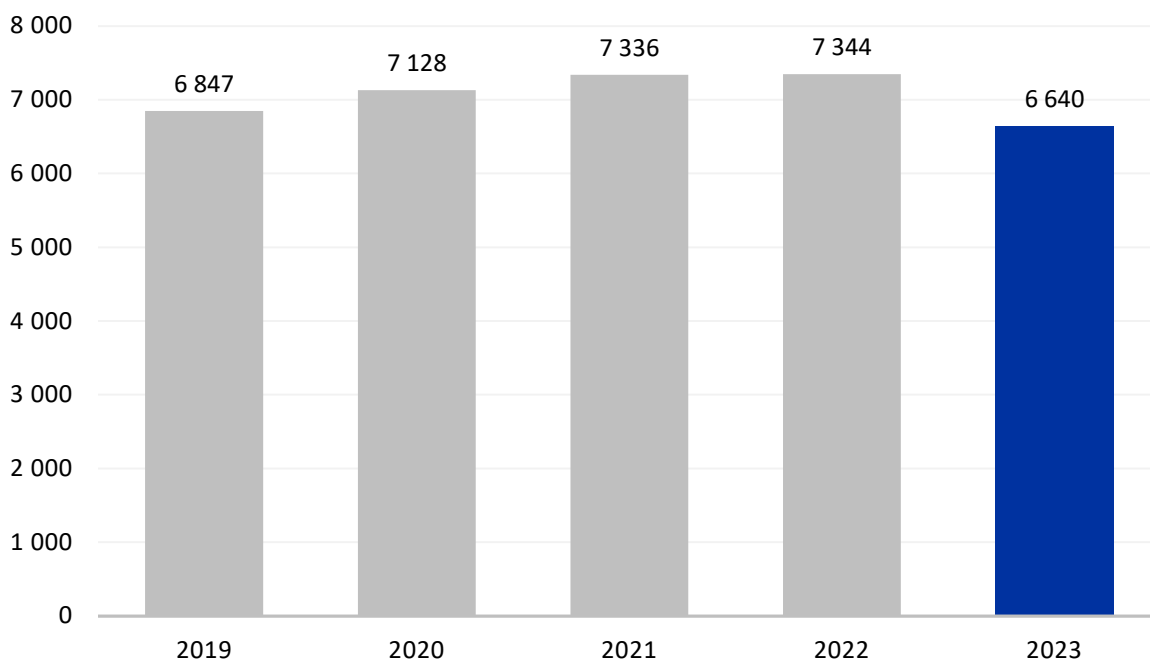
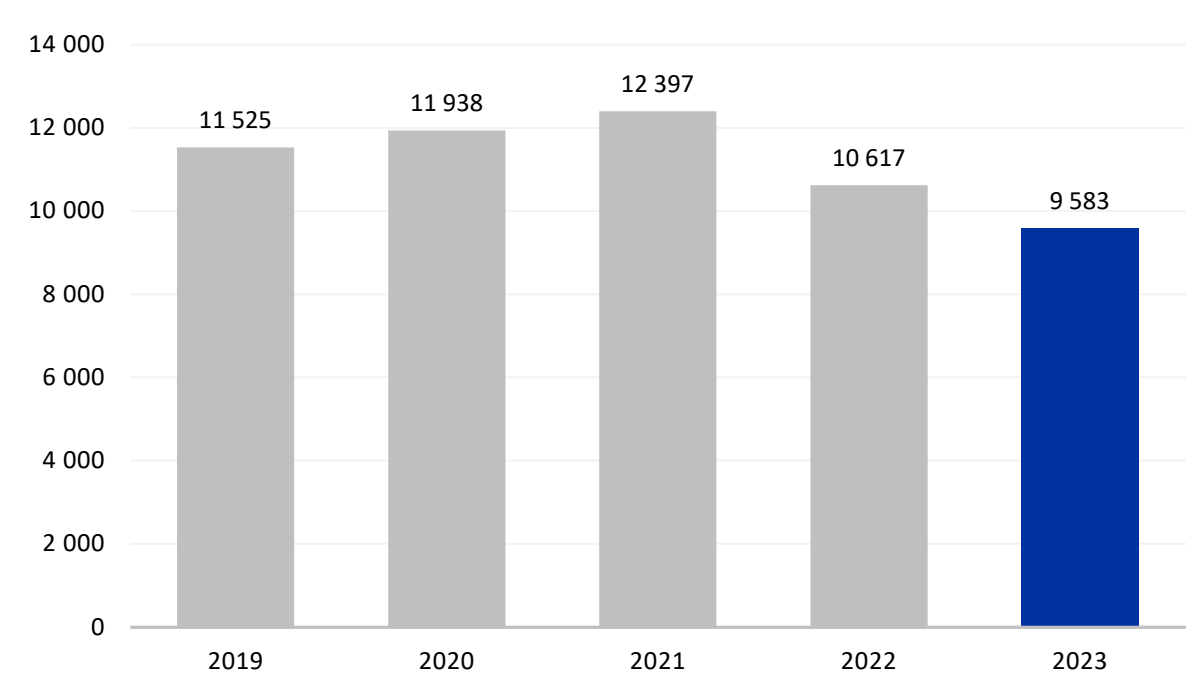


Figure 23. Electricity consumption between 2019-2023 in the Śnieżka Group [MWh]



Measures to reduce electricity consumption

The investment plan for 2023 includes projects supporting the implementation of the sustainable development strategy adopted for FFIL Śnieżka SA and Śnieżka ToC. The system for measuring and monitoring the consumption of electricity, gas, heat and water was expanded. This system allows to analyse and identify areas with the highest potential for saving electricity and heat. A team specially appointed for this purpose analysed and selected a number of measures that could reduce energy consumption and at the same time have a short payback period.

Projects completed in 2023 include: replacement of lighting in office buildings with energy-saving ones (LED), installation of motion sensors in bathrooms, switching off some external lighting and installation of a sensor system that turns off air conditioning devices when windows are opened.

over 150,000 kWh – expected annual savings related to the implemented activities.

At the same time, an information campaign was carried out under the following slogan "Don't waste!", the aim of which was to draw the attention of the company's employees to the issue of saving electricity and heat.

Even though the FFIL Śnieżka SA plants are not classified as energy-intensive activities, in 2023 work commenced on optimizing electricity consumption in production processes. An analysis and assessment of possible measures to increase energy efficiency was carried out, including: tests to shorten the duration of individual production processes were initiated. Machines and equipment were also replaced (including two dissolvers) with more efficient ones, and a new mill for grinding pigment pastes was acquired, which reduced energy consumption.

Figure 24. Electricity consumption in relation to production volume in 2019-2023 at FFIL ŚNIEŻKA SA [MWh/kg]

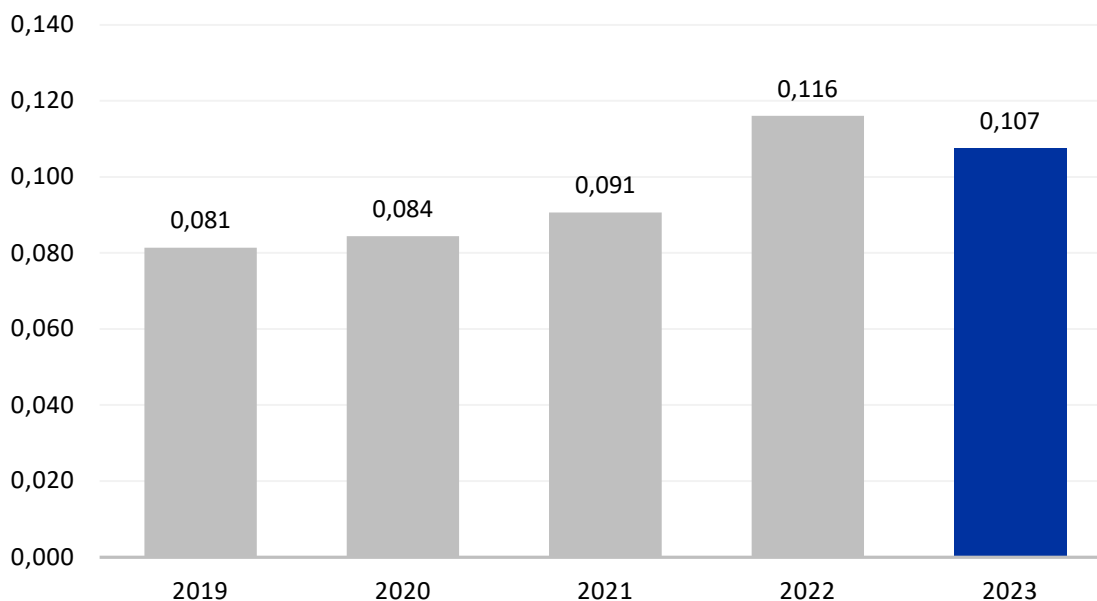
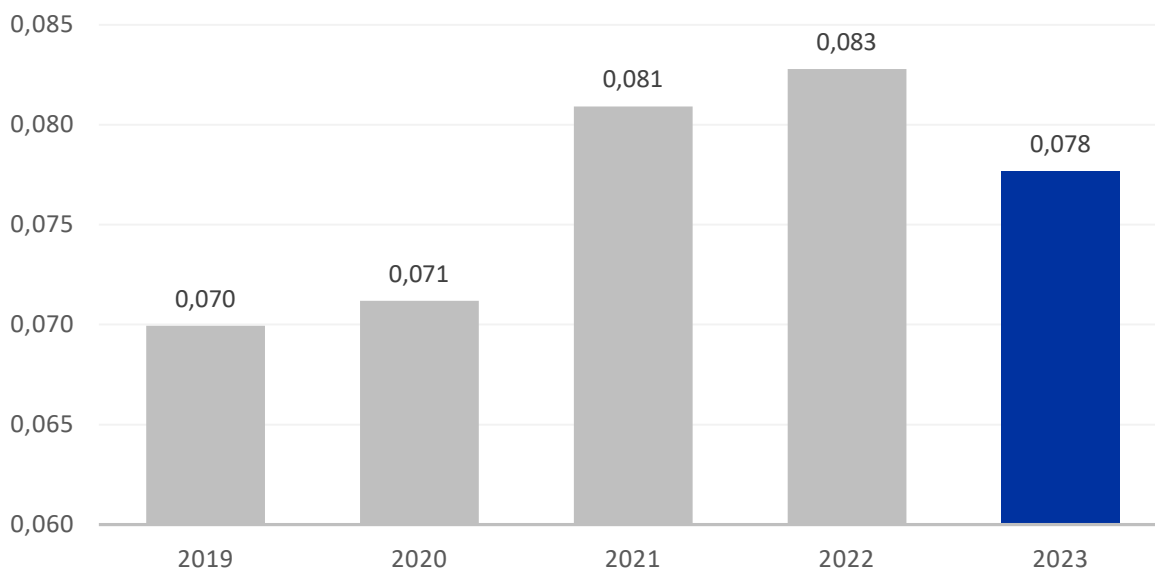


Figure 25. Electricity consumption in relation to production volume in 2019-2023 in the Śnieżka Group [MWh/kg]



2023 is also the time to implement the first stage of the transformation of Śnieżka SA towards green energy. Design, formal and legal work was initiated to obtain the required consents enabling the installation of PV systems on the premises of four production facilities belonging to FFIL Śnieżka SA. The anticipated total power of the scheduled systems is approximately 4.5 MWp - this will cover approximately 30% of the company's demand for electricity.

Concurrently, in two foreign companies of the Śnieżka Group, in Hungary and Ukraine, PV systems were installed in 2023, which will generate "green" electricity by 2024. The Hungarian company Poli-Farbe KFT had a system installed on the ground with a power of approximately 450 kWp, which will cover approximately 25% of the electricity demand. In Śnieżka Ukraina, PV panels with a total capacity of approximately 350 kWp were installed on the roofs of existing facilities. This will cover approximately 20% of the factory's demand.

10.3.3.4. WASTE

Objective of *sustainable development strategy*

Strategic objectives:

- Reduction of waste generation

Operational objectives for 2023:

- The share of municipal waste in the total waste of the Company is below 1%.
- Implementation of the washings reduction project
- 100% of industrial waste generated in FFIL Śnieżka SA is sent for recycling or reuse
- Reduction by 2024 by 30% compared to the base year of 2021 in the amount of municipal waste sent to landfill

Achievement of objectives:

- The share of municipal waste in the total waste of the Company at the level of 0,6%.
- Implementation of the washings reduction project
- 100% of industrial waste generated in FFIL Śnieżka SA is sent for recycling or reuse
- Reduction of municipal waste sent to landfill by 52%

[ESRS E5-5]

All waste generated by the Group companies is subject to strict sorting by its type and waste code – in accordance with the applicable laws. FFIL Śnieżka SA sends all industrial and municipal waste generated to specialized facilities dealing with preparation for reuse, recycling or other recovery or disposal processes. The Company's strategy assumes sending waste directly to facilities dealing with waste management. This allows to eliminate the possibility of uncontrolled and illegal emissions into the environment.

As part of waste management, the Group focuses primarily on industrial waste, the vast majority of which consists of washings. In addition, packaging waste (paper, plastics, metals, glass) and municipal waste segregated by type of material, i.e. paper, glass, metals, plastics, biomass and mixed waste, are also generated.

In 2023, analyses of the potential for reducing washings due to the reduction of industrial water consumption were successfully carried out (more information on this subject can be found in the Report in item 10.3.3.2.). The Group does not produce radioactive waste.

The only waste generated at FFIL Śnieżka SA which is disposed of in a landfill is mixed municipal waste that cannot be recycled or reused. They account for 0,6% of the total waste generated by the Company.

408.23 t – total weight of waste recycled in the Company

Table 40. Waste generated and disposed of by FFIL Śnieżka SA and the Śnieżka Group*

	entity	Śnieżka SA	Śnieżka Group
Total amount of waste generated	tonnes	2925.066	3346.725
Total amount of hazardous waste that avoided disposal, including the following types of recovery process:	tonnes	43.487	67.214
preparation for reuse	tonnes	43.127**	46.711
recycling	tonnes	0.360	20.503
other recovery processes	-	0.000	0.000
Total amount of non-hazardous waste that avoided disposal, including the following types of recovery process:	tonnes	515.84	635.502
preparation for reuse	tonnes	107.972	107.972

recycling	tonnes	407.868	527.530
other recovery processes	-	0.000	0.000
The amount of hazardous waste intended for disposal, including the following types of processing:	tonnes	0.000	28.141
burning	-	0.000	0.000
storage	tonnes	0.000	28.1408
other disposal processes	-	0.000	0.000
The amount of non-hazardous waste intended for disposal, including the following types of processing:	tonnes	2365.739	2615.868
burning	-	0.000	0.000
storage	tonnes	18.560	266.009
other disposal processes	tonnes	2347.179***	2349.859
Total amount of non-recycled waste	tonnes	2516.838	2798.692
Total percentage of non-recycled waste	%	86.04%	83.62%

* The table includes waste actually generated by the departments. This waste is transported for management, disposal and recycling based on the Waste Database cards (BDO), excluding landfilling. The data presented in the table comes from the waste register.

** For the production of alternative fuel.

*** Category D9 washings in accordance with Directive 2008/98/EC.

The production processes of finished products in the Group's plants do not directly generate hazardous waste. This waste is generated in indirect processes as a result of work accompanying production (e.g. cleaning of equipment, production line, technological apparatus, defective goods and products). In 2023, FFIL Śnieżka SA recorded a decrease in the generated hazardous waste compared to 2022. Less hazardous waste results from reduced production volumes.

A decline in the amount of hazardous waste generated was also recorded for the entire Śnieżka Group. Similarly to FFIL Śnieżka SA, the reduction resulted from a reduction in production volume, which is directly related to lower frequency of cleaning equipment and production lines. The lower volume of hazardous waste also stems from the reduction of the amount of defective and non-compliant goods and products.

The amount of non-hazardous waste generated in individual branches of the Group depends on many factors, such as production volume, emergency situations, renovations and modernizations, and activities related to maintaining biological cleanliness. Based on the complete set of data, it was determined that the implementation of goals and tasks aimed at caring for the natural environment had been achieved. Monitoring of the quantity and the method of management takes place on a continuous basis.

In 2023 - due to the reduction in production volume - a decrease in the generation of non-hazardous waste at FFIL Śnieżka SA occurred.

FFIL ŚNIEŻKA SA participates in developing and maintaining a system for the collection, transport, recovery and disposal of waste generated from packaging introduced onto the market. This process is carried out in accordance with legal requirements.

The Company also reduces its negative impact on the environment by sorting waste. Sorted waste, e.g. waste paper, is sold to external entities.

The Śnieżka Group implements guidelines for the circular economy. In 2023, it carried out activities aimed at increasing the amount of recycled raw materials. The Group companies have implemented waste sorting and

selection of materials according to their processing possibilities. The Good Practices section describes several actions implemented in 2023 in the field of waste reduction and recycling.

GOOD PRACTICES

In 2023, municipal waste sorting was continued at FFIL Śnieżka SA. As part of the "Don't mix!" project, municipal waste sorting into five fractions was introduced: plastics and metals, paper, glass, biodegradable waste and mixed waste. Great involvement of employees in the "Don't mix!" campaign allowed to reduce in 2023 the amount of municipal waste intended for landfills by 52%.

The Company has also signed an agreement with a waste recovery organization that handles training in schools and nurseries and prepares information brochures - this allows to be a part of educational campaigns.

In 2023, FFIL Śnieżka SA joined the RafCycle program, which enables the production of new materials by recycling waste from self-adhesive labels. The service offered by the label paper manufacturer, UPM Raflatac, involves collecting waste from the Company and then - thanks to desiliconization - processing it into pulp and then back into paper. In Q4 of 2023, FFIL Śnieżka SA transferred over 3.5 tons (11 pallets) of self-adhesive label waste to RafCycle.

Cardboard tube cores are collected by the Company and sent to recycling companies. In 2023, 12.5 tons of tubes were donated to a local company and used to re-wind products onto them.

Śnieżka SA purchased a cardboard shredder. Properly cut cardboard boxes were used as filling for packaging products sent to retail customers. The implementation of this solution allowed for the reduction of paper consumption and waste paper generation.

10.3.3.5. RAW MATERIALS

The criteria for selecting raw materials in the Śnieżka Group are the following: quality, compliance with the expected parameters, availability on the market and impact on the environment. When selecting suppliers of key raw materials, the Group takes ESG issues into consideration, including: whether the company respects labour and human rights, whether it takes actions to minimize its impact on the environment and how it produces raw materials.

Basic groups of raw materials used for production in the Śnieżka Group companies

- **A binder (e.g. resins or dispersions)** that binds pigments and fillers to each other and to the substrate. The strength and performance parameters of Śnieżka Group products depend on the coat-forming substances, their nature and quantity.
- **Thinners include:** water or solvents (e.g. white spirit or xylene). Thinners affect the following: product consistency, drying time and odour.
- **Pigments** – thanks to them, paints feature right colour, coverage properties and can be resistant to weather conditions and chemical factors. Pigments can also have protective functions, e.g. anti-corrosion. The most popular pigment in the Śnieżka Group is titanium white.
- **Thickeners** ensure appropriate product consistency during storage and their subsequent application. Thickeners contribute to the ease of paint spreading, for example.
- **Auxiliary substances** are various types of chemicals used by the Śnieżka Group due to the technological process, suitability and quality of the products. Some of them additionally provide paints with special, characteristic features.
- **Fillers** that influence the thickness, texture and gloss of the coating.

- **Packaging (plastic, metal and paper).**

Raw materials used in the Śnieżka Group in 2023



GOOD PRACTICE

Auxiliary packaging in which raw materials are delivered to FFIL Śnieżka SA plants, the so-called Mausers 1000 l, qualify as returnable packaging. They are either resold to suppliers or kept as packaging for temporary storage and subsequent sale. In 2023, 53% of 1000 l Mausers were returned to suppliers.

10.3.3.6. SUSTAINABLE PACKAGING

Objective of *sustainable development strategy*

Strategic objectives:

- Use of packaging containing a certain percentage of recycled material

Operational objectives for 2023:

- 5% of the weight of plastic packaging comes from recycling
- Selection of metal packaging with a minimum of 50% recycled content

Achievement of objectives:

- More than 5% of the weight of plastic packaging comes from recycling
- 21% of metal packaging was made of recycled material

The Śnieżka Group consciously and strategically manages the issue of packaging, which is treated as an integral part of products introduced onto the market. It also complies with Polish and European standards and strives to use packaging containing recycled raw materials. Decisions about the selection of packaging are preceded by painstaking analyses and tests.

Plastic packaging acquired by FFIL Śnieżka SA in 2023 contained at least 5% of recycled material. The MAGNAT brand contributed particularly to achieving the operational objective. MAGNAT #kolorLove paints are sold in 2.5 l packaging with a 40% share of recycled materials, and in 2023, work was carried out to introduce the packaging in question also for other products (e.g. MAGNAT Be Eko, MAGNAT Kolor Love, MAGNAT Passion, Śnieżka Acryl-Putz). Plastic packaging replaced metal ones as for 10-liter containers of MAGNAT Non Reflex and MAGNAT Ceramic white paint.

At the same time, in 2023, the Company partially achieved the objective regarding metal packaging. It was not possible to fully meet the objective due to geopolitical conditions on the one hand, and due to the use of a different type of sheet metal for packaging production on the other (this change prevents suppliers of metal packaging from providing a high percentage of recycled raw material). Sheet metal intended for the production of packaging at FFIL Śnieżka SA in 2023 contained - in accordance with the manufacturers' declarations - a 21% share of recycled raw materials.

In accordance with legal requirements, Śnieżka participates in creating and maintaining a system for collecting, transporting, recovering or neutralizing packaging waste generated from introduced packaging.

10.3.4. PRODUCT LIABILITY

10.3.4.1. RESPONSIBLE MARKETING

Objective of *sustainable development strategy*

Strategic objectives:

- Development of products featuring a low environmental impact

Operational objectives for 2023:

- Communication of products with a low environmental impact:
 - Development of a name for products from A group
 - Development of a communication plan for products from A group
 - Development of a communication plan for other products
 - Applying new VOC declarations to technical data sheets and labels of new product batches
 - Communication of recycled packaging origin

Achievement of objectives:

- Objectives related to communication activities have been put on hold until the results of the consumer behaviour survey are developed

The key goal of the Śnieżka Group's marketing activities is to build strong brands based on reliable, transparent and ethical communication. The Group analyses end customers' needs and preferences and at the same time precisely recognizes the strategies and expectations of business partners, and consequently it is able to jointly define paths to reach the end customer.

Śnieżka ToC has a professional market research team that supports the entire Group. The pundits taken on there are responsible for monitoring the needs of B2B and B2C customers and, in collaboration with other departments, support the development of product offers. The team prepares also the so-called insights, i.e. information packages on the needs of selected target groups. These materials are used to build strategic competitive advantage for products.

Positive experiences of Śnieżka Group customers are built through:

- properly designed products,
- a wide product distribution,
- appropriate communication and marketing tools,
- well-organized sales points based on the principles of merchandising,
- improvement of internal processes.

The Śnieżka ToC team also regularly checks customer satisfaction and loyalty. The volume and value of sales, the image of individual brands, as well as the opinions and expectations of selected groups of business partners are subject to monitoring. The team also analyses the opinions of end users, including complaints and comments that are forwarded to the Group, via the hotline - its number is available on the packaging and websites of the brands.

The Śnieżka Group's marketing activities also support communication with consumers and their education regarding the proper selection and use of products. Information is provided in a clear manner tailored to the recipients, including: about ways to effectively protect surfaces against stains, weather conditions and corrosion.

GOOD PRACTICE

Śnieżka Group assists consumers to determine the amount of paint they need. The product pages include a convenient and simple Consumption Calculator which, after specifying the area, calculates the required amount of paint. The efficiency of a given product is also provided on the packaging.

In its communication addressed to end users, the Śnieżka Group also provides information on the impact of individual products on health and the environment, including: ingredients of natural origin used.

In 2023, MAGNAT Be Eko paint for walls and ceilings was launched onto the market. It contains 30% of natural raw materials, including plant ingredients that replace some of the non-renewable petroleum ingredients. Sourcing plant ingredients involves lower CO₂ emissions and fully complies with the food chain based on the management of plant residues. All essential ingredients for the production of MAGNAT Be Eko are sourced from suppliers that meet the REACH regulation (Registration, Evaluation and Authorisation of Chemicals). MAGNAT Be Eko features a minimal content of Volatile Organic Compounds, approximately 30 times lower than the permissible standards, and has the Ecolabel certificate and the highest emission class from the A+ coating.

10.3.4.2. SAFE COMPOSITION

The procedures implemented in the Śnieżka Group's production facilities ensure oversight over the properties of raw materials and products. In accordance with the requirements of the EU regulation on the safe use of chemicals REACH, the Group also carries out regular compliance assessments, employee exposure controls and environmental impact checks for each product. The results are recorded.

The safety of the products offered by the Group is comprehended as:

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

Production safety issues in the Śnieżka Group are strictly regulated in the following documents: *Procedure for introducing new/modified products*, *Procedure for managing production process*, *Procedure of product monitoring*, *Procedure for handling non-compliance*.

GOOD PRACTICE

In FFIL Śnieżka SA's own microbiology laboratory, raw materials and finished products are tested. Strict hygiene procedures apply on production lines, verified during microbiological tests.

Concern for safety in the Śnieżka Group

Raw material verification is a vital and multi-stage process that consists of the following elements:

- Analysis of the Material Safety Data Sheet (MSDS) for safety and possible restrictions in use.
- Verification of the source of origin – the Group liaises only with qualified suppliers who respect human rights and limit the impact on the natural environment and climate.

- Quality assessment – each raw material is tested, and before the cooperation commences with a supplier, a specification is signed to ensure constant and agreed quality.
- *Supplier Code* - requirement for supplier declarations regarding compliance of activities with the Supplier Code. The declarations are verified through a self-assessment survey.

Recipe development

- Designing guidelines based on identified customer needs and possible solutions.
- Priority for raw materials of natural origin or produced from renewable resources. Those featuring the group of a lower classification are selected secondarily in cases where, due to the product specifications, natural or renewable resources cannot be selected.
- Verification of the product prototype in terms of quality and performance parameters. Microbiological protection is also verified to ensure an appropriately long period of use and storage.
- Laboratory and application tests.
- Verification of formal and legal compliance of raw materials and recipes.
- Analysis of parameters affecting the quality of the product in accordance with proprietary research methods.
- Application assessment of the developed product.
- Assessment of the product's behaviour in the packaging.
- Analysis of the impact of the recipe on employees, end users and the environment.
- Ensuring microbiological cleanliness through individual selection of biocides to prevent the development of microorganisms.
- Assessment by the Research and Development Department and an independent assessment by the Quality and Climate Management Department.

Certification

- Research on the impact on users' health, the natural environment and safe use.
- Classification and labelling in accordance with the legislation of the European Union.
- Obtaining additional, voluntary certificates confirming quality and compliance with norms and standards.
- Classifying mixtures as hazardous based on their physical or health effects and reporting them to the European centralized PCN portal.

Production

- Production automation ensuring efficiency and the utmost quality.
- If there is a need to change raw materials in a given product, new recipes undergo a process similar to their development, i.e. from scratch. The replaced raw material is assessed against formal and legal compliance, and then it is verified whether the material is compatible with the existing recipe and its properties are tested again.

Safe products

- Compliance with European regulations on chemicals and construction materials (REACH, CLP, CPR).
- Transparent information on packaging regarding its composition, safe use and disposal. In 2023, the Group reported no cases of non-compliance in terms of information and correct labelling of products, as well as non-compliance with regulations or voluntary codes regarding the impact of products on health and safety.
- Monitoring and on-going adaptation of information on packaging to legal regulations. In 2023, the Śnieżka Group did not record any significant breach in this area.
- Current technical documents, including: product technical data sheet and safety data sheet.

10.3.4.3. OUR PRODUCTS

Objective of *sustainable development strategy*

Strategic objectives:

- Development of products featuring a low environmental impact

Operational objectives for 2030:

- 50% of the sales value comes from products with a low impact on health and the environment confirmed by a certificate or marking
- 85% of sales value comes from water-based and water-containing products

Achievement of objectives:

- 38% of the sales value comes from products with a low impact on health and the environment confirmed by a certificate or marking
- 82% of sales value comes from water-based and water-containing products

[W2 – own indicator: Share of certified products manufactured by FFIL Śnieżka SA in sales revenues of Śnieżka ToC - calculated on the basis of reporting criteria developed by FFIL Śnieżka SA]

In 2023, the Śnieżka Group expanded its offer of certified products. Nine products were awarded certificates or markings confirming minimal impact on health and the environment (described below).

38% - percentage of sales in 2023 in Śnieżka ToC of products featuring a low impact on health and the environment confirmed by a certificate or marking. This is 3.1% higher than in 2022.

82% – percentage of sales in 2023 in Śnieżka ToC of water-based products or products containing water as a base.

Ecological and allergy-free certificates and markings



Ecolabel is a European certificate confirming compliance with environmentally friendly standards specified in Regulation (EC) No. 66/2010 of the European Parliament and of the Council of November 25, 2009.

Ecolabel products reduce negative impact on the environment.



The "Toy Safety" symbol confirms that the products marked with it have been tested and meet the flammability standards in accordance with PN-EN 71-2 and the migration of specific elements in accordance with PN-EN 71-3.

The emission class determines the level of emissions of VOC from the coating in accordance with French Decree No. 2011-321 of March 23, 2011. There are several classes, and the best rated class is emission A+ class.



Paints and other products marked A+ emit very little amount of volatile substances. This is particularly important in closed areas, where VOC emissions affect air quality and human health. A+ class emission products are more environmentally friendly and more user-health-friendly, especially when applied indoors. This marking is mandatory in France.



The Certificate of Irritating and Sensitizing Properties is a confirmation that the product and its formula have been tested and do not cause irritating and sensitizing properties known as hypoallergenic.

Changes to the Group's portfolio in 2023

For the Śnieżka Group, the offer development is one of the most important aspects of strengthening its competitive advantage. Depending on customer needs and changes in the market and competition offers, the Group launches new products, manages the colour offer and the number of SKUs.

Changes in Poland

- In 2023, the MAGNAT brand offer was expanded by MAGNAT Be Eko paint (more about it can be found in the Report in item 10.3.4.1.).
- The number of products in packaging containing recycled plastic has been increased.
- The previously used types of metal packaging were reviewed and packaging for selected enamel capacities from the Śnieżka, Rafil and VIDARON brand portfolio has been unified.
- The optimization of the SKU product portfolio was continued, which indirectly reduces the consumption of raw materials caused by the overproduction of low-rotating products.
- The colour offer of Śnieżka Supermal acrylic enamel has been adapted to trends in decorating wooden and metal elements and new consumer needs. The new collection includes 14 colours, including 12 completely new shades and two coating finish options - matte and semi-gloss.

Changes in Hungary

- The offer has been extended by:
 - Platinum Folatlo, stain-resistant paint in 10 colours for painting interior walls and ceilings,
 - Platinum Foltallo Kitchen&Bathroom – stain-resistant, white paint for kitchens and bathrooms,
 - Platinum Hofeher, latex white paint for walls and ceilings,
 - Poli-Farbe Platinum Feher Alapozo Festek, primer for walls and ceilings,
 - universal Poli-Farbe POLI-MIX colouring pigment available in 20 colours,
- The colour palette of Poli-Farbe Boróka Folyékony Fa wood filler has been changed.
- The number of SKUs in the offer has been reduced.

Changes in Ukraine

- New products under the MAGNAT brand.

10.3.4.4. RESEARCH AND DEVELOPMENT ACTIVITIES

The search for new raw materials and innovative, better product solutions determine the innovativeness of the Śnieżka Group. All research and development activities are carried out at the Research and Development Centre. The Centre is formally composed of the Research and Development Department and the Quality and Climate Management Department operating within the structures of FFIL Śnieżka SA. The Centre's experts have at their disposal modern laboratory facilities, the results of the latest scientific research as well as a rich raw material base and the Group's know-how acquired over the years. Owing to this, the Group manages over 150,000 recipes (including colouring systems).

The Research and Development Centre consists of:

- Wood and metal product laboratories,
- Laboratories of emulsion paints, construction chemicals and facade products,
- Aging research laboratories,
- Industrial product laboratories,
- Chromatography laboratory,
- Microbiology laboratory,
- Application studios,
- Quality Control Laboratory.

GOOD PRACTICE

Research conducted by the microbiological laboratory has significantly contributed to the improvement of microbiological hygiene of water-based products. Despite many restrictions on the use of biocides, the products feature good quality and stability.

Verification of raw materials and technologies

The Research and Development Centre is responsible for verifying new raw materials and technological solutions and checking how they can be used in the current or future activities of the Group companies. Experts also monitor the raw materials market in search of alternatives that can optimize the existing product portfolio. The knowledge obtained in this way allowed in 2023, inter alia, to modify the recipe of the film-forming preserving agent and reduce the amount of substances that may pose a health hazard. The recipe of the corresponding product for the Ukrainian market was also changed, which reduced the content of VOC by over 15%.

In addition, research conducted in 2023 at the Centre paved the way for improving the protection of *Vidaron Ogrodowy* against microbiological contamination, which will provide the product with a longer shelf life, as well as modifying the technology in the protective and decorative varnish stain - the new version features 10% lower VOC emissions and a milder odour.

The Centre also verifies products in terms of their impact on health and the environment. In 2023, it was confirmed that the VOC content in *Śnieżka Grunt* and *Śnieżka Eko*, as well as the VOC emission from the coatings of the said paints, meet the requirements for paints in the BREEAM building certification system. Tests of the *MAGNAT Kolor Love* paint recommended for children's rooms were also extended. Compliance with the Toy Safety standard as for the migration of specific elements and aromatic compounds from coatings has been confirmed.

GOOD PRACTICE

In 2023, the Śnieżka Group modified its own machinery and equipment of the Research and Development Centre. A new testing machine was purchased, which will be used to test the strength parameters of compounds, mortars, plasters and packaging.

10.3.5. RESPONSIBLE PURCHASING

Objective of *sustainable development strategy*

Strategic objectives:

- Implementation of the supplier assessment system as regards the ESG areas

Operational objectives for 2023:

- Communication of the supplier assessment system as regards the ESG - 100%
- Completed ESG self-assessment forms for suppliers – 70%

Achievement of objectives:

- 34% of suppliers are familiar with the Supplier Code
- 100% of strategic and key suppliers received information and documents related to the self-assessment
- 61% of strategic and key suppliers completed the self-assessment form

The Śnieżka Group perceives its supply chain as an element of competitive advantage. The Group strives to cooperate with reliable and credible suppliers. The condition for conducting business activities, in addition to quality, price and timely delivery, is a responsible approach to sustainable development.

Active suppliers (374) are classified annually into one of three categories:

- strategic suppliers,
- key suppliers,
- basic suppliers.

Strategic and key suppliers are responsible for approximately 80% of the purchasing budget. For this reason, these companies are subject to annual analysis regarding ESG involvement, compliance of the delivered products with the order and timeliness of deliveries.

The issue of cooperation with suppliers is regulated by *Procurement policy* and the *Supplier Code of the Śnieżka Group* adopted in FFIL Śnieżka SA and Śnieżka ToC. Adoption of the documents in other companies is scheduled for 2024.

Procurement Policy

The *Procurement Policy* systematizes the purchasing activities of the Śnieżka Group, considering economic and environmental issues, and is addressed to all companies comprising the Group. The policy also defines the main pillars in the purchasing area, and its provisions are supplemented by the *Supplier Code*.

In accordance with the Policy, the primary objective of procurement activities is to ensure proper operation of the Group, and the procurement process itself is perceived as a key element in promoting sustainable development in the supply chain. In its *Procurement Policy*, the Śnieżka Group undertakes to purchase and use raw materials and packaging with the required certificates for the production of its products and at the same time to support initiatives regarding the application of safe raw materials and the use of recycling technologies.

Main pillars of the purchasing process of the *Procurement Policy*

- Sustainable development,
- compliance with internal policies (including *Quality, Environment and Health and Safety, Climate, Respect for Human Rights, Diversity, Personnel, Anti-Corruption, Information and Digital Security*),
- compliance with and fulfilment of commitments toward national requirements,
- compliance with and fulfilment of commitments toward suppliers,
- striving to select reliable and credible suppliers,
- building fair and transparent rapport with suppliers,
- periodic, reliable and transparent assessment of suppliers,
- confidentiality, protection and data security,

- counteracting all forms of corruption.

The scope of the *Procurement Policy* covers all Group expenses for external entities, and all companies are obliged to comply with it. The implementation of the Policy is subject to monitoring and compliance is supervised by the Purchasing Department of FFIL Śnieżka SA.

Śnieżka Group's Supplier Code

“The values of the Śnieżka Group constitute the basis for activities related to the supervision of the supply chain and building lasting relationships with suppliers. The Group strives to do business with partners who understand and share the concern for sustainable development, and in their activities they aim at developing their practices in areas in which the Śnieżka Group also sets itself ambitious objectives.”

In order to be able to cooperate with the Śnieżka Group, each supplier is required to confirm the knowledge and compliance with the rules of the code of conduct, which are attached in a form of a document to each new agreement with suppliers. Suppliers are obliged to sign the acknowledgment of the *Supplier Code*, thus declaring their readiness to undertake ethical business activities.

The expectations towards suppliers included in the *Supplier Code* concern the following:

- environment, climate and sustainable development protection,
- respect for human and employee rights,
- social involvement,
- corporate governance and legal compliance.

The Code applies to all suppliers, and the Śnieżka Group expects each contractor to provide its employees with the practices and principles described therein. The Group also provided contractors with a confidential channel for reporting violations of ethical principles, while committing to protect employees and business partners who disclose violations of the provisions of the Code.

The unit supervising compliance with the *Supplier Code* is the Management Board of FFIL Śnieżka SA.

In 2023, 34% of suppliers - strategic, key and basic - got familiar with the Supplier Code.

The Śnieżka Group has a diversified supply chain and cooperates with companies from Poland and abroad, mainly from European countries. The supplier market is monitored and the Group conducts a constant process of acquiring new contractors to optimize supply sources, reduce costs, shorten delivery times or acquire new technologies.

The Group purchases strategic raw materials from suppliers with significant production and development capabilities - while maintaining the optimal level of diversification, the important role of innovation, as well as taking into consideration economic, social and environmental aspects.

In accordance with the *Procurement Policy*, all suppliers are treated equally and each has the opportunity to present an offer in line with the purchasing specifications. The criteria for evaluating offers are also equal, and the Group analyzes:

- technical capabilities,
- experience,
- history of any previous cooperation,
- costs,
- sustainable development issues included in the *Supplier Code*.

The Śnieżka Group endeavours to periodically verify standards in the supply chain - therefore the organization has introduced a process of self-assessment of strategic and key suppliers as far as ESG issues are concerned, with particular emphasis on social and environmental issues. Both direct (raw materials) and indirect (services) suppliers were subject to the assessment in question. In 2023, 100% of suppliers (strategic and key) of FFIL

Śnieżka SA received information and documents related to the self-assessment, and the surveys were completed by 61% of strategic and key suppliers. All of them fully or partially complied with ESG expectations and none of them had their contract terminated.

10.4. PEOPLE

10.4.1. STAFF INVOLVEMENT AND DEVELOPMENT

10.4.1.1. ORGANIZATIONAL CULTURE

Objective of *sustainable development strategy*

Strategic objectives:

- Creating an organizational culture based on values
- Staff development

Operational objectives for 2023:

- 100% of eligible employees held development conversations with their superordinates based on the updated values
- Annual implementation of the Development Conversations process

Achievement of objectives:

- 97% of employees held development conversations based on the updated values

Customer, People, Innovation, Business Efficiency - the four organizational values of the Śnieżka Group support the implementation of the objectives and the *Śnieżka 2023+ Sustainable Development Strategy* and are at the same time the foundation of employee attitudes at all levels of the company. The values were updated in 2022 in conjunction with the management staff, and observing them is an important element of building a culture of high commitment at Śnieżka. In 2023, the mission and vision constituting the foundations of organizational values were updated.



Customer

Understanding the customer's perspective and providing optimal products and services



People

Creating a culture of commitment and responsibility by building a climate of cooperation and development in a safe work environment.



Innovation

Constant search and implementation of new (digital) solutions and better ways of doing things.



Business efficiency

Standardization of activities, rational management of resources and decision-making based on data and facts, considering a strategic perspective.

Organizational values determine the methods of carrying out assignments for all employees in the Group. They are also the basis for regular development conversations between employees and their superiors carried out at Śnieżka SA and Śnieżka ToC. In the first half of 2023, 97% of eligible employees of these companies held such conversations based on updated organizational values.

The process of updating mission, vision and values

In 2022, workshops were held among the Management Board and Directors, during which the Book of Values was updated (simplification of entries and redefinition of values from seven to four) and the mission and vision of Śnieżka were updated.

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

The basics and principles of human resources management are defined in the *Personnel Policy of the Śnieżka Group*. The policy and business strategy are guidelines for actions taken in the field of employee issues.

The Śnieżka Group starts from the assumption described in the *Personnel Policy* that each employee brings value to the organization. The commitment of employees, their skills and attitudes supporting corporate values allow the Group to establish and achieve ambitious objectives, and employee development and high organizational culture are perceived in the Śnieżka Group as necessary conditions for the development of the entire organization.

The Group manages employee issues in accordance with the Labour Code. At FFIL Śnieżka SA, due diligence procedures in this respect include the following:

- *Employee work regulations,*
- *Remuneration regulations:*
- *Organizational regulations.*

Employee matters are also regulated in other internal regulations and documents, e.g. *Regulations of the company social benefits fund.*

The unit responsible for activities in compliance with the Labour Code and internal regulations is the People Department of FFIL Śnieżka SA. In achieving the objectives of the *Personnel Policy* within the entire Śnieżka Group, the leading role is played by the parent company, i.e. FFIL Śnieżka SA. The implementation of solid solutions in subsidiaries is conducted gradually, which enables systematic accommodation of models from the Polish market to foreign markets, taking into consideration their specificity and local law. The companies' managers are accountable for maintaining due diligence procedures in the area of employee issues, and they ensure consistency in this respect with the Group by cascading their activities with the competence centre in the parent company.

The *Personnel Policy* is an integral part of the Group's development strategy. Pursuant to its provisions, all Group companies are obliged to:

- promoting the Group's position as an attractive employer and retaining employees with key skills and significant potential,
- motivation of employees to high commitment and effective work, which contribute to the Group's competitive advantage,
- creating organizational efficiency of the Group and companies through new technologies, unification of processes and integration of functions and employees.

The *Personnel Policy* is carried out via plans, programs and tools used in the staff-related and HR processes, including:

- research on staffing needs,
- annual employment planning,
- defining training needs and matching them to the expectations of individual areas,
- conducting training and development projects,

- defining a plan of non-wage benefits together with the Social Committee,
- creating motivational systems,
- remuneration regulations.

The provisions of the *Personnel Policy* provide for detailed internal regulations:

- Equal treatment of job candidates and employees, counteracting any manifestations of discrimination and guaranteeing equal opportunities and proper protection of personal data. The compliance of the recruitment process with the assumptions is verified during the periodical process of assessing candidates and employees and while verification of their experience.
- The aim of the recruitment processes at FFIL Śnieżka SA is to employ people with the best qualifications and competences and who relate to the values of the organization. The Company's employees are encouraged to participate in internal recruitment. They can also take part in the Referral Program.
- Enabling training and other development activities for all employees. The availability of training is determined by:
 - organization's business needs and opportunities,
 - the need to have knowledge, qualifications, skills or competences for a specific position,
 - diagnosed employee development needs,
 - opportunities to acquire skills and competences supporting the implementation of the organization's business strategy.

Development programs are supported by internal and external expertise. *Śnieżka Academy* an internal proprietary training program is conducted, for example. The program training is run by qualified employees of FFIL Śnieżka SA and Śnieżka ToC. The Company also finances English classes, and during onboarding, mandatory training includes: cybersecurity classes.

GOOD PRACTICE – SAFE+

In 2023, practical, additional first aid training commenced - white collar workers of FFIL Śnieżka SA and Śnieżka ToC as well as blue collar ones from Brzeźnica, Pustków and Lubzina participated in them - a total of 359 employees out of 385 eligible. In 2024, similar training is scheduled for employees of the Logistics Centre in Zawada, the Rafil company in Radom and administration employees of FFIL Śnieżka SA and Śnieżka ToC.

- Ensuring a coherent remuneration system based on the evaluation of job positions (classification categories assigned to individual organizational positions) and on the market remuneration analysis. The basis for valuation is the assessment of responsibility at individual positions. The company also offers employees monthly, quarterly or annual bonuses depending on the type of position held. More information in this respect can be found in the People section of this Report.

Employer Branding activities

The Śnieżka Group's objective is to reduce the turnover rate, retain talent in the organization and win the best candidates from the market. The implementation of these assumptions is supported by Employer Branding activities, which were carried out both inside and outside the organization in 2023:

- Śnieżka SA and Śnieżka ToC's employees regularly received newsletters. Throughout the year, the Group sent a total of 99 communications.
- in line with the introduced principle of cascading communication, superiors are obliged to provide on-going, clear and reliable information to their subordinate teams.
- all employees employed in the Group's Polish companies received three issues of the internal magazine *W Kolorze (In Colour)* containing the most important news about the organization. The magazine was published and was also available in an electronic version on an internal training platform.

- The Group's social media provides open and transparent communication on events essential for the organization and interesting facts about the Group and individual companies. The purpose of social media communication is to build a community interested in the Śnieżka Group.
- There is a dedicated website for communication with potential employees <https://kariera.sniezka.pl/>.

10.4.1.2. CREATING A DIVERSE AND INCLUSIVE WORK ENVIRONMENT

Objective of *sustainable development strategy*

Strategic objectives:

- Building a diverse and inclusive work environment
- Maintaining a low level of employee turnover

Operational objectives for 2023:

- 100% of employees participated in the training on counteracting mobbing and discrimination
- Maintaining the year-on-year voluntary departure rate of employees below 11% for line positions

Achievement of objectives:

- 97% of employees completed training on counteracting mobbing and discrimination
- Voluntary turnover rate: 4.17% for line positions

In 2023, the employment level in FFIL Śnieżka SA and Śnieżka ToC was influenced by changes - remodelling within internal structures aimed at adapting them to new and existing processes and market demands. The approach to the definition of managerial positions was also subject to change. At the end of 2023, employment in the Śnieżka Group decreased by 0.87% - 1,140 people worked in the Group, 10 less than on December 31, 2022. Insignificantly - by 0.82% - in 2023, employment at FFIL Śnieżka SA - the parent company of the Group employed 611 people at the end of the year, 5 more than in the previous year.

[ESRS S1-6]

The data is presented as the number of employees as of December 31, 2023. The employees do not include persons employed on a basis other than an employment contract. As at December 31, 2023, FFIL Śnieżka SA employed 2 persons under a mandate contract, 1 person under a contract for specific work and 1 person under a B2B contract, while at Śnieżka ToC 1 person was employed under a mandate contract and 59 persons rendered B2B services.

Table 41. Number of employees in total and by gender

Gender	Number of employees	
	FFIL ŚNIEŻKA SA	Śnieżka Group
Men	437	757
Women	174	383
Other	0	0
Not reported	0	0
Employees total	611	1140

Table 42. Number of employees in countries where the entity employs at least 50 employees constituting at least 10% of the total number of employees of that entity

Country	Number of employees
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Poland	778
Hungary	178
Ukraine	169

Table 43. Number of employees by contract type, broken down by gender (number of people) at FFIL Śnieżka SA

FFIL ŚNIEŻKA SA				
[As at 31.12.2023]				
WOMEN	MEN	OTHER (*)	NOT PROVIDED	TOTAL
Number of employees (total number)				
174	437	0	0	611
Number of employees hired for an indefinite period (total number)				
152	405	0	0	557
Number of employees hired for a definite period (total number)				
22	32	0	0	54
Number of employees with non-guaranteed working hours (total number)				
0	0	0	0	0
Number of full-time employees (total number)				
173	437	0	0	610
Number of part-time employees (total number)				
1	0	0	0	1

* Gender determined by employees themselves.

Methodology: Number of people employed as at December 31, 2023.

Table 44. Number of employees by contract type, broken down by gender (number of people) in the Śnieżka Group

Śnieżka Group				
[As at 31.12.2023]				
WOMEN	MEN	OTHER (*)	NOT PROVIDED	TOTAL
Number of employees (total number)				
383	757	0	0	1140
Number of employees hired for an indefinite period (total number)				
332	706	0	0	1038

Number of employees hired for a definite period (total number)				
51	51	0	0	102
Number of employees with non-guaranteed working hours (total number)				
0	0	0	0	0
Number of full-time employees (total number)				
376	754	0	0	1130
Number of part-time employees (total number)				
7	3	0	0	10

* Gender determined by employees themselves.

Methodology: Number of people employed as at December 31, 2023.

The majority of the Group's employees in 2023 - 757 persons - were men (66.4%, a decrease of 1.3%), which is associated with the production nature of the business and the high percentage of line positions. The share of men employed in the Group has not changed significantly over the last few years.

Table 45. Information about employees by contract type, broken down by country (number of people)

POLAND	HUNGARY	UKRAINE	BELARUS	TOTAL
Number of employees (total number)				
778	178	169	15	1140
Number of employees hired for an indefinite period (total number)				
704	169	165	0	1038
Number of employees hired for a definite period (total number)				
74	9	4	15	102
Number of employees with non-guaranteed working hours (total number)				
0	0	0	0	0
Number of full-time employees (total number)				
774	172	168	15	1129
Number of part-time employees (total number)				
4	6	1	0	11

Methodology: Number of people employed as at December 31, 2023.

As at the end of 2023, the Group employed 91.05% of people on indefinite-term contracts. Fixed-term employees (8.95%) worked primarily in companies with production plants. Agreements concluded for a trial period accounted for approximately 1.6% of all contracts.

The Group does not employ temporary workers or other employees whose working time is not guaranteed.

Table 46. Employee turnover rate

	FFIL ŚNIEŻKA SA	Śnieżka Group
Total number of employees who left the entity during the reporting period	30	87
Employee turnover rate in the reporting period	4.91%	7.63%

Methodology: Number of all employees who left voluntarily (including persons who terminated the contract in connection with acquiring pension rights) and as a result of termination of the contract by the employer). The above rate does not include employee transfers between the Group companies.

The Śnieżka Group considers each case of contract termination on an individual basis, taking into account the employee's interest.

Table 47. Employees – broken down by structure and age*

[ESRS S1-9]

Senior management staff	FFIL ŚNIEŻKA SA			Śnieżka Group		
	women	men	total	women	men	total
aged below 30	0	0	0	0	0	0
aged between 30 and 50	14	18	32	38	51	89
aged over 50	3	11	14	16	26	42
Gender break down by %	37%	63%		41%	59%	
TOTAL	17	29	46	54	77	131
Middle management staff						
aged below 30	0	1	1	0	2	2
aged between 30 and 50	4	20	24	8	40	48
aged over 50	1	7	8	1	15	16
Gender break down by %	15%	85%		14%	86%	
TOTAL	5	28	33	9	57	66
Other employees						
aged below 30	15	54	69	50	74	124
aged between 30 and 50	109	220	329	203	364	567
aged over 50	28	106	134	67	185	252
Gender break down by %	29%	71%		34%	66%	
TOTAL	152	380	532	320	623	943
Gender break down by %	28%	72%		34%	66%	
TOTAL	174	437	611	383	757	1140

Methodology: Number of people employed as at December 31, 2023. Managers who do not manage teams of employees (so-called "area managers") are excluded from the group of managers. According to the adopted definition, managerial positions include only persons managing teams of employees. This change is visible in the structure of employees in relation to the previous year. Senior management includes the Company's Management Board members and persons holding positions of Directors and Managers. Middle management staff includes entities holding positions of Leaders and Foremen.

197 persons (-3.9%) with managerial positions were hired in the Śnieżka Group at the end of 2023 - in total, they constituted 17.3% of all employees, and this percentage has changed slightly compared to 2022. There were 63 women among the management staff, 5 less than at the end of 2022.

The majority of people employed in the Group (61.8%) were aged between 30 and 50 in 2023. The share of women employed in the Group as well as men under 30 was 11,0%, and over 50 years of age - 27,2%. No minors were employed in the Group in 2023. The youngest person was 21 years old.

The Group does not run an additional pension program for employees. In accordance with the Act on Employee Capital Plans, the ECP program was implemented in the Competence Centres of FFIL Śnieżka SA and Śnieżka ToC. The program is joined by those employees who did not submit a declaration of withdrawal, employees aged 55+ who voluntarily decided to join the program.

The Competence Centres also regulate pension contributions to the Social Insurance Institution on all employee income. In 2023, the amount of these contributions amounted to PLN 10.29 million. In foreign Companies, contributions were paid as required by the local law.

Diversity due diligence policies and procedures

The Śnieżka Group treats all employees equally and counteracts discrimination and mobbing. A *Diversity Policy* has been implemented throughout the Group, the provisions of which are based on the Labour Code. The Group undertakes to:

- prevent discrimination regardless of the criteria,
- manage diversity and create a work environment in which each employee can feel appreciated, which ultimately contributes to the success of the entire Śnieżka Group.

The Group promotes and disseminates the principles of equal treatment and anti-discrimination among all stakeholders. In the Group's opinion, concern for diversity influences the creativity, effectiveness and loyalty of employees as well as the expansion of the sales market and customer base. Diversity also increases the chances of attracting new talent and driving team innovation, which ultimately translates into better business effectiveness for the organization. The objective of the *Diversity Policy* is to fully deploy the employees' potential, skills, experience and talents in an atmosphere of respect and support.

FFIL ŚNIEŻKA SA has not developed any separate diversity policy with regard to the company's administrative, management and supervisory bodies. The criteria for employing staff in key positions in these bodies are qualifications - including education, competences and professional experience - and meeting the requirements for a given position. The evaluation of candidates is not influenced by their gender or age, and whenever possible, the Company strives to ensure versatility and diversity among the Company's authorities and its key managers.

[ESRS G1-1]

Counteracting discrimination and mobbing

The Group undertakes to counteract all forms of discrimination, mobbing, insults, harassment or lack of respect for other people - both among employees and co-workers throughout the value chain. No discrimination

behaviour will be tolerated in the companies of the Śnieżka Group. This issue is detailed in *the Regulations for Counteracting Mobbing, Discrimination and Harassment*. The document contains definitions of the Group's broad understanding of unacceptable phenomena such as mobbing, harassment or discrimination, as well as mechanisms to be used in cases of identified irregularities.

An Anti-Mobbing Committee operates at FFIL Śnieżka SA. In accordance with the above Regulations, all possible cases of breach of the *Regulations for Counteracting Mobbing, Discrimination and Harassment* must be reported to the committee. The Anti-Mobbing Committee each time initiates explanatory proceedings and, if a human rights violation is confirmed, takes action to mitigate its reoccurrence in the future. In 2023, the Committee did not receive any notification related to violations of human rights.

The Regulations also oblige the Company to conduct educational and communication campaigns regarding the protection of human rights. FFIL Śnieżka SA and Śnieżka ToC hold annual training on counteracting mobbing and discrimination in the workplace. In 2023, apart from the company's management staff - it also embraced administrative and line employees. A total of 97% of employees completed the online training:

- 566 out of 572 eligible employees of Śnieżka SA, i.e. 99%,
- 109 out of 115 eligible employees of Śnieżka ToC, i.e. 95%.

10.4.1.3. EMPLOYEE DEVELOPMENT

Objective of *sustainable development strategy*

Strategic objectives:

- Staff development
- Employee involvement in social activities

Operational objectives for 2023:

- 100% of new employees covered by onboarding and adaptation
- Year-on-year increase in the average number of training hours per employee
- Development of assumptions for a pilot competence volunteering program

Achievement of objectives:

- 100% of new employees covered by onboarding and adaptation
- Year-on-year increase in the average number of training hours per employee:
 - 25.79 at FFIL Śnieżka SA vs. 9.60 in 2022
 - 26.81 in the Śnieżka Group vs. 10.26 in 2022
- The assumptions for a competence volunteering program related to the internal *Śnieżka Academy* training program were developed

Onboarding and adaptation process

Each new employee at FFIL Śnieżka SA and Śnieżka ToC undergoes an onboarding process during the first two weeks. During this period, they learn how the company operates, receive equipment and tools necessary for their positions. They also undergo initial training and meetings with their superior, with whom they develop an Individual Adaptation Plan, specifying mutual expectations in the initial period - from employment to the third or sixth month. The aim of the adaptation process is effective implementation at the workplace and familiarization with the organizational culture. In 2023, 56 employees participated in the onboarding and adaptation process - 34 at FFIL Śnieżka SA and 22 at Śnieżka ToC.

Training

Training within the Śnieżka Group:

- 464 participants
- 40.35% of employed

- 173 women and 291 men
- 11,795 online and class training hours

The Group ensures that all employees participate in mandatory training - provided for by regulations and necessary to hold a given position. In addition to mandatory training, employees can also benefit from voluntary training that develops professional competences:

- The Group offers English classes. The implemented *Regulations for the co-financing program and organization of the English language course* describe the principles of co-financing and the requirements set by the Group regarding the organization, appropriate form and effectiveness of the course. Courses are held in classes in groups or individually online.
- In 2023, the first edition of the Śnieżka Academy internal trainer program was organized. The program takes advantage of the experts' competences taken on within the Group, who have the opportunity to share their knowledge with other employees. In the first edition, eight trainers were selected who conducted training in thematic areas that were important from the company's perspective and developing from the employees' point of view. The program was attended by 180 Śnieżka ToC employees who participated in 948 hours of training and 174 employees of FFIL Śnieżka SA who participated in 866 hours of training. The training included: public speech, making presentations, the process of concluding and terminating contracts, visualization and data analysis.
- In 2023, a pilot competence volunteering program was developed and prepared to be implemented in 2024. According to its assumptions, internal experts conducting training within the *Śnieżka Academy* will have the opportunity to share their specialist knowledge with students of local schools. Recommendations regarding selected schools and age groups to which the training will be addressed, will be developed by the Śnieżka Foundation team, which is competent in running local educational programs.
- FFIL Śnieżka SA and Śnieżka ToC also arranged first aid training, which was attended by 359 employees.

[ESRS G1-1]

GOOD PRACTICE

Nearly 90% of employees - administrative and line - participated in training on ESG, sustainable development and priority areas of the strategy. The training consisted of two recorded webinars - in the first one, the Group's experts explained what the acronym of ESG stands for and why companies deal with this topic. The second part was devoted to the *Śnieżka 2023+ Sustainable Development Strategy* and presented the process of its creation, as well as the pillars, priority areas and selected objectives.

Table 48. Number of training hours and trained employees of FFIL ŚNIEŻKA SA and the Śnieżka Group in 2023

	Number of training hours completed	Number of training participants	Number of training hours per employee	broken down by gender	
				Women	Men
FFIL Śnieżka in 2023	15 762	523	25.79	151	372
FFIL Śnieżka in 2022	5 818	222	9.60	77	145
Śnieżka Group in 2023	12 601	303	26.81	141	162
Śnieżka Group in 2022	11 795	464	10.26	173	291

Employee appraisals and development interviews

97% of eligible employees in 2023 at FFIL Śnieżka SA and Śnieżka ToC took part in development conversations based on organizational values. Following the above talks, a need to work internally on the process occurred. The process remodelling is scheduled for 2024. In the future, the Group also intends to implement a remodelled development conversation process in Śnieżka-Ukraina and Poli-Farbe.

10.4.1.4. EMPLOYMENT CONDITIONS

Objective of *sustainable development strategy*

Strategic objectives:

- Managing employee engagement and satisfaction

Operational objectives for 2023:

- Survey of employees' commitment and satisfaction: 100% of employees had access to the survey
- Employees' engagement and satisfaction survey: The survey by completed by 80% of employees

Achievement of objectives:

- 100% of employees with access to the employees' engagement and satisfaction survey
- The survey by completed by 88% of employees

GOOD PRACTICE

The employees themselves know the best what is it like to work in the Śnieżka Group. Therefore, in 2023, FFIL Śnieżka SA and Śnieżka ToC conducted - in accordance with the measures specified in the *Śnieżka 2023+ Sustainable Development Strategy* - an eNPS employee satisfaction survey. The survey guaranteed participants' anonymity and was carried out in the presence of employee representatives. All employees of both companies were invited to participate in the survey. The surveys were completed by 88% of them (511 employees out of 587 eligible).

- Employees of FFIL Śnieżka SA and Śnieżka ToC recommend working in their companies (NPS = 6), citing the following reasons:
 - the team and the atmosphere in the company,
 - salary and benefits,
 - work organization,
 - training and development,
 - good company prospects,
 - attitude towards the employee and relationship with the superior.

The majority of surveyed employees perceive Śnieżka's business strategy as clear and understandable (63% are Promoters, NPS = 50). The group that assessed the strategy as good for the company was larger than the group that perceived its positive aspects for themselves as team members (54% Promoters). Employees declare a sense of influence on the strategy implementation. Additionally, as many as 322 people provided spontaneous answers to open questions about issues worth special attention for the effective strategy implementation.

The analysis of eNPS results ensured better match of the activities scheduled for 2024 to the needs of employees. The survey and its results were also used by the Śnieżka Group to plan activities increasing the level of knowledge and understanding of the strategy and the identification of employees with strategic objectives. In 2024, the Group intends to conduct two more eNPS surveys.

Employee benefits

Each employee of FFIL Śnieżka SA and Śnieżka ToC - regardless of the amount and type of employment - has the opportunity to benefit from non-wage benefits. These are:

- benefits in the form of points to be used in the online cafeteria,
- co-financing for various benefits, including: group life insurance, employee meals, English lessons, replacement of glasses, participation in a summer camp for employees' children organized by the Social Committee of both companies in accordance with the Regulations of the Social Benefits Fund,
- additional 2 days of leave per year,
- extended scope of research in the field of occupational medicine,
- private medical care,
- discounts on company products in the Company Store,
- access to the company's auction portal with the possibility of participating in auctions and bidding of the products offered,
- possibility of purchasing company computer equipment and a telephone for private purposes,
- participation in occasional company events addressed to employees' children, financed from the Company Social Benefits Fund of both companies in accordance with the Regulations of the Social Benefits Fund,
- occasional gifts for employees' children financed from the Company Social Benefits Fund of both companies in accordance with the Regulations of the Social Benefits Fund.

Support for young parents

All Śnieżka Group employees can freely exercise the rights to maternity, parental and paternity leave. In 2023 the above right to maternity and paternity leave was exercised by 47 women and 20 men.

All women returning to work at FFIL Śnieżka SA and Śnieżka ToC after maternity leave are invited to re-onboarding meetings, which allow them to supplement their knowledge about changes in the company and complete outstanding training. Additionally, all women returning to work no later than 6 months after giving birth are offered a financial allowance to cover childcare expenses. The companies also co-finance the cost of employees' children stay at a local nursery.

Table 49. Use of maternity/parental/paternity leaves at FFIL Śnieżka SA and the Śnieżka Group

	FFIL ŚNIEŻKA SA	Śnieżka Group
Number of employees who took advantage of leaves at childbirth	33	67
of which women	16	47

10.4.1.5. REMUNERATION

Objective of *sustainable development strategy*

Strategic objectives:

- Building a diverse and inclusive work environment

Operational objectives for 2023:

- Maintaining year-to-year comparability of remuneration of women and men hired at alike positions (according to salary rate)

Achievement of objectives:

- 3.41% – adjusted pay gap for Śnieżka SA and Śnieżka ToC

In 2023, the Group continued to review incentive systems in individual companies. This was related to on-going work on updating and refreshing the regulations governing applicable work organization and remuneration systems at Śnieżka SA and Śnieżka ToC. These regulations are firmly embedded in the law and in the processes implemented by the companies.

The evaluation of job positions by the Evaluation Committee is one of the pillars of the remuneration system in the parent company. In 2023, the Evaluation Committee reviewed all positions held in both companies. In addition, in response to the changing organizational structure and updating the scope of tasks and responsibilities of individual positions, the new ones were subject to evaluation.

On this basis, an objectively justified scale and salary chart came into being. In 2023, two remuneration reviews were carried out covering all employees of FFIL Śnieżka SA and Śnieżka ToC. Additionally, as a result of the work of the Evaluation Committee and the comparison of remuneration in the companies to the market level, the level of the lowest remuneration was raised above the minimum wage. The change was made after pay rates had been verified and updated. The above activities are consistent with the strategy to ensure that remuneration is competitive with the market.

The Group's objective is also to maintain the comparability of salaries of women and men taken on at similar positions. Monitoring of this objective is performed in stages, beginning with FFIL Śnieżka SA and Śnieżka ToC.

[ESRS S1-16]

Table 50. Wage indicators (wage gap and total remuneration)

	FFIL ŚNIEŻKA SA	Śnieżka Group
Wage gap, defined as the difference between the average level of gross earnings per hour for men and women, expressed as a percentage of the average level of gross earnings per hour for men. The indicator is calculated on the entire employee population in the organization.	-11.32%	-11.29%
The annual total remuneration of the highest earner compared to the median total annual remuneration of all employees (except the highest earner)	17.95	18.81

According to the presented analysis results, the average hourly rate of women in the case of the non-adjusted pay gap is 11.32% higher for women than for men in FFIL Śnieżka SA, and in the case of the Śnieżka Group this difference is 11.29%.

3.41% – adjusted pay gap for Śnieżka SA and Śnieżka ToC in 2023

The indicator considers the level of job classification and the diversity of roles within the organization, which allows for a more precise and fair comparison of remuneration between employees of both genders. The adjusted wage gap enables to assess whether there are wage differences between men and women performing work of comparable value to the company and what the level of any differences is. This is particularly essential for the Group in the context of promoting equality and fair pay, which is one of its priorities.

The job evaluation methodology applied by the Group, neutral in terms of the gender of the employees, ensures that the analysis of the adjusted wage gap is based on objective and fair criteria. This helps ensure that any differences in wages are justified solely by differences in responsibilities, skills and job requirements, and not by employee gender.

The choice of the adjusted wage gap as the preferred indicator is therefore not only justified by the specificity of the Group, but also allows for effective efforts to achieve equality and justice in the workplace. Owing to this approach, the Group is able to effectively identify areas requiring intervention and take precise actions to ensure equal opportunities and fair treatment of all employees.

10.4.2. OCCUPATIONAL HEALTH AND SAFETY

Objective of *sustainable development strategy*

Strategic objectives:

- Building a safety culture and minimizing risks to employees

Operational objectives for 2023:

- Safety Management System in place minimizing the risk of accidents
- Training and awareness - defining a training program and providing training for employees and other individuals working within the company, including subcontractors
 - 100% of employees undergo general and on-the-job initial training
 - 90% of the managerial staff covered by first aid and AED training
 - 100% of subcontractors' employees in the factory undergo OHS training
- Elimination of potential hazards through occupational safety and fire safety inspections carried out in accordance with the list (once a quarter in each department and once every six months in warehouses)

Achievement of objectives:

- 100% of FFIL Śnieżka SA's employees were covered by the organization's occupational health and safety management system
 - 4.98 – accident frequency indicator at FFIL Śnieżka SA
 - 107.33 – accident severity indicator at FFIL Śnieżka SA
- Training:
 - 100% of newly hired employees underwent occupational health and safety training
 - 93% of those eligible received additional first aid training
 - OHS training for the Group's subcontractors, including all 338 employees of subcontracting companies rendering services at the sites
- 100% of post-inspection conclusions implemented

[ESRS S1-14]

Work within the Śnieżka Group is safe. The Group introduces modern employee protection measures, and the OHS issues are of utmost priority and precisely regulated in the *Quality, Environmental and Health and Safety Policy* and implemented management systems - Safety and Fire Protection and the Integrated Quality and Environmental Management System, including: human protection instructions. Each employee of the Group has specific responsibilities in the area of OHS and is obliged to participate in creating safe working conditions.

The Group's activities in the OHS area include:

- conducting activities in line with applicable legal regulations, including the environmental protection and health and safety at work,
- continuous improvement of the effectiveness of control systems,
- striving to constantly improve the state of health and safety at work,
- implementation of activities in the area of continuous improvement of health and safety at work,
- stimulating employees in the processes of providing safe and hygienic working conditions,
- raising qualifications through thematic or general training,
- ensuring adequate resources and financial means to implement the set goals,
- active participation of all Company's employees in the organization of work and improving the level of occupational safety and fire safety.

OHS committees and employee representatives

No trade unions have been established in the parent company. FFIL Śnieżka SA employees' interests and opinions regarding all aspects of employment, including occupational health and safety are represented by Employee Representatives, i.e. a team of people elected by employees for a four-year term of office.

In 2023, FFiL Śnieżka SA had three employee representatives who represented the team in the following areas: employee matters, social activities and regulations. Additionally, through them, employees have the opportunity to ask the Management Board with questions.

In 2023, employees or Employee Representatives participated in the work of the following committees:

- **Occupational Health and Safety Committee** – carries out reviews of working conditions, periodical assessments of the condition of occupational safety and health, presents opinions on measures introduced by the employer to prevent accidents at work and occupational diseases, submits requests to improve working conditions and cooperates with the employer on carrying out its duties in the field of occupational safety and health.
- **Company Examination Committee** – examines all non-managerial employees on their knowledge of OHS issues.
- **Fire and Technical Committee** – determines protective and preventive actions necessary to remove hazards to health and life in the field of fire protection and evacuation of employees. The committee is composed of the Company's engineering and technical services. The committee's assignments also include inspections of the area, facilities and systems in the context of fire protection.
- **The Environmental Protection Review Committee** - composed of the Environmental Management Coordinator and the Environmental Protection Expert - annually conducts:
 - review of Waste Collection Sites, hazardous waste and non-hazardous waste. In 2023, the committee produced 11 Non-Compliance Cards - all non-compliances were eliminated.
 - review of Collective Waste Collection Sites, hazardous waste and non-hazardous waste. In 2023, four Non-Compliance Cards were produced - all non-compliances were eliminated.
 - review of Environmental Devices and Systems in the following branches: Brzeźnica, Lubzina, Pustków and Zawada. In 2023, 13 Non-Compliance Cards were produced - all non-compliances were eliminated.
- **Company Anti-Harassment Committee** – the scope of its tasks has been discussed in the chapter on human rights.
- **Social Committee** - manages the funds of the Company's Social Benefits Fund and establishes the rules for spending them, taking into account the needs of employees. The Committee assesses the life and financial situation of individuals entitled to make use of the Fund's benefits and gives opinions on granting these benefits.

Accidents at work

[ESRS S1-14]

In 2023, three accidents occurred at FFiL Śnieżka SA, which were classified as individual accidents at work - minor. In total, they resulted in 322 days of incapacity for work, and the documentation related to two accidents was submitted to the Social Insurance Institution (ZUS) in order to determine the permanent or long-term percentage of health impairment.

The accident frequency indicator in the Company was 4.98 and remained at a similar level as in 2022 (4.93). The Company recorded an increase in the accident severity indicator - in 2023 it was 107.33 compared to 64.33 in 2022. **100%** of the Śnieżka Group employees were covered by the organization's OHS management system.

No reportable cases of work-related ill health among employees occurred. Security audits are carried out in accordance with the control plan.

In 2023, no serious or fatal accidents occurred in the Śnieżka Group. No occupational diseases among employees were recorded.

Each accident at work in the Company is investigated during a post-accident inquiry. All circumstances and possible causes of the event are determined. After each accident, the President of the Management Board of FFIL Śnieżka SA recommends permanent removal of its cause and elimination of the likelihood of its occurrence in the future.

In 2023, FFIL Śnieżka SA carried out three post-accident analyses of occupational risk assessment documentation, strictly referring to the causes of the accidents identified during the post-accident inquiry. Sheets of corrective and preventive actions taken have been included in the current documentation of the occupational risk assessment of the relevant organizational unit.

No accidents at work were recorded in Śnieżka ToC, Rafil, Śnieżka-Ukraina and Śnieżka-BelPol in 2023. Four accidents occurred at Poli-Farbe, resulting in a total of 43 days of incapacity for work.

Table 51. Accident indicators at FFIL Śnieżka SA and the Śnieżka Group

Accident indicators	FFIL ŚNIEŻKA SA			Śnieżka Group		
	2021	2022	2023	2021	2022	2023
Number of minor accidents	1	3	3	1	10	7
Number of serious accidents	0	0	0	0	0	0
Number of fatal accidents	0	0	0	0	0	0
Number sick leave days	23	193	322	23	623	365
Accident frequency indicators „Ww”	1.45	4.93	4.98	1.45	12.34	9.10
Accident severity indicators “Wc”	23.00	64.33	107.33	23.00	62.30	52.14
Lost Time Incident Indicator (LTI)	no data	2.83	2.79	no data	7.13	5.16
Lost Time Severity Incident Indicator (LTI)	no data	0.18	0.30	no data	0.44	0.27
Number of occupational diseases recorded	0	0	0	0	0	0

**no data*

Health care

The Śnieżka Group periodically carries out specialized tests or measurements at all workplaces where employees come into contact with factors harmful to health. These tests are conducted by the Occupational Hygiene Department of the Provincial Sanitary and Epidemiological Station in Rzeszów, and in 2023 they were performed at eight workplaces.

Supervision of the health of employed staff in the Group's Polish companies is carried out through preventive medical examinations - initial, periodic and follow-up. They are performed during working hours and at the employer's expense, and the employee's valid medical examinations is treated as a crucial element to work in their position. In foreign companies of the Śnieżka Group, periodic medical examinations are conducted in line with local regulations.

Each employee has access to appropriate, required and safe equipment, facilities and personal hygiene products. Appropriate collective protective measures are installed at the workplaces, and employees are provided with personal protective equipment on the basis of individual equipment or permanent availability of these means. Śnieżka subsidizes the purchase of corrective glasses for entities working in front of monitors, and for those whose vision correction is recommended by a doctor due to the nature or type of work performed, the Company itself purchases appropriate corrective glasses.

In 2023, the OHS team assessed the occupational risk at three new job positions and issued opinions on 13 Technological Manuals regarding the safety of producing processes of manufactured products. The aim of the

activities was to define general requirements and fire safety requirements in the Company and to improve work safety at production stations.

OHS training

The Group complies with all legal requirements related to OHS training. In 2023, all Group companies conducted regular initial training for newly hired employees. The OHS and fire protection principles are also regularly reminded and refreshed during periodic training in the field of on-the-job training appropriate for individual employee groups.

In the subsidiaries - Poli-Farbe, Śnieżka-Ukraina, Śnieżka-BelPol and Rafil - OHS training covered topics specific to a given company and was conducted in accordance with the defined needs of a given company.

GOOD PRACTICE

In 2023, the Group conducted occupational health and safety training for subcontractors, including all 338 employees of subcontracting companies rendering services at the sites. The training was conducted based on training programs developed by the Company and included the following:

- legal regulations in the field of OHS, 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, release of a chemical agent into the natural environment or a serious industrial accident.

10.4.3. SOCIAL INVOLVEMENT

10.4.3.1. APPROACH TO SOCIAL INVOLVEMENT

Objective of *sustainable development strategy*

Strategic objectives:

- Implementation of social projects based on Śnieżka Group's competences and brands
- Support for the local community at the place of conducting business activities

Operational objectives for 2023:

- Preparation of assumptions for the new version of the *Koloratorium* project
- Conducting an evaluation study among the *Koloratorium* winners
- Development of assumptions and plans for brands' social involvement
- Development of a strategy for implementing social activities by brands
- At least 1% of gross profit (before tax from continuing operations, from the previous year) in a given year constitutes the budget for social activities (2-year cycle)

Achievement of objectives:

- 34 winning schools of previous editions of the *Koloratorium* were invited to participate in the survey, 29 responses were received
- PLN 888.4 thousand – total value of financial and material donations from FFIL Śnieżka SA

Social involvement has been an important part of the activities undertaken by the Group's companies for years. Establishing it as one of the three areas of the "People" pillar of Śnieżka 2023+ Sustainable Development Strategy refers to the Group's long-term initiatives for the community implemented through proprietary projects both on a local and national scale. An entity conducting such programs is Śnieżka Foundation, founded by Śnieżka SA.

The directions and areas of initiatives in which companies are involved are set by the *Social Involvement Policy*. According to this document, the primary goal of all activities is real support and assistance in designated areas in accordance with the principle of equal opportunities and sustainable development.

Main pillars of the Śnieżka Group's social involvement:

- **Colour** - the Group's social projects and other forms of engagement revolve around its mission. As for the activities related to society, the message "We believe colours matter" means "change for the better", "inspiration" and "joy", present in the lives of the beneficiaries thanks to the projects implemented by the Group companies and the Śnieżka Foundation.
- **Local community** - the Group companies are engaged in crucial activities from the perspective of the inhabitants of their local communities. Also, the Group carries out activities throughout the country, addressed to public entities located in small towns or in areas where social exclusion is high.
- **Children and youth** – the primary beneficiaries of the Group's social actions are children and youth including their families and immediate milieu. Support is provided mainly in cooperation with or through public entities.

In the *Social Involvement Policy* established in 2022, the Śnieżka Group undertakes to commence new projects and continue social initiatives rooted in the history of FFIL Śnieżka SA along with their implementation in subsidiaries. The commitments also include: monitoring of on-going activities and regular verification of their validity, reliable communication about implemented projects and conducting dialogue to identify the needs of local communities. As far as social issues are concerned, apart from internal regulations regarding the consideration of applications, inquiries and requests, the Group considers the public regulations of social activities undertaken, specifying the principles of support and defining beneficiaries, as due diligence procedures. Many of them can be found on websites, including the Foundation's website, where *anti-harm children protection policy* is available.

Śnieżka Group companies implement social activities at two levels:

- nationwide – the axis of the implemented projects are original, periodic programs and social projects;
- local – the axis of the implemented projects are local, original, periodic projects and social programs implemented in the environment of individual companies of the Group. As for the locally supported activities, companies follow the principle of openness to the needs of local units and institutions. Companies are also allowed to participate in local initiatives implemented outside the area of their direct operations, as long as they clearly fit into the main pillars of the Group's social involvement.

Both national and local initiatives are complemented by participation in other activities (at both levels), consistent with the assumptions of social activity defined in the Policy.

The Company, in line with the objective of the *Sustainable Development Strategy*, plans to allocate 1% of gross profit to social activities (in a 2-year cycle). Both in 2022 and 2023, the value of donations exceeded the assumed objective (which for 2023 amounted to PLN 770.4 thousand).

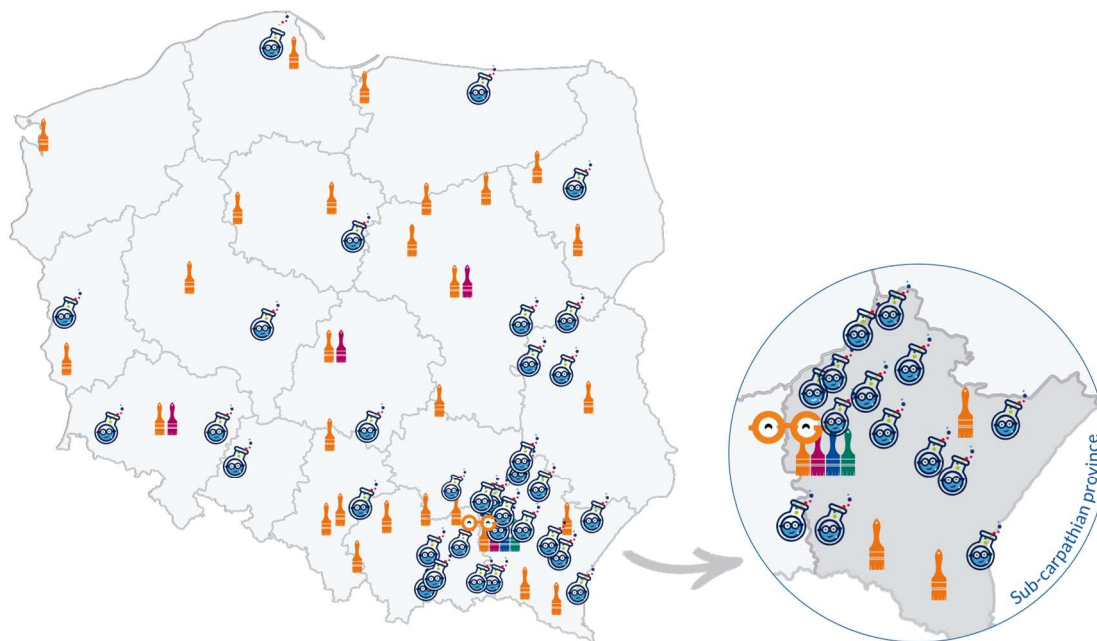
PLN 888.4 thousand – total value of financial and material donations from FFIL Śnieżka SA, including:

- PLN 633 thousand in favour of the Śnieżka Foundation,
- PLN 255.4 thousand in favour of local initiatives and health care.

The scope of the *Social Involvement Policy* applies to the entire Group and to all companies, which are also obliged to comply with it, implement it in their daily work and communicate the provisions to their employees. The unit supervising compliance with the Policy is the Corporate Communication and ESG Department of FFIL Śnieżka SA.

Śnieżka's flagship programs to support local communities, both nationally and locally, are: *Children's world in colours* and "Przeogarniacze" (on behalf of the Śnieżka Foundation) and *Koloratorium* (a project run by FFiL Śnieżka SA).

Social program carried out in Poland by the Śnieżka Group and Śnieżka Foundation



"World in Colours"
35 renovated hospital wards

"Koloratorium"
4 editions, 34 laboratories

"Przeogarniacze"
35 schools, 106 classes, 1,827 students

* To 2020 under the name: "A small world of big money".

In addition to the activities undertaken by the Group's companies, the *Social Involvement Policy* also allows product brands to create their own social involvement strategies, as long as they are consistent with the communication strategies of these brands. In the reporting period, the Group companies were not engaged in any activities that could have a negative impact on local communities.

10.4.3.2. ŚNIEŻKA FOUNDATION

The objectives in the discussed area are also implemented by the Śnieżka Foundation - a public benefit organization established by FFiL Śnieżka SA. The foundation has been operating since 2005 based on its own charter. Its basic ambition is to educate and support the development, especially of children and youth. The foundation objectives also include the promotion and protection of health and social assistance for people in difficult life situations.

PLN 204.8 thousand – the amount that the Foundation received as part of the collection from 1.5% tax in 2023

PLN 633 thousand – value of financial and material donations from FFiL Śnieżka SA to the Foundation in 2023

More information about the Śnieżka Foundation and its reports can be found at: <https://fundacjasniezka.org/>.

The most important projects implemented by the Foundation in 2023

"Przeogarniacze. Przedsiębiorczość inaczej" project

A project addressed to fourth grade primary school students. During five 90-minute workshops, issues related to economics, entrepreneurship and pro-social and pro-environmental activities are presented. Lesson plans are based on the so-called active forms of teaching, i.e. education through cooperation and play. The topics of the meetings are selected to show students the possibility of applying the issues discussed in everyday life and to teach them to make informed decisions. The Foundation provides a trainer conducting the classes and covers all costs related to the project implementation.

1,820 students from 106 fourth grades of 35 primary schools (some of them several times) in the Dębica district took part in all previous editions of *Przeogarniacze*. In the 2023 edition, 426 students from 18 primary schools participated in the classes.

World in Colours

A nationwide program for comprehensive renovation and painting of hospital wards, which translates into improved treatment conditions for patients and the comfort of work of medical staff. As part of the project, the Foundation focuses mainly on children's wards throughout Poland, giving priority to renovating children's psychiatric wards. In 2023, the rooms of Cardiology Department at the Health Care Complex in Dębica was renovated.

1,750 kg of putty 200 litres of primer and 430 litres of paint were used for smoothing, priming and painting the walls - a total of over PLN 145,000 was spent on the work.

The Foundation also renovated two wings of the Ward of the Psychiatric Clinic for Children and Adolescents at the Warsaw Institute of Psychiatry and Neurology. During several months of renovation, patient rooms and doctor's offices were refurbished and repainted. The ward space has also been enriched with colourful illustrations with Warsaw motifs. The works included smoothing, priming and painting the walls, as well as partial replacement of the ceiling coffers.

Over 1,000 litres of paint, 300 kg of putty and 150 litres of primer were used. The total amount earmarked by the Foundation for the restoration of the ward in question amounted nearly PLN 130,000.

In addition to the projects mentioned above, the Foundation - together with Śnieżka - also runs a program thanks to which local public entities and NGOs can obtain a 35% discount on the purchase of Śnieżka products for the renovation of their facilities. 23 institutions took advantage of this opportunity in 2023.

10.4.3.3. KOLORATORIUM

One of the flagship social involvement programs run by FFIL Śnieżka SA is Koloratorium - an original, nationwide social project for primary schools in towns with a population of up to 20,000 inhabitants. The aim of the initiative is to popularise chemistry among students of grades 4-8 - a field in which Śnieżka specializes as a paint manufacturer. Owing to this, it is possible to equalize educational opportunities and provide young people from smaller towns with the best possible conditions for learning biological and chemical issues. In four editions of the project, 34 school laboratories were equipped with specialized equipment and renovated. Activities under the program are conducted in the form of an educational competition, which, thanks to competition, engages schools and students in acquiring knowledge. The pilot edition of the *Koloratorium* was held in the 2017/2018 school year in the Sub-Carpathian province.

In 2023, all 34 school-winners of the previous editions were invited to participate in the survey and share their observations about the competition and the impact of winning on the future career of students in the fields of chemistry and biology. As many as 29 institutions responded - 26 of them gave the highest rating to the lesson plans prepared by the Group, and all respondents stated that participation in the project supported the

development of their students in the field of biological and chemical subjects. The most frequently mentioned benefits - apart from prizes - included:

- increasing the prestige and importance of the facility in the local environment,
- integration and good cooperation among students, teachers and the local community,
- development of competences and increased interest in the fields of biology and chemistry among students and parents.

As part of the implementation of the *Śnieżka 2023+ Sustainable Development Strategy*, the opinions provided will be considered when designing the new, 5th anniversary edition of the *Koloratorium*, which is scheduled for the 2024/2025 school year.

10.4.3.4. OTHER SOCIAL-RELATED ACTIVITIES

Prof. Zbigniew Religa Cardiac Surgery Foundation

The foundation established by prof. Zbigniew Religa in 1991 conducts both research activities in the field of Polish cardiac surgery and the use of modern technology, as well as training and didactic activities, thanks to which it is possible to continuously educate doctors from Poland and abroad. As part of social activities, two companies of the Group - FFIL Śnieżka SA and Śnieżka Trade of Colours - supported the foundation by donating a total of **PLN 240,000** for its statutory activities in 2023.

The Great Orchestra of Christmas Charity (WOŚP)

FFIL Śnieżka SA has been involved in the Great Orchestra of Christmas Charity campaign for over 20 years. During the 31st final, the Company made a cash donation of PLN 60,000, thus supporting the activities of two local centres. The funds raised by WOŚP in 2023 were allocated to the fight against sepsis - a life-threatening, abnormal response of the body to infection.

Social activities in Hungary

Poli-Farbe, the Hungarian company of the Group, has been helping local hospitals and medical institutions for years with donations in kind (paint) and cash. In 2023, the Ward of Child Psychiatry at the Bács-Kiskun District Clinical Hospital in Kecskemét was renovated. The works included renovation, painting and colorful decoration of the walls of all rooms in the ward. In addition to the paints and putties provided for renovation purposes, the value of the donation made to the ward for renovation works amounted to **HUF 5 million (PLN 59,000)**.

The total value of financial and in-kind support allocated to local and educational activities in 2023 amounted to **HUF 7 million (PLN 83,000)**.

Social activities in Ukraine

"Śnieżka" Practical and Educational Centre

In 2023, Śnieżka-Ukraina continued collaboration with vocational schools in Ukraine, where the Śnieżka Training and Practical Centres operate, created in cooperation with the Ministry of Education and Science of Ukraine. In Ukraine, there were 12 training centres operating in 2023, teaching professions in the construction and carpentry industries.

The value of painting materials provided by Śnieżka-Ukraina to training centres in 2023 (193 kg of putty and 385 litres of paint) amounted to **UAH 32,000 (PLN 3,600)**.

Additionally, the company supported the Regional Centre for Vocational Education of Innovative Construction and Industrial Technologies in Kharkov and the Sumy Interregional Higher Vocational School, which were damaged as a result of the Russian missile attack. Śnieżka provided these institutions with construction materials

for the renovation of interiors and facades - 1,800 kg of putties and 640 litres of paints for a total amount of **UAH 25,111 (PLN 2,988)**.

Financial support for the Medical and Social Rehabilitation Centre for Children in Transcarpathia

Śnieżka-Ukraine also co-financed the St. Michael Medical and Social Rehabilitation Centre for Children. The rehabilitation centre provides a wide range of therapeutic and medical services for children with special needs under the age of 18.

In-kind/financial support from Śnieżka-Ukraina for the Centre amounted to **UAH 320,000 (PLN 36,000)**. Over **200 children** benefit from rehabilitation at the centre every month.

10.5. BUSINESS

10.5.1. COMPLIANCE

[ESRS G1-1]

10.5.1.1. CODE OF ETHICS

The Śnieżka Group operates in strict compliance with ethical and social standards and effectively counteracts corruption and abuse. Compliance with regulations is ensured by comprehensive policies, procedures and other internal regulations, and in addition, a Corporate Governance department has been established in the structure of FFIL Śnieżka SA, responsible for the implementation of tasks related to overseeing the compliance of activities with the law. Corporate Governance is also responsible for the corporate governance cascade in the Group companies.

The Code of Ethics - applicable in the Group since 2022 - contains standards of conduct for all employees of the Group. Its purpose is to facilitate making the right choices by identifying patterns and ethical norms that are essential to the Group's operations. The content of the Code is available at: <https://sniezkagroup.com/serwis-esg/polityki-i-dokumenty-esg/> and in the Group's internal IT system.

This document integrates the most important regulations regarding the sustainable development of the Śnieżka Group. When setting general patterns of conduct, the Code of Ethics refers to individual policies and regulations implemented within the Group companies. The unit overseeing compliance with it is the Management Board of FFIL Śnieżka SA.

Areas regulated in the *Code of Ethics*:

- Employee relationships
 - health and safety of employees (*Personnel Policy, Quality, Environmental and Health and Safety Policy*)
 - a friendly workplace (*Personnel Policy*)
 - counteracting discrimination and mobbing (*Diversity Policy and the Regulations for Counteracting Mobbing, Discrimination and Harassment*)
 - forced labour, child labour and freedom of assembly (*Policy of Respect for Human Rights*)
- Environment relations
 - Relations with suppliers (*Procurement Policy, Supplier Code*)
 - Customer relationships
 - Relations with local community (*Social involvement policy*)

- Natural environment (*Quality, Environmental and Health and Safety Policy of the Śnieżka Group, Climate Policy*)
- Corporate governance and ethics
 - counteracting corruption (*Anti-Corruption Policy*)
 - conflict of interest (*Anti-Corruption Policy*)
 - responsible communication (*Information policy*)
 - protection of data and confidential information (*Information Policy, Digital Security Policy*)

GOOD PRACTICE

The Code of Ethics contains a practical guide for employees who have second thoughts how to behave in a given situation. The document prompts six simple questions that can assist an individual to make the right decision:

- Is it legal?
- Is it in line with our organizational values?
- Is this appropriate?
- Do I have good intentions?
- Would I be proud to tell my friends, co-workers or anyone else about it?
- Could my action jeopardize someone's life, health, safety or reputation?

Reporting violations

Objective of *sustainable development strategy*

Strategic objectives:

- Management of the anti-corruption and fraud area

Operational objectives for 2023:

- Implementation of a dedicated tool

Achievement of objectives:

- Implementation of the EY Virtual Compliance Officer tool

An integral part of the *Code* is information on how to report behaviour inconsistent with the values of the Śnieżka Group. Violations can be reported via the confidential reporting channel on the website www.sniezkagroup.com, by e-mail to zgloczenia.zarzad@sniezka.com or by letter addressed to the President of the Management Board. The Śnieżka Group undertakes to protect employees and business partners revealing violations of the law or the provisions of the *Code of Ethics* against the adverse effects of a decision to disclose irregularities and to apply applicable law to persons violating the personal rights of employees and their business partners.

The channels for reporting violations are the same for all companies and are included in the Code of Ethics. Additionally, in 2023 at FFil Śnieżka SA and Śnieżka ToC, and in 2024 at Poli-Farbe Kft., the *Internal Reporting Procedure* and the *Procedure for Considering Notifications* were implemented. These procedures create an additional system for reporting and considering irregularities and violations, including: internal codes, policies, procedures and instructions.

A reporting individual may submit a notification via the dedicated online tool EY Virtual Compliance Officer, intended for reporting, available at <https://sniezkagroup.vco.ey.com/>. A link to the tool is available on the corporate website of each company (FFil Śnieżka SA, Śnieżka ToC, Poli-Farbe Kft.).

The EY Virtual Compliance Officer online tool also enables to report anonymous notifications, with the possibility of communication between the team accepting notifications and the reporting person by means of anonymous logging in by the reporting person using a generated token.

Notifications are received and considered by one team common to all companies, which includes the Corporate Governance Officer and Compliance Officer employed at FFIL Śnieżka SA.

Team members underwent training/workshops on the internal reporting system as part of the project to implement EY Virtual Compliance Officer procedures and online tool, in cooperation with external consultants from EY.

Employees were informed about the launch of the channel in an internal newsletter. Each person employed at FFIL Śnieżka SA and Śnieżka ToC was also obliged to complete a dedicated online training in the reporting system by March 1, 2024, while by the end of December 2024 the same training will also be conducted at Poli-Farbe. The procedures governing the reporting system are also available to employees in the intranet document management system.

GOOD PRACTICE

Through the EY Virtual Compliance Officer, it is possible to submit information on a named or anonymous basis. Those who do not wish to reveal their identity can still communicate with the team accepting notifications and can log in anonymously using a special token. Not only can the system be used by employees, but also by contractors and persons acting on their behalf and job candidates. Thus, it meets the assumptions of Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons reporting breaches of Union law. The criterion for accepting and considering notifications is their connection with the employment relationship or other legal relationship constituting the basis for the provision of work, or the performance of services or functions in a given company, under which information about the violation was obtained.

Whistle-blower protection

The Śnieżka Group has not implemented and does not plan to implement a separate whistle-blower protection policy. These rules are regulated in the Internal Reporting Procedure, a document consistent with Directive (EU) 2019/1937 of the European Parliament and of the Council. The Internal Reporting Procedure prohibits retaliation against the reporting person, persons assisting in submitting the notification and persons associated with the reporting person. The whistle-blower is protected provided that they act in good faith, i.e. at the time of reporting, they have reasonable grounds to believe that the information about the violation is true.

One of the measures to protect the above-mentioned person is to protect their identity and to protect information that could directly or indirectly help identify them. In addition, the *Internal Reporting Procedure* contains a list of examples of actions that constitute unfavourable treatment that may be considered retaliatory action against the reporting person.

10.5.1.2. RESPECT FOR HUMAN RIGHTS

The Śnieżka Group respects human rights in relations with employees and suppliers and ensures that they are respected in mutual relations between employees. These issues are regulated by the *Human Rights Respect Policy*, which complements and consolidates those aspects included in other intra-group regulations. The policy defines the principles of activities and behaviour related to human rights in the Group, including in the supply chain and relations with stakeholders. The provisions of the document are based on the following:

- *Universal Declaration of Human Rights*,
- *International Charter of Human Rights*,
- the eight most important conventions of the International Labour Organization (ILO),

- UN Guiding Principles on Business and Human Rights,
- The UN Global Compact initiative.

Respect for human rights is also defined in detail in the Code of Ethics (described in the Report in item 10.5.1.1.). Its provisions are based on the Book of Organizational Values and other policies and regulations related to broadly understood ethics. The *Book of Organizational Values* describes the principles, behaviours and attitudes expected from employees in the Śnieżka Group, related to ethical behaviour, norms of social coexistence and respect and dignity.

Principles of the *Code of Ethics* related to human rights:

- Health and safety of employees - detailed guidelines are set out in the *HR Policy of the Śnieżka Group* and the *Quality, Environmental and Health and Safety Policy of the Śnieżka Group*.
- Friendly workplace - detailed guidelines are set out in the *HR Policy of the Śnieżka Group*.
- Equal opportunities for employment, remuneration, promotion, development and professional development - detailed guidelines are set out in the *HR Policy of the Śnieżka Group*.
- Counteracting discrimination and mobbing - detailed guidelines are set out in the *Diversity Policy of the Śnieżka Group* and the *Regulations for Counteracting Mobbing, Discrimination and Harassment*.
- Forced labor, child labor and freedom of assembly - detailed guidelines are set out in the *Human Rights Policy of the Śnieżka Group*.

The Śnieżka Group undertakes to exercise due diligence to avoid violating people's rights, actively prevent such violations and counteract the negative impact on human rights. In the event of their violation - directly or indirectly - by any of the companies, the Group will apply corrective actions in accordance with the *Policy*.

The Group companies strive to respect human rights on a universal basis, without evaluating them. Due to the transparency of obligations and their availability to the Group's stakeholders, the *Human Rights Respect Policy* distinguishes eight areas of special commitment to counteracting human rights violations. These are:

- occupational health and safety,
- ensuring freedom of assembly,
- elimination of exploitation,
- elimination of forced or compulsory labour, human trafficking and all forms of modern slavery,
- abolition of child labour,
- compliance with employment conditions,
- preventing discrimination,
- respect for the rights of local communities.

Both the parent company and other subsidiaries of the Śnieżka Group are obliged to comply with the *Human Rights Respect Policy*. Compliance with the provisions of the *Policy* is regularly monitored. The unit overseeing the implementation of the *Policy* is the People Department of FFIL Śnieżka SA.

Human Rights in the *Supplier Code*

The Śnieżka Group expects all its contractors to respect human rights, which is presented in the *Supplier Code*, which applies to all business partners. The Group requires in particular to:

- comply with international standards for the protection of human and employee rights, in particular the prohibition of forced labour, slavery, child labour under the age of 15 and the provision of special care to employees under the age of 18;
- counteract discrimination based on sex, race and ethnicity, age, religion, psychosexual orientation, worldview, disability and type of employment;
- counteract mobbing and harassment;
- respect the right of employees to associate and conduct collective bargaining, if permitted by local law;

- transparency of personnel activities;
- ensure friendly and decent employment conditions, i.e. compliance of working conditions, working hours and salaries and allowances with local regulations.

Compliance with the Supplier Code is a condition for establishing and conducting business relations with the Śnieżka Group.

10.5.1.3. COUNTERACTING CORRUPTION

Objective of *sustainable development strategy*

Strategic objectives: 1

- Management of the anti-corruption and fraud area

Operational objectives for 2023:

- Education in the field of existing anti-corruption regulations
 - After the introduction of the Polish act on whistle-blowers
 - 100% of trained management staff
 - 100% of trained employees

Achievement of objectives:

- Due to the failure to adopt the Whistle-blowers Act in 2023, the training has been postponed to 2024. The violation implementation tool and training plan were developed in 2023.

[ESRS G1-1]

The Group counteracts corruption and bribery in accordance with the implemented Anti-Corruption Policy. By the end of 2024, it is planned to adapt the provisions of the Policy to the United Nations Convention in this respect. The Śnieżka Group has not implemented a separate procedure for quick, independent and objective investigation of incidents related to business activities, including incidents related to corruption and bribery.

In addition, FFiL Śnieżka SA and Śnieżka ToC adopted *Procurement policy* and the *Supplier Code*. Adoption of the documents in other companies is scheduled for 2024. Additionally, Śnieżka SA applies the *Guidelines on the selection of a supplier for investment orders, orders resulting from the implementation of renovation and inspection works as well as orders resulting from the removal of the effects of a failure*. The purpose of adopting the above-mentioned documents is to prevent the risk of corruption and bribery.

Detecting and responding to corruption-related incidents is regulated in the *Internal Reporting Procedure* and the *Procedure for Considering Notifications*.

Dedicated training related to the company's business activities is organized for specific groups of employees. In 2023, they concerned Group products, personal data protection, ESG issues and the NND document management system. Within the Group the most susceptible persons to corruption and bribery are the ones holding positions in the purchasing department and other positions related to participation in the selection of suppliers of services, machines and equipment related to capital expenditure.

[ESRS G1-3]

The Śnieżka Group effectively prevents allegations or incidents related to corruption and bribery. These issues are regulated in:

- *Anti-corruption policy* in force in all Group companies,
- The *Supplier Code* adopted FFiL Śnieżka SA and Śnieżka ToC,
- The *Procurement policy* adopted FFiL Śnieżka SA and Śnieżka ToC,

- *The Guidelines on the selection of a supplier for investment orders, orders resulting from the implementation of renovation works and inspections as well as orders resulting from the removal of the effects of a failure* applicable at FFIL Śnieżka SA.

The *Anti-corruption policy* broadly defines the understanding of corruption and bribery in the Śnieżka Group, emphasizing that not only corrupt activities are prohibited, but also any activities contrary to the principle of fair competition, constituting crimes or offenses related to economic transactions. The policy prohibits promising, proposing, soliciting or giving material or personal benefits, accepting benefits from contractors or giving unauthorized preference to certain contractors. The policy also prohibits the Group companies from building relationships with public administration in a way other than meeting legal requirements.

The Śnieżka Group allows - in the case of establishing or maintaining appropriate business relationships - customary gifts that do not constitute significant value. In accordance with the provisions of the *Anti-Corruption Policy*, accepting or giving a gift should be accompanied by the certainty that such action will not result in negative consequences for any of the parties. It is not permissible to accept or give gifts before establishing a business relationship. Any circumstances related to accepting a gift or participating in any form of meeting at the expense of the giver should be reported to the direct superior of the employee to whom the situation applies. The Group prohibits accepting or giving gifts in the form of money.

In the *Anti-Corruption Policy*, the Group also defines certain prohibited behaviours that constitute a crime. These include:

- appropriation of property,
- intentionally providing false data in financial statements,
- intentionally entering false data into the Group's documents,
- falsification of Company documents,
- falsifying or changing accounting entries,
- intentional misapplication of accounting principles.

Pursuant to the provisions of the *Policy*, the Company should be represented by two people when working on key contracts. In order to ensure the transparency of the purchase process, the *Anti-Corruption Policy* recommends the principle of selecting the offer that is most favourable in terms of price and feasibility. Except for justified cases, this selection should be made from among at least three written offers and be preceded by negotiations. Communication conducted by the Group's employees should be preserved in a manner that allows it to be precisely traced, and business contacts with contractors, clients and co-workers should be documented through archived correspondence.

All information about behaviour inconsistent with the *Policy* can be submitted through the channels described in the *Internal Reporting Procedure* and the *Procedure for Considering Notifications* currently applicable in the following companies: FFIL Śnieżka SA, Śnieżka ToC and Poli-Farbe Kft. Notifications of events bearing the signs of corruption are received and considered by one team common to the Group companies, which includes the FFIL Śnieżka SA Compliance Officer and the Corporate Governance Officer, who is also responsible for supervising the *Policy*.

The Śnieżka Group has not adopted a separate procedure for submitting reports on the results of investigations to the administrative, management and supervisory bodies. In the *Anti-Corruption Policy*, the Group undertakes to notify law enforcement authorities of any violations of the law, and the issues of reporting the results of internally conducted proceedings are regulated in the *Procedure for Considering Notifications*.

All anti-corruption procedures are communicated to employees by sharing documents in the internal document management system, notifying them of their availability and introducing the obligation to read the content. Information about the implementation of selected policies is also published in internal newsletters. The Group's anti-corruption stance is known to suppliers and described in the *Supplier Code* - FFIL Śnieżka SA obtained

declarations from its key suppliers about getting familiarized with the *Supplier Code* and observing the principles contained therein.

The issue of corruption is also regulated in the *Procurement Policy*. Pursuant to its provisions, suppliers of FFIL Śnieżka SA and Śnieżka ToC are prohibited from accepting or offering, directly or through third parties, any in-kind benefits in order to induce them to act for their own benefit or the benefit of the represented entity.

In 2023, the Group did not conduct anti-corruption training.

10.5.1.4. COUNTERACTING UNFAIR MARKET PRACTICES AND UNFAIR COMPETITION

The Śnieżka Group strictly follows the principles of counteracting unfair market practices and unfair competition. All conducted or planned market or marketing activities are consulted with pundits from renowned, specialized law firms. Employees of Śnieżka ToC, which is a group competence centre in commercial areas, undergo regular training on competition law.

Violations of unfair competition may be reported in the Group through the systems for reporting violations listed in the *Code of Ethics of the Śnieżka Group* and in FFIL Śnieżka SA, Śnieżka ToC and Poli-Farbe Kft. additionally in accordance with the *Internal Reporting Procedure* and the *Procedure for Considering Notifications*. In 2023, no cases of unfair market practices or unfair competition occurred.

10.5.2 CYBERSECURITY

Objective of sustainable development strategy

Strategic objectives:

- Comprehensive cybercrime protection and data security management

Operational objectives for 2023:

- Education in the field of cyber security, including data protection
 - 100% of trained employees
 - Refresher training for each employee every two years
 - Quarterly publication of a bulletin on IT Security

Achievement of objectives:

- 82% of employees trained in cybersecurity, including data protection
- 86% of employees completed refresher training scheduled every two years
- 4 Cybersecurity News Newsletter releases

The Śnieżka Group is aware that the growing digitization of work methods, tools and systems must be associated with a comprehensive approach to managing the digital security of organizations, in particular those systems that are responsible for collecting personal data. All activities related to IT security in the Group are carried out based on the *Digital Security Policy*.

The purpose of the *Policy* is to ensure the security of processed data and the continuity of service provision by:

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

The *Policy* sets out roles and responsibilities related to ensuring an appropriate level of digital security and personal data protection. The Director of Digital Transformation and IT at FFIL Śnieżka SA is accountable for digital

security management and direct supervision of the implementation and functioning of the *Policy*. The Director of Digital Transformation and IT (after appointing the position of Product Manager IT Security) is responsible for the implementation and application of the *Policy* in the area of IT technology. As far as the responsibilities of the Technical and Investment Director are concerned, they include the implementation and application of the *Policy* in the area of OT technology, and the Data Protection Inspector is responsible for the implementation and supervision of the application of the requirements of the *Policy* in the field of personal data protection.

The *Policy* defines detailed and numerous implementation activities along with objectives. These include:

- developing and implementing the Digital Security Strategy,
- designing and implementing an effective digital security risk management model,
- designing and implementing an effective model for managing mobile devices and remote work,
- designing and implementing an appropriate access control management model,
- designing and implementing an appropriate security management model in relations with suppliers.

The digital security policy applies to the entire Śnieżka Group. The Digital Transformation and IT Department is responsible for overseeing its implementation.

The Group's activities related to cybersecurity are connected with building a culture of digital security. Employees participate in periodic training related to developing appropriate habits in this area. The Group's experts have also prepared four issues of "Cybersecurity News" - newsletters with current information and interesting examples in the area of cybersecurity.

Security management maturity reviews in the Śnieżka Group are also regularly conducted, which include analysis, monitoring and development of policies, procedures and other documents regulating the area of digital security. The Group liaises with a Security Operation Centre service provider. In 2023, the SIEM system monitored the IT systems of the Śnieżka Group. 89 security incidents and 212 vulnerabilities (weak points of a given system) were reported and resolved.

GOOD PRACTICE

In 2023, together with a key provider of IT information security services, the Śnieżka Group developed a "road map" for the development and increasing the maturity level of IT security solutions. In accordance with the adopted plans, an audit of the security level in the Group companies was carried out in 2023, which allowed for the identification and removal of vulnerabilities in the IT solutions used. IT security management procedures and vulnerability management procedures were also developed and planned in collaboration with suppliers. The Group also developed a plan and initiated activities related to business continuity management and analysis and prioritization of IT risks.

Personal data protection

FFiL Śnieżka SA has a *Digital Security Policy* in place, the purpose of which is to protect the Company's information and data. The *Personal Data Protection Policy* as well as procedures and regulations regarding the protection of personal data have also been adopted.

All new employees are required to complete training in the field of personal data protection. Additionally, FFiL Śnieżka SA and Śnieżka ToC conduct dedicated training for selected groups of employees involved in personal data processing.

In 2023, FFiL Śnieżka SA established cooperation with an external advisor who serves as the data protection officer in all Polish companies of the Śnieżka Group and advises on the management of the personal data protection area.

10.6. PRINCIPLES USED TO PREPARE THE NON-FINANCIAL REPORT

10.6.1. COMPLIANCE WITH THE ACCOUNTING ACT

The Śnieżka Group's statement on non-financial information - constituting a separate part of the Management Board's report on operations - (hereinafter the "Statement") is the fulfilment of the obligation imposed by the Accounting Act (hereinafter "Act"), which transposes Directive 2014/95 /EU of the European Parliament of October 22, 2014 on disclosure of non-financial and diversity information by certain large entities and groups.

The statement was prepared for both FFIL Śnieżka SA, as the parent company (pursuant to Art. 49b (1) of the Act) and the entire Śnieżka Group (pursuant to Art. 55 (2b) of the Act). The scope of consolidation of the statement coincides with the financial statement.

The statement fulfils the obligations imposed by art. 49b paragraph. 2-8 of the Act, including the description of the business model and reporting on social, employee and environmental issues, respect for human rights and counteracting corruption. For the purpose of developing this Statement, an analysis of the Group's due diligence policies and procedures as well as the activities carried out in the Group's companies were performed. The scope of information and indicators presented in the Statement was determined based on an internal simplified materiality analysis process, based on the European Sustainable Development Reporting Standards.

Additionally, for the purposes of the Statement for 2023, it was analysed whether the business activity conducted by the Group qualifies for the taxonomy specified in the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on establishing a framework to facilitate sustainable investments (the so-called Taxonomy) - to the extent required by the above-mentioned Regulation in annual reports for 2023.

Table 52. Index of content required to be disclosed in accordance with the Accounting Act

Item	Issue	Location in the Report
1.	Business model	4.3. Business model
2.	Key non-financial performance indicators related to entity's operations	10.3.3. Impact of operations on the environment and climate 10.3.4. Product liability 10.3.5. Responsible purchasing 10.4.1.1. Organizational culture 10.4.1.2. Creating a diverse and inclusive work environment 10.4.1.3. Staff development 10.4.1.4. Employment conditions 10.4.1.5. Remuneration 10.4.2. Occupational health and safety 10.4.3. Social involvement 10.5.1. Compliance 10.5.2. Cybersecurity
3.	A description of the policies applied by the entity in relation to the following issues: social, employee, natural environment, respect for human rights and counteracting corruption, as well as a description of the results of applying the policies in question	10.3.1. Approach to environmental issues 10.3.5. Responsible purchasing 10.4.1.1. Organizational culture 10.4.3. Social involvement 10.5.1. Compliance
4.	Description of due diligence procedures - if the entity applies them as part of the policies referred to in sec. 3.	10.3.1. Approach to environmental issues 10.3.5. Responsible purchasing 10.4.1.1. Organizational culture 10.4.3. Social involvement 10.5.1. Compliance

10.5.2. Cybersecurity

- | | |
|--|---|
| <p>5. A description of significant risks related to the entity's operations that may have an adverse impact on the issues referred to in sec. 3, including risks related to the entity's products or its relations with the external environment, including contractors, as well as a description of the management of the risks in question</p> | <p>8. Risks in the Group's operations</p> |
|--|---|

10.6.2. SIMPLIFIED MATERIALITY ANALYSIS

The report of the Management Board of the Śnieżka Group for 2023 contains the first non-financial statement of this entity prepared in relation to the European Sustainability Reporting Standards (ESRS), and in terms of certified thematic indicators in accordance with these standards. The decision on this approach to non-financial reporting stems from the adoption of Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022. (Corporate Sustainability Reporting Directive) and the obligation to report and attest to the Śnieżka Group's non-financial data for the first time in 2024.

In order to properly prepare for it, Śnieżka carried out a simplified materiality analysis process with the support of the TAILORS Group consulting company. Representatives of senior management took part in the analysis. The process was divided into two parts.

During the first one, a value chain was developed divided into upstream, own operations, downstream and supporting activities, along with the identification of relationships that result from the business activities of the Śnieżka Group in these areas, understood as the capital group of the following companies: Fabryka Farb i Lakierów Śnieżka SA (parent company), Śnieżka Trade of Colours Sp. z o.o., Śnieżka-Ukraina Sp. z o.o., Śnieżka-BelPol Sp. z o.o., Radomska Fabryka Farb and Lakierów RAFIL SA, Poli-Farbe Vegyipari Kft. The upstream was further divided in terms of natural and material resources acquired by the Group and ready-made materials for the production process. The chain is described in the Report in item 4.3.

The second part identifies the Group's impacts, risks and opportunities, considering all sustainability issues that ought to be included in the materiality assessment in accordance with ESRS. All impacts, risks and opportunities are located in the supply chain in one of four areas. Impacts were defined as actual or potential and positive or negative.

For the purposes of this process, a system was adopted that allowed for assigning point valuation:

- scale, i.e. how serious the impact is, how serious the financial consequences of the risks may be and how much impact the opportunity may have on the bottom line,
- the scope of impact effects,
- irreversible nature of negative impacts,
- the likelihood of potential impacts, risks and opportunities.

The significance of impacts was assessed on the basis of the knowledge and experience of the working group preparing the simplified materiality analysis of the Śnieżka Group. All identified impacts, risks and opportunities were indicated in the Report in item 10.2. (along with their ranking from the most to the least significant), and the non-financial risks described in item 8.3.

The course and result of the process were presented to the Management Board of Śnieżka. A new, full-scale materiality analysis process is planned in connection with work on the Management Board's Report on the Group's activities for 2024.

The statement on non-financial information does not include some information related to products, such as part of raw materials that have no substitutes since this is confidential data connected with the intellectual property of the Śnieżka Group.

The sustainable development measures and goals included in the statement on non-financial information result from and refer to: *Śnieżka 2023+ Sustainable Development Strategy* (adopted for FFIL Śnieżka SA and Śnieżka ToC), selected ESRS thematic indicators (for FFIL Śnieżka SA and the entire Śnieżka Group) and own indicators. Due to the partial application of ESRS standards by the Śnieżka Group for the first time, the information presented in the statement for 2023 may differ methodologically from the one presented in the Report for 2022 - it is not always feasible to indicate the change (or lack thereof) from year to year, as well as a downward or upward trend.

The entity did not identify any errors in the previous Management Report (for 2022).

10.6.3. INDEX OF ESRS CONTENT AND OWN INDICATORS

Table 53. A list of points in the Report which, in terms of their content, refer to the ESRS indicators

Disclosure	Location in the Report
Cross-sectional	
BP-1 – General basis for preparing sustainability statements	10.6. Principles on the basis of which the Statement on non-financial information was drawn up
BP-2 – Disclosures based on special circumstances	10.6. Principles on the basis of which the Statement on non-financial information was drawn up
GOV-1 – Role of administrative, management and supervisory bodies	10.1.5. Supervisory Board and audit committee 10.1.6. Management Board
GOV-2 – Information provided to the entity's administrative, management and supervisory bodies and issues related to sustainable development undertaken by them	8.3 Identified non-financial risks 10.2. Approach to sustainable development 10.6.2. Simplified materiality analysis
GOV-3 – Including sustainability performance in incentive systems	10.1.8. Remuneration policy
GOV-4 – Due Diligence Statement	10.2.1. Main assumptions [in: 10.2. Approach to sustainable development]
GOV-5 – Risk management and internal controls over sustainability reporting	8. Risks in the Group's operations 10.2.2. Identified impacts and opportunities 10.6.2. Simplified materiality analysis
SBM-1 – Strategy, business model and value chain	5.3. Industry condition 7.1. Sales volumes 10.3.4. Product liability 4.3. Business model and value chain 10.2.3. Śnieżka 2023 + sustainable development strategy 10.4.1.1. Organizational culture
SBM-2 – Interests and opinions of interested parties	10.2.4. Communication with stakeholders
SBM-3 – Significant impacts, risks and opportunities and their interrelationships with the strategy and business model	8.3 Identified non-financial risks Approach to sustainable development of the Śnieżka Group

IRO-1 – Description of processes for identifying and assessing significant impacts, risks and opportunities	10.6.2. Simplified materiality analysis
IRO-2 – ESRS disclosure requirements covered by an entity's sustainability statement	10.6.2. Simplified materiality analysis 10.6.3. Index of ESRS content
MDR-P Policies – Policies adopted in order to manage significant sustainability issues	10.2.1. Main assumptions [in: 10.2. Approach to sustainable development] 10.2.2. Identified impacts and opportunities 10.3.1. Approach to environmental issues 10.3.5. Responsible purchasing 10.4.1.1. Organizational culture 10.4.3.1. Approach to social involvement 10.5.1.1. Code of ethics 10.5.1.2. Respect for human rights 10.5.1.3. Anti-corruption 10.5.2. Cybersecurity
MDR-A Activities – Activities and resources related to relevant sustainability issues	10.4.1. Staff involvement and development 10.4.2. Occupational health and safety 10.4.3. Social involvement 10.5.1. Compliance 10.5.2. Cybersecurity
MDR-M Indicators – Indicators related to relevant sustainability issues	10.3.3. Impact of operations on the environment and climate 10.3.4. Product liability 10.3.5. Responsible purchasing 10.4.1. Staff involvement and development 10.4.2. Occupational health and safety 10.4.3. Social involvement 10.5.1. Compliance 10.5.2. Cybersecurity
MDR-T indicators – Monitoring the effectiveness of policies and actions using targets	10.2.2. Identified impacts and opportunities 10.3.3. Impact of operations on the environment and climate 10.3.4. Product liability 10.3.5. Responsible purchasing 10.4.1. Staff involvement and development 10.4.2. Occupational health and safety 10.4.3. Social involvement 10.5.1. Compliance 10.5.2. Cybersecurity
Thematic	
[no ESRS codification] Disclosure of information in accordance with Art. 8 of Regulation (EU) 2020/852 (Taxonomy Regulation)	10.3.2. Taxonomic disclosure
E1-6 Gross greenhouse gas emissions of scopes 1, 2, 3 and total greenhouse gas emissions (scope 1 and 2)	10.3.3.1. Emissions and carbon footprint management

were covered by the certification. Scope 3 was excluded from the certification work)*	
E5-5 – Resource impact (as far as waste is concerned)*	10.3.3.4. Waste
S1-6 Characteristics of the entity's employees*	10.4.1.1. Organizational culture
S1-9 Diversity indicators*	10.4.1.1. Organizational culture
S1-14 Occupational health and safety indicators*	10.4.2. Occupational health and safety
S1-16 Wage indicators (wage gap and total remuneration)*	10.4.1.5. Remuneration
G1-1 – Corporate Culture and Business Policies*	10.4.1.3. Staff development 10.5.1.1. Code of ethics 10.5.1.3. Anti-corruption
G1-3 Prevention and detection of corruption and bribery*	10.5.1.3. Anti-corruption

Table 54. List of other items in the Report that have been certified

Disclosure	Location in the Report
Own indicators	
[W1] Greenhouse gas emissions in scope 1 and 2 calculated for FFil Śnieżka SA and Śnieżka ToC in accordance with the requirements of the Greenhouse Gas Protocol*	10.3.3.1. Emissions and carbon footprint management
[W2] Share of certified products manufactured by FFil Śnieżka SA in sales revenues of Śnieżka ToC - calculated on the basis of reporting criteria developed by FFil Śnieżka SA*	10.3.4.2. Safe composition

* certified indicator

10.6.4. 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) (TiO₂) - the most widespread, and at the same time one of the most expensive, white inorganic pigment. The core raw material used for the production of paints featuring high coverage efficiency. First of all, it is characterized by refractive index, and thus the greatest ability to scatter it. Titanium white is obtained by the sulfate (older) or chloride (latest) method - the latter allows to obtain titanium white of better quality, used in the production of high-quality paints. Companies comprising the Śnieżka Group mainly use titanium white for production.

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

DIY - "Do It Yourself" - the definition of an idea related to independent, non-commercial performance, usually for one's own needs, of various works without the help of professionals, often as part of a hobby. The abbreviation "DIY" is also used to describe home-improvement stores, where one can find many products from various fields, with particular emphasis on technical areas (construction, interior finishing, electronics, garden decoration). These are self-service stores with a large area. The DIY market - apart from the independent market - is the second most important distribution channel for products of the Group.

ESG - environmental, social and corporate governance. Indicates the main areas of sustainable development of enterprises.

Acrylic paint - a waterborne product based on acrylic dispersion. Facade paints based on such dispersion feature high resistance to weather conditions and UV radiation. After drying and full curing, acrylic paint with a high binder content features high resistance to scrubbing or multiple washing.

Ceramic paint - a type paint with the addition of ceramic components. Three layers resistant to dirt and scrubbing. It is recommended for all interior areas within the building, including those exposed to heavy duty use.

Chlorinated rubber paint - modified with the addition of chlorinated rubber paint, features faster drying time and higher resistance to water and atmospheric pollution than conventional alkyd paints. Used for decorative and protective painting of steel and cast-iron elements used outdoors, especially exposed to external factors.

Alkyd paint - a solvent-based paint, whose binder is alkyd resin and a diluent mineral spirits or xylene. Used for decorative and protective painting of interior and exterior wood, wood-based materials, plasters and steel and cast-iron elements. It is not suitable for painting underwater elements (it softens when in contact with water).

Undercoat - provides adhesion to the substrate for decorative and topcoat paints and levels slight surface irregularities. Its coat is thick enough to break the dark colour of the substrate, which is important when applying light surface coats.

Latex paint - high-quality water-borne paint featuring efficient covering properties and high content of binder (resins). Forms a layer featuring high resistance parameters.

Matt paint - paint with a matt coating on which the light is significantly diffused; this effect allows to hide small defects of the substrate.

Oil based paint - used for decorative and protective painting of wood and metal. Generally, it is characterized by high resistance to disinfectants, atmospheric and mechanical factors, and also features a non-flammable coating. Due to its properties, it is recommended for application in living quarters, in health care facilities, schools and areas intended for storing food products (without direct contact with food).

Satin paint - a paint containing high-quality resins and pigments. It reflects the light to a large extent, which makes the room bright. It features high resistance to washing and scrubbing.

Formaldehyde - volatile organic compound, occurring e.g. in construction materials, furniture, everyday products; toxic in high concentrations. The innovative formula applied in *Magnat Ceramic Care* contains a formula that reduces the level of formaldehyde in the air, picking and converting it into water vapour molecules during a chemical process.

Formulation - is a document informing about the qualitative and quantitative composition of the product, as well as the method of its production (the sequence of individual steps taken during the production process).

Putty - a construction material whose main binder is gypsum (natural or synthetic). It is used for final finishing of wall and ceiling surfaces by hand or machine.

Primer - an acrylic resin formulation that perfectly penetrates the substrate. It binds all loose particles and strengthens its surface. It reduces and levels the substrate absorption, retains water which contributes to proper drying of subsequently applied products including: adhesives, putties and paints.

Enamel primer - a product that combines primer, undercoat and topcoat. Applied for anticorrosive painting of steel, cast iron, metal, wood and wood-based materials as well as for restoration of old coatings.

Technical data sheet - contains necessary information on the use of the product, its benefits and basic technical parameters, as well as issues related to storage and transport.

Safety data sheet – informs about the classification of the product, including the hazards it poses, and indicates what safety measures should be taken when using a specific product.

Stain and varnish - a product intended for painting interior and exterior wood and wood-based materials combining the features of varnish and stain. It provides a thin flexible protective and decorative coating and stains wood, partially penetrating its structure. Available also in colourless version.

Varnish - a solution or suspension of film-forming agents (e.g. oils, natural or synthetic resins) used to cover the surface of objects for decorative and protective purposes.

Acrylic varnish - a fast-drying varnish featuring higher resistance to abrasion and mechanical damage. Used for protective and decorative varnishing of interior furniture, panelling, wooden and wood-based objects as well as toys for children.

Pigments - substances used for dyeing paints and varnishes. Due to their origin, they are divided into organic and inorganic ones. Generally, the more pigments in the paint the higher covering efficiency. One of the most popular pigments used in the production of paints is titanium white.

Chlorinated rubber undercoat - a protective agent intended for anti-corrosive priming of exterior steel and cast-iron elements. It features higher resistance to mechanical damage and scratches.

Washings - a commonly accepted form defining the type of waste generated from group 08 (waste from production, preparation, trade and use of protective coatings), i.e. water suspensions of non-hazardous paints and varnishes; liquid resulting from rinsing the dish, containing residues of the washed substance.

Sealing and fixing products - silicones, adhesives and foams.

Solvent - an ingredient found in paints and varnishes. Water or a solvent can be a diluent (e.g., mineral spirits, xylene). It is responsible for application properties, such as the thickness of the applied coating using a painting tool, easy application and drying time. Water is used in emulsion paints.

CLP Regulation - Regulation of the European Parliament and of the Council (EC) No. 1272/2008 of December 16, 2008 on the classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548/EEC and 1999/45/EC and amending Regulation (EC) No 1907/2006.

CRP Regulation - Regulation (EU) No 305/2011 of the European Parliament and of the Council of 9 March 2011 laying down harmonized conditions for the marketing of construction products and repealing Council Directive 89/106/EEC.

REACH Regulation - *Regulation (EC) No 1907/2006 of the European Parliament and of the Council of December 18, 2006 on the Registration, Evaluation, Authorization of Chemicals (REACH) and establishment of the European Chemicals Agency.* The purpose of this Regulation is to ensure a high level of health and environmental protection, including promotion of alternative methods for assessment of hazards of substances, as well as free circulation of substances in the internal market while supporting competitiveness and innovation.

Independent market, a market on which companies operate independently of each other, mainly commercial and service ones, based on handling contractors, investors and final consumers in the local scope of activity. Retail stores are handled indirectly by distributors and are mostly non-affiliated - operate independently.

SKU - (*Stock Keeping Unit*) codes used to identify and track storage units.

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.

The BREEAM system - Building Research Establishment Environmental Assessment Method is a method of certification of buildings that considers factors of their impact on the environment and functionality for users.

Decorative systems - decorative products (paints, adhesives) that provide the decorated surface with a variety of visual and structural effects sold under the Magnat brand.

Thermal insulation system - a set of construction materials for thermal insulation of a building together with a plaster coating and products for facade renovation. The Group's offer in this scope (within the Foveo Tech brand) includes: adhesive mortar, plaster (render), paint, primers, undercoat, reinforced mesh, mosaic plaster.

Carbon footprint – the total sum of greenhouse gas emissions caused directly or indirectly by the organization. The carbon footprint includes emissions of carbon dioxide, methane, nitrous oxide and other greenhouse gases expressed in CO₂ equivalent.

Fillers - substances insoluble in the binder or water used to modify or affect some of the physical properties of paints. Fillers regulate the viscosity, thickness and structure of the coating, as well as the gloss/matt degree of the paint.

Direct purchases – purchase of products such as raw materials, packaging, labels, stickers, auxiliary packaging.

Indirect purchases – purchase of services and products such as technical and advertising materials and commercial goods.

Washability - the property of the coating, featuring easy stains and dirt removal according to PN-EN ISO 11998:2007.

10.6.5. CONTACT REGARDING THE REPORT

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