

**MANAGEMENT REPORT
OF THE ŚNIEŻKA CAPITAL GROUP**

for H1 2013



1. ORGANISATION OF THE ŚNIEŻKA CAPITAL GROUP	3
2. DESCRIPTION OF THE ŚNIEŻKA CAPITAL GROUP'S BUSINESS ACTIVITY IN H1 2013.....	4
3. STRATEGIC OBJECTIVES OF THE ŚNIEŻKA CAPITAL GROUP	5
4. ECONOMIC SITUATION IN H1 2013	5
5. SALES AND ORDERS ON HAND	7
6. RESEARCH AND DEVELOPMENT	9
7. SUPPLY POLICY	9
8. EMPLOYMENT	9
9. INVESTMENTS IN PP&E AND INTANGIBLE ASSETS.....	10
10. FINANCIAL RESULTS	11
11. ASSESSMENT OF THE PERFORMANCE OF FINANCIAL FORECASTS.....	11
12. RISK MANAGEMENT	12
13. OTHER DISCLOSURES.....	14
14. DESCRIPTION OF THE CAPITAL GROUP'S ORGANISATION AND CAPITAL RELATIONS	16
15. OWNERSHIP STRUCTURE (INFORMATION ABOUT SHAREHOLDERS AND THE PRESENT VOLUME OF INTERESTS).....	19
16. AWARDS AND DISTINCTIONS	20
17. SUMMARY	21

1. Organisation of the Śnieżka Capital Group

Name of the Parent Company:

Fabryka Farb i Lakierów Śnieżka SA

Office of the Company's Management Board:

39-102 Lubzina 34 a
Ropczycko – Sędziszowski Powiat
Podkarpackie Voivodeship

Company's incorporation:

The Company was entered in the register of entrepreneurs of the National Court Register on 12.11.2001 in the District Court in Rzeszów, 12th Economic Department of the National Court Register, under the KRS number 0000060537.

Business activity

Manufacture of paints, varnishes, adhesives and solvents.

Share capital:

As at 30 June 2013: PLN 13,550,676 – 13,550,676 shares with a nominal value of PLN 1. On 3 June 2013, the Ordinary General Shareholders' Meeting decreased the Company's share capital from PLN 13,550,676 (thirteen million, five hundred and fifty thousand, six hundred and seventy-six zloty) to PLN 12,617,778 (twelve million, six hundred and seventeen thousand, seven hundred and seventy-eight zloty). The decrease of the share capital was done through the redemption of 932,898 series F equity shares with a value of PLN 932,898 (nine hundred and thirty-two thousand, eight hundred and ninety-eight zloty). The decrease of the share capital results from the Company's acquisition of series F equity shares for redemption, pursuant to Resolution No. 4/2012 of the Extraordinary General Shareholders' Meeting of FFiL Śnieżka SA, with its registered office in Lubzina, passed on 2 April 2012, regarding the consent for the Company's Management Board to acquire equity shares for redemption. This change was registered in the District Court in Rzeszów on 18 July 2013 (Decision no. RZ.XII NS-REJ.KRS/011170/13/436).

Composition of the Management Board and the Supervisory Board and changes over the year

Supervisory Board

Composition of the Supervisory Board appointed on 17 June 2011 for the sixth term of office:

- Stanisław Mikrut – Chairman of the Supervisory Board,
- Jerzy Pater – Vice-Chairman of the Supervisory Board,
- Stanisław Cymbor – Secretary of the Supervisory Board,
- Anna Pater – Member of the Supervisory Board,
- Zbigniew Łapiński – Member of the Supervisory Board,
- Dariusz Orłowski – Member of the Supervisory Board.

In 2013, the composition of the Company's Supervisory Board did not change.

Management Board:

Piotr Mikrut – President of the Management Board from 31 March 2004 to the present, Witold Waśko – Member of the Management Board from 24 March 1998 to the present, Joanna Wróbel-Lipa – Member of the Management Board from 18 December 2007 to the present. In 2013, the composition of the Company's Management Board did not change.

Present organisational diagram and organisational changes over the year

Organisational diagram of FFiL Śnieżka SA adopted by way of Resolution No. XV/145/2012 of 27 December 2012 of the Management Board, and approved by Resolution No. I/6/2013 of 4 January 2013 of the Supervisory Board.

The principles for presenting the financial statements have been included in the introduction to the Capital Group's half-yearly condensed consolidated financial statements. The half-yearly condensed consolidated management report of the issuer has been prepared in accordance with the requirements of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information to be submitted by issuers of securities and conditions for considering as equivalent information required under the laws of a non-member state (Journal of Laws of 28 February 2009).

2. Description of the Śnieżka Capital Group's business activity in H1 2013

In H1 of this year, the sales value of the Śnieżka Capital Group amounted to PLN 300.7 million, which means dynamics of 104.0% in comparison to the analogous period of 2012. The Capital Group achieved its biggest growth in the sale of products (104%), while revenue from the sale of goods increased by 2% and revenue from the sale of materials decreased by 3%.

Sales structure in Śnieżka Group as per revenue categories in PLN '000

Item	H1 2013	H1 2012	Dynamics
Decorative products	222 929	211 227	106%
Construction chemistry products	41 599	41 395	100%
Industrial products	5 635	6 370	88%
Goods	25 721	25 320	102%
Other revenue	1 891	1 833	103%
Materials	2 953	3 057	97%
Total sales	300 728	289 202	104.0%

Main activities and achievements of the Group in H1 2013 and by the date of compiling this report:

- continued improvement of sales and logistics processes,
- continued implementation of the multibranding strategy, involving the development of strong brands that specialise in their respective areas,
- commissioning of a modern Research and Development Centre in Brzeźnica,
- completion of the first stage of implementing the *Business Intelligence* system in the company to support decision-making. This data processing technology is intended for providing regular information to the management, thus improving the Company's competitiveness.
- On 3 June 2013, the Ordinary General Shareholders' Meeting was held and it:

- approved the Management Report and the financial statements of the Company for 2012;
- acknowledged the fulfilment of duties by members of the Company's corporate bodies in 2012;
- distributed the 2012 net profit in the amount of PLN 21,480,355.67, set the dividend at PLN 2.50 per share, i.e. totalling PLN 31,544,445, and specified Remuneration for the Founding Shareholders and holders of promoter certificates to be 0.5% of the net profit for every founding shareholder, i.e. 2% of the net profit, totalling PLN 429,607.12. The difference amounting to PLN 10,493,696.45 was paid from supplementary capital. Additionally, the Meeting decided that the amount of PLN 36,248.08 for payments to holders of promoter certificates for 2011 is to be paid from supplementary capital;
- approved the Management Report of the Capital Group and the financial statements of the Capital Group for 2012;
- redeemed equity shares by decreasing share capital pursuant to article 455 § 1 of the Commercial Companies Code, which was taken into consideration by introducing suitable amendments to the Company's Statute.

3. Strategic objectives of the Śnieżka Capital Group

The Capital Group's long-term development strategy involves taking a leading position on the CEE market of paints and varnishes, with particular emphasis on Polish, Ukrainian, Belarusian, Moldovan and Russian markets. The Group will pursue this objective through better adjustment to customer needs on the local markets in individual countries.

The adopted development strategy involves three special areas of activity:

- increasing the share of the Group's products in DIY chains in Poland, Ukraine and Russia,
- further expansion of Śnieżka's retail chain and partner outlets in Poland and on key foreign markets,
- capital expenditures related to potential acquisitions in Central and Eastern Europe.

In addition, the Group plans to increase its potential by expanding to new markets and developing its brand portfolio: Śnieżka, Magnat, Vidaron, Foveo - Tech, Beston and Proximal. As part of its strategy, the Group is interested not only in organic growth, but also in an increase in capital expenditures. One of the objectives of the Parent Company's Management Board is to build long-lasting and amicable relations with its business partners, employees, shareholders and clients. The company plans to continue to support its business partners, distributors and retailers with information, marketing and training activities, thus showing that close cooperation strengthens the Company's goodwill.

The Parent Company's Management Board has confirmed its continued commitment to pursue the defined objectives. Balanced growth, which is inscribed in its strategy, will allow the Capital Group to achieve a leading position on key markets.

4. Economic situation in H1 2013

The Group's main market is Poland. Therefore, its business is affected by what happens on the domestic market. In the period covered by the report, we had to deal with a continued economic slowdown, while hoping that the economic situation would improve in H2 2013 and in the years to come.

The economic situation has a direct impact on the building industry. An extended winter period as well as fear and uncertainty among property development companies and private

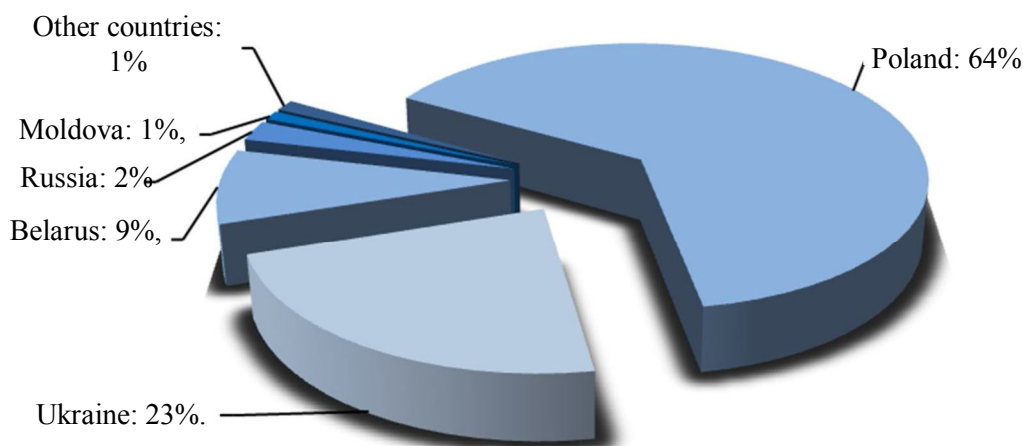
investors have tangibly influenced the launch of new developments. The market of new apartments has been plagued by stagnation, as even reduced prices did not lead to an increased demand because of consumers having difficulty in taking mortgage and consumer loans. The government-subsidised housing scheme "Rodzina na swoim" has come to an end, and the new scheme supporting housing construction ("Mieszkanie dla Młodych") will first start in the following years. The number of new apartments commissioned to use in Poland in H1 2013 increased merely by 1%. The Group's key export markets are also experiencing a decline. Prolonged recession of the Ukrainian economy has resulted in a scaling down of GDP forecasts for 2013. The situation in Belarus is also uncertain, as 2013 may turn out to be the worst year yet.

As a result of a long winter period, the demand for paint on the Polish market has weakened in Q1 this year. Although the situation improved in Q2, the value of the whole market is estimated at a level similar to H1 2012. Śnieżka's key segment continues to be the renovation market, which accounts for more than 80% of the Group's sales. The Group sees growth potential on the domestic market and on the Eastern European market since paint consumption per capita on this market is lower than in Western Europe.

5. Sales and orders on hand

Paints and varnishes market in H1 2013

**Śnieżka Capital Group's sales structure
in H1 2013 broken down into countries**



With a 64% share, the Polish market is the Group's leading sales market. Other markets with a large share include the Ukrainian market (23% share) and the Belarusian market (9% share), with other countries accounting for a small percentage of sales.

At present, the paints and varnishes market in Poland is estimated at approx. PLN 2 billion. It is estimated that nearly 600 manufacturers of paints and coatings operate in the Central and Eastern European market. In addition, it must be noted that the paints and coatings market accounts for 49.5% of the overall market of construction chemistry products, followed by the plastic elements market (26.7%) and the insulation materials market (19.1%).

The current average consumption of paint per capita in Poland is 10 litres, while in Eastern European countries it amounts to approx. 7 litres on average. EU's annual consumption is approx. 15-16 litres. Therefore, the Group forecasts a dynamic increase in the consumption of paints and varnishes in the markets on which it operates, and estimates that the size of these markets will grow in the coming years.

The Group estimates that it has an approx. 16% share in the domestic decorative paint and varnish market (in terms of value), with a particularly strong position in the segment of emulsion paints. Śnieżka's main competitors in Poland, in addition to PPG Deco Polska sp. z o.o. and Akzo Nobel Coatings sp. z o.o., include Tikkurila Polska SA. The Parent Company sells its products on the Polish market using all indirect distribution channels, such as wholesalers, retail outlets and DIY chains. The Group's sales to the Polish market for 6 months of 2013 amounted to PLN 192.5 million.

Apart from the domestic market, two key export markets for the Company are Ukraine and Belarus. The Śnieżka Capital Group has a very strong position on the Ukrainian market and is well ahead of other manufacturers in certain paint categories. The paint and varnish market is dominated by water-soluble and alkyd products. Average paint consumption per capita on this market is estimated at approx. 7 litres. The traditional product sales model predominates on the Ukrainian market, but the importance and range of DIY chains continue to increase year by year. Ukrainian companies are predominant, while international chains (Leroy Merlin, Praktiker and Obi) still have a small market share. The Group focuses on expanding its

available offer of products, with particular emphasis on DIY chains. The Group's sales to the Ukrainian market for 6 months of 2013 amounted to PLN 68.1 million.

The Śnieżka Group is also one of the leaders on the Belarusian market, with a particularly strong position in the putty compound segment. Average paint consumption per capita in Belarus remains relatively low at approx. 5 litres, promising prospects for growth. The Company sells its products on the Belarusian market mainly through the traditional channel. Śnieżka's products can also be found in local DIY chains. The Group's sales to the Belarusian market for 6 months of 2013 amounted to PLN 26.0 million.

Another important and promising market for the Group is Russia, where the Company focuses its efforts on developing and diversifying distribution channels, while expanding its product offer. A newly incorporated company of the Capital Group, Śnieżka EastTrade Sp. z o.o., with its registered office in Moscow, is expected to help us achieve these objectives. Average paint consumption per capita in Russia is estimated at approx. 7 litres. During a 6-month period, the Company's sales on the Russian market amounted to PLN 7.1 million.

The Parent Company also exports its products to Moldova (sales of PLN 3.2 million), Hungary, Romania, Armenia and other countries (total sales of PLN 3.9 million).

The Company has valid agreements determining the terms and conditions of business collaboration with all of its largest distributors.

Development of the range of products in H1 2013

The Śnieżka Group constantly works to develop its offer of products. These efforts lead to new products being introduced to sale and modification of recipes of existing products. During the discussed period, the offer of Śnieżka-branded products was expanded by two new white emulsion paints: Śnieżka Modern White and Śnieżka Vernissage, as well as Śnieżka Kuchnia-Łazienka, a base for the colouring system with an addition of silver. The new season also saw the introduction of 11 new colours in the Śnieżka Barwy Natury brand. In the discussed period, the Vidaron brand portfolio was expanded by new products: oil and wood stain. Another development in the product offer was the introduction of a new visualisation of the Magnat brand as well as the introduction of Magnat Ceramic into sales, a ceramic paint for the interior in ready-to-use colours. The new product offers a highly resistant coating and is stain-proof. It replaced the matt emulsion in the brand portfolio, which was withdrawn from sale.

In the discussed period, Śnieżka Ukraina started the production and sale of new Śnieżka-branded emulsion paints for interiors and an Otto Farbe-branded facade emulsion paint.

Marketing communication in H1 2013

Several advertising campaigns for key brands were prepared for the 2013 season. The marketing activities related to Śnieżka Satynowa, which started in 2012, were continued, using an existing advertisement. A TV campaign started in 2013 and was supplemented by press and on-line marketing communication. The Company also promoted the sale of Śnieżka Nature, an emulsion paint in ready-to-use colours, intended for export markets. During the discussed period, TV campaigns and other activities were pursued in Ukraine and Belarus.

Two TV advertisements ("Shop" and "Guarantee") were used to promote the sale of Vidaron-branded products. The advertising campaign in Poland started in March 2013, with television as the central medium, supported by press and Internet advertising. The Vidaron brand was also promoted through TV advertising campaigns on Ukrainian, Belarusian and Moldovan markets.

In the discussed period, marketing communication was also prepared for the Śnieżka Acryl-Putz brand. The creative concept of the campaign "Śnieżka Acryl-Putz. W gładzeniu mistrz

jest tylko jeden!" (Śnieżka Acryl-Putz. There is only one champion!) uses the image of Mamed Khalidov, a well-known MMA sportsman. Two advertising spots in the 30" and 15" format were recorded for the purpose of marketing communication. Advertising communication using television, press and the Internet started in April 2013. Apart from Poland, the advertising campaign for the Acryl-Putz brand was also run on Ukrainian and Belarusian markets.

6. Research and development

The Parent Company's R&D Department works to find new raw materials and process solutions, ensuring high quality, acceptable price and environmental friendliness of the manufactured products. These efforts have led to the introduction of new products, such as:

- two new Vidaron products for wood: oil and stain;
- Magnat Ceramic, a stain-proof paint for interiors, using top-quality raw materials to ensure maximum resistance of the coat to negative environmental factors (resistance to stains and disinfecting agents), while keeping the emission of organic compounds to a minimum to allow the product to be used in health care facilities, schools, preschools and nurseries;
- new paints for interiors: Śnieżka Modern White and Vernissage. Thanks to the use of modern raw materials, splash-free products with VOC content six times below the currently permitted concentration have been introduced to the market.

7. Supply policy

The supply policy of the Śnieżka Capital Group aimed at satisfying the requirements of all companies with regard to the supply of raw materials and technical materials necessary for proper operation. An important element of the supply policy is to establish stable relations with existing suppliers. At the same time, the Group is searching for new domestic and foreign suppliers, mainly in order to diversify sources of raw material supply, reduce costs and delivery time.

The companies have signed supply agreements defining the terms of partnership with all major suppliers of raw materials and semi-finished products.

An analysis of the supply of raw materials in H1 2013 shows that this period was marked by price stability of chemical raw materials and technical materials as well as availability. Negative factors in the discussed period include a gradual weakening of the domestic currency, which affected the prices of imported raw materials.

8. Employment

The Śnieżka Group's HR policy is linked to its strategic goals: it aims at a rational growth of employment by changing the organisation, introducing new procedures, consistently automating work and organising employee training. The companies invest in the professional development of their employees, who regularly improve their professional qualifications in existing positions and develop skills required for prospective tasks. The employees take part in various forms of training: courses, seminars and post-graduate programmes. Some of the training is obligatory (validation of certification), while other training is intended to expand the knowledge in response to a changing economic environment due to fast technological progress.

As at 30.06.2013, the Śnieżka Capital Group employed 1,067 people (as at 30.06.2012: 1,032 people).

9. Investments in PP&E and intangible assets

In H1 2013, the Śnieżka Capital Group incurred capital expenditures on PP&E and intangible assets in the amount of PLN 11.8 million, which satisfies the Group's current requirements. An important element of capital expenditures is the expansion of the Group's infrastructure and the costs of developing modern R&D facilities. The investments made have created conditions for ensuring efficient development of new products, R&D work and effective monitoring of products and raw materials. The Group also incurs substantial expenditures to modernise production facilities and automate production processes. This results in higher output and repeatability of product parameters as well as optimised manufacturing costs.

10. Financial results

Assets and asset financing

	6-month period ended on 30 June 2013	6-month period ended on 30 June 2012	increase	dynamics
I. Net revenue from sale of products, goods and materials	300 728	289 202	11 526	104.0%
II. Operating profit (loss)	29 143	29 417	(274)	99.1%
III. Gross profit (loss)	25 262	27 352	(2 090)	92.4%
IV. Net profit (loss)	21 566	23 197	(1 631)	93.0%
- Net profit (loss) attributable to shareholders of the parent company	20 678	21 889	(1 211)	94.5%
- Net profit (loss) attributable to non-controlling interest	888	1 308	(420)	67.9%
V. Comprehensive income for the period	23 806	23 075	731	103.2%
- Comprehensive income for the period, attributable to shareholders of the parent company	22 480	21 623	857	104.0%
- Comprehensive income for the period, attributable to non-controlling interest	1 326	1 452	(126)	91.3%
VI. Net operating cash flow	14 460	19 401	(4 941)	74.5%
VII. Net cash flow from investing activities	(14 470)	(14 951)	481	96.8%
VIII. Net cash flow from financing activities	19 637	5 991	13 646	327.8%
IX. Total net cash flows	19 627	10 441	9 186	188.0%
X. Total assets	472 824	431 154	41 670	109.7%
XI. Liabilities and provisions for liabilities	276 167	245 711	30 456	112.4%
XII. Long-term liabilities	13 716	6 482	7 234	211.6%
XIII. Short-term liabilities	262 451	239 229	23 222	109.7%
XIV. Equity	196 657	185 443	11 214	106.0%
- Equity attributable to shareholders of the parent company	187 430	177 412	10 018	105.6%
- Equity attributable to non-controlling interest	9 227	8 031	1 196	114.9%
XV. Share capital	13 551	13 551	-	100.0%
XVI. Number of shares	13 550 676	13 550 676	-	100.0%
XVII. Earnings (loss) per ordinary share (in PLN/EUR)	1.71	1.73	(0.02)	98.8%
- Earnings (losses) per ordinary share, attributable to shareholders of the parent company	1.64	1.63	0.01	100.6%
XVIII. Diluted earnings (loss) per ordinary share (in PLN/EUR)	1.71	1.73	(0.02)	98.8%
- Diluted earnings (losses) per ordinary share, attributable to shareholders of the parent company	1.64	1.63	0.01	100.6%
XIX. Book value per share (in PLN/EUR)	15.59	13.85	1.74	112.6%
XX. Diluted book value per share (in PLN/EUR)	15.59	13.85	1.74	112.6%
XXI. Declared or paid dividend per share (in PLN/EUR)		2.50		

In H1 2013, a 9.7% increase in the Capital Group's assets has been recorded compared to H1 2012. Non-current assets increased by 7.4%. In H1 of this year, the value of investments commissioned in the Group amounted to PLN 20.5 million, which is PLN 5.9 million more than in the same period a year earlier. Current assets increased by 11.4% mainly as a result of a 19.1% increase in short-term receivables and a 70.3% increase in short-term investments, accompanied by a 9.9 % decrease in inventory.

The increase in assets has been financed by the increase in long-term and short-term liabilities. As a result, the share of equity in the financing of assets decreased from 43.6%, as at 30 June 2012, to 42.4%, as at 30 June 2013, while the volume of borrowing increased from 56.1% to 56.6% due to an increase (by PLN 14.4 million) of the dividend liability and a 13% increase in trade liabilities. In H1 2013, the Capital Group did not have any problems with the settlement of its current liabilities. The static analysis of the company's liquidity at the end of the period shows that the Capital Group's financial position is sound. This is confirmed by liquidity ratios remaining within the safe range. Compared to the same period a year earlier, debtor days have remained at the same level, while trade receivables have increased by 22.8% and sales by 4%. This level of trade receivables at the end of H1 results from changes in the receivables policy. Inventory days are shorter than a year earlier (by 7.4 days) due to improved inventory management. Creditor days remained at a level close to that of the previous year, with a 0.3 day decrease compared to the same period a year earlier. As at 30 June, the Śnieżka Capital Group did not have any overdue liabilities.

11. Assessment of the performance of financial forecasts

The Management Board of FFiL Śnieżka S.A. did not publish any financial forecasts of the Śnieżka Capital Group for 2013.

12. Risk management

Risk related to the macroeconomic situation

The Śnieżka Capital Group's business is strongly influenced by the macroeconomic risk related to the situation in Poland, Ukraine and Belarus. In Poland, this risk involves mainly the market prices of raw materials and the PLN to EUR exchange rate. The development of the building materials market is greatly influenced by the number of new apartments and building permits because they lead to increased demand for building products, such as paints, and greater activity in the secondary real property market and the related frequency of renovations. A potential decrease in demand may be due to difficulties in obtaining mortgage and consumer loans.

The risk present in the Ukrainian market is also related to a potential decrease in demand and increase in raw material prices. The risk of the devaluation of hryvnia is significant because the UAH to USD exchange rate has remained unchanged for several years. As the macroeconomic situation in Belarus is unstable, the Belarusian currency may be devalued even further.

Competition risk

The Śnieżka Capital Group's business is exposed to intense competition from Polish and foreign companies. The Group's main competitors are PPG Deco Polska Sp. z o.o., Akzo Nobel Coatings sp. z o.o. and Tikkurila Polska SA. On the one hand, large and renowned multinationals are present on the market and on the other hand there is a strong price competition on the part of small local businesses. It is possible that a new paint producer could enter the market, however, it is difficult to create a new brand with a strong market position and it would require huge financial outlays. Therefore, the Group anticipates that new competition could emerge on the market mainly as a result of ownership transformations.

On foreign markets, the Group competes against local and international brands. The main competitors on the Ukrainian market are Ganza Ukraina Sp. o.o., ZIP sp. z o.o. Tikkurila Sp. z o.o. and Caparol Ukraina. In addition, large and renowned multinationals are becoming more active. In the Belarusian market, the Group's largest competitors in the emulsion paint segment are Alpina (Caparol group) and Condor (Eskaro group), and in the putty compound segment the main competitors are Ceresit (Henkel group) and Tajfun (Atlas group). In the segment of emulsion products, Alpina products, especially those available in the colouring system, are serious competition. The Group seeks to minimise this risk by introducing Śnieżka Nature paints in ready-to-use colours to the Belarusian market as an alternative to colours produced with the colouring system. In the segment of wood preservation products, the Group competes on the Belarusian market against products under the Pinotex brand (Akzo Nobel).

The Group monitors its competitors in Poland and on foreign markets. In H1 2013, most of the Group's market competitors engaged, to a varying extent, in marketing and advertising activity, which may threaten the position of the Group's brand portfolio. Advertising campaigns and other activities to promote sales have provided adequate support for the products sold by the Group.

Distribution channel risk

In H1 2013, the distribution of the Śnieżka Capital Group's products largely followed the traditional model (plant – wholesaler – shops – construction companies – end customer). On the Polish market and on foreign markets, there is a risk that the Group's share in individual

distribution phases may decrease as a result of competitors' activity. To minimise this risk, the Group takes action to strengthen its position and increase the brand distribution on individual markets and in the distribution channels. In the discussed period, the Group continued to expand its retail chain and partner shops on the Polish market, and developed its collaboration with DIY chains, such as Leroy Merlin, OBI, Castorama, MGI Polska Sp. z o.o. (owner of BricoMarche chain), Nomi, Praktiker and Saint Gobain. Supplying products to various distribution channels is one of the assumptions of the sales growth strategy adopted by the Group, and, at the same time, it minimises the risk of overdependence on one group of customers. On the Ukrainian paint and varnish market, the Group's products are sold using the traditional distribution model, such as DIY chains, which continue to gain importance and range year by year. In order to eliminate the risk of overdependence on a single distribution channel on the Ukrainian market, the Group's policy involves diversifying the channels. The Group's products are present in traditional sales channels as well as in DIY chains, such as Epicentr, Nowa Linia, Leroy Merlin and OBI.

Risk related to receivables monitoring

The Group's efforts in the previous years to reduce risks and threats related to the monitoring of receivables have been evaluated positively. The Group regularly monitors any worrying market trends and acts accordingly to reduce the risk of transactions by using mortgages, bill of exchange agreements, etc. The Group continues its partnership with distributors based on clear rules of awarding bonuses for punctual payments. In addition, its domestic and foreign receivables are insured with leading insurance companies.

Financial and FX risk

The Group's business is exposed to the risk of changing exchange and interest rates. The Group imports the raw materials for manufacturing paints and varnishes and pays for them in EUR, while its main exports are to Eastern European countries (Ukraine, Belarus, Moldova, Russia and Georgia), where the main settlement currency is USD. Consequently, it is exposed to the risk resulting from the change of the EUR/USD exchange rate and the relation of both currencies to the Polish zloty. The most advantageous scenario for the Group is the EUR/USD exchange rate being as low as possible, which decreases the costs of raw materials and maximises proceeds from export. Therefore, the Group regularly monitors the FX risk so that it can respond adequately to any changes. At present, the Parent Company uses a foreign currency loan in USD amounting to USD 15 million, which secures the held capital in subsidiaries in Ukraine and Belarus and minimises disadvantageous foreign exchange differences on export proceeds. In H1 2013, the Parent Company has not concluded long-term hedging transactions in the form of derivatives, such as options, forward or future contracts. Considering the amount of bank loans raised by the Parent Company, an important risk factor is the interest rate. Using a loan denominated in USD makes it possible to decrease the interest rate due to a lower LIBOR USD in comparison to WIBOR for PLN.

Risks related to the supply of raw materials

The main risks related to the supply of raw materials may be caused by higher prices of raw materials, which depend on crude oil price, and by limited availability of raw materials. Considering that more than 60% of purchases are made in EUR, exchange rate variations also play a role.

Based on the analysis of H1 2013 in terms of supply, it can be observed that the prices of raw materials have stabilised and their availability has improved. In addition, a gradual strengthening of the national currency may positively influence the import of raw materials.

Risk of failure to implement the planned investments

The Company's main investment tasks related to modernising production facilities, automating production processes or modernising and expanding the infrastructure should be completely implemented. A possible failure to implement some of the planned investments is connected mainly with the Group's changing development policy and verification of the adopted assumptions and guidelines regarding the companies' environment, and does not involve any risk due to limited production capacities, deterioration of the goods quality or difficulties in the functioning of the Śnieżka Capital Group.

13. Other disclosures

1. Information on the conclusion by the Issuer or its subsidiary of one or more transactions with related parties, if they are material (individually or jointly) and if they are not arm's length transactions.

In H1 2013, the parent company and its subsidiaries did not conclude transactions with related parties which could be regarded as material and concluded under terms other than arm's length terms.

2. Information on the issuer's or its subsidiaries' loan or borrowing sureties or guarantees granted jointly to a single company or its subsidiary, if the total value of the existing sureties or guarantees is equivalent to at least 10% of the issuer's equity, with the indication of:

- a) name of (company) the party to which sureties or guarantees were granted,**
- b) total amount of loans or borrowings secured by sureties or guarantees,**
- c) period of time for which sureties or guarantees were granted,**
- d) financial terms and conditions on which sureties or guarantees were granted, with the indication of remuneration for the issuer or its subsidiary for granting these sureties or guarantees,**
- e) nature of relations between the issuer and the entity which took loans or borrowings.**

As at 30 June 2013, no sureties or guarantees were granted by the Parent Company to a single party in excess of 10% of the issuer's equity. On 20 February 2013, the issuer's subsidiaries, TM Investment Sp. z o.o. and IP Solutions Sp. z o.o., granted to the issuer – FFiL Śnieżka S.A. – a surety for the loans raised with Bank Handlowy w Warszawie S.A. in the total amount of PLN 40 million. The sureties were granted until 31 August 2015. The remuneration for TM Investment Sp. z o.o. for the sureties granted in 2013 amounts to PLN 75 thousand. The remuneration for IP Solutions Sp. z o.o. for the sureties granted in 2013 amounts to PLN 75 thousand.

As at 30 June 2013, the Parent Company held sureties granted to the following companies:

- Agreement of surety granted to Benmar Sp. z o.o., with its registered office in Białystok, amounting to PLN 5,000 thousand, securing a loan agreement with Kredyt Bank SA. As at 30 June 2013, the debt of Benmar Sp. z o.o. due to the secured loan

amounted to PLN 1,668 thousand. The issuer's remuneration for the surety in 2013 amounts to PLN 8.6 thousand. Benmar Sp. z o.o. is an independent distributor of the issuer's products.

- Guarantee to Kopalnia Gipsu i Anhydrytu Nowy Łąd Sp. z o.o. for the supplies of gypsum to the issuer's subsidiary, Śnieżka Bel-Pol Sp. z o.o., in the amount of USD 250 thousand (equivalent to PLN 829 thousand as at 30 June 2013). The guarantee issued on 31 July 2012 was valid until 31 July 2013. The issuer's remuneration for the granted guarantee in 2013 amounts to PLN 2.5 thousand.
- As at 30 June 2013, the Parent Company also had a contingent liability towards Bank Handlowy w Warszawie S.A. due to granting a surety to the Paylink agreement in the amount of PLN 6,253 thousand. Under the Paylink card agreement distributors are granted credit limits within which they may pay invoices issued by FFiL Śnieżka SA; in return distributors have their invoice payment dates extended by a maximum of 4 months and 14 days. The surety was granted until 21 December 2013.

3. Other information which, in the Issuer's opinion, is significant for assessing its HR, financial situation and financial performance, and information considered significant for assessing the Issuer's ability to fulfil its obligations.

In H1 2013, no changes occurred in the issuer's structure which could have influenced its ability to settle its liabilities.

4. Disputes

There are no proceedings pending whose value accounts for at least 10% of the issuer's equity.

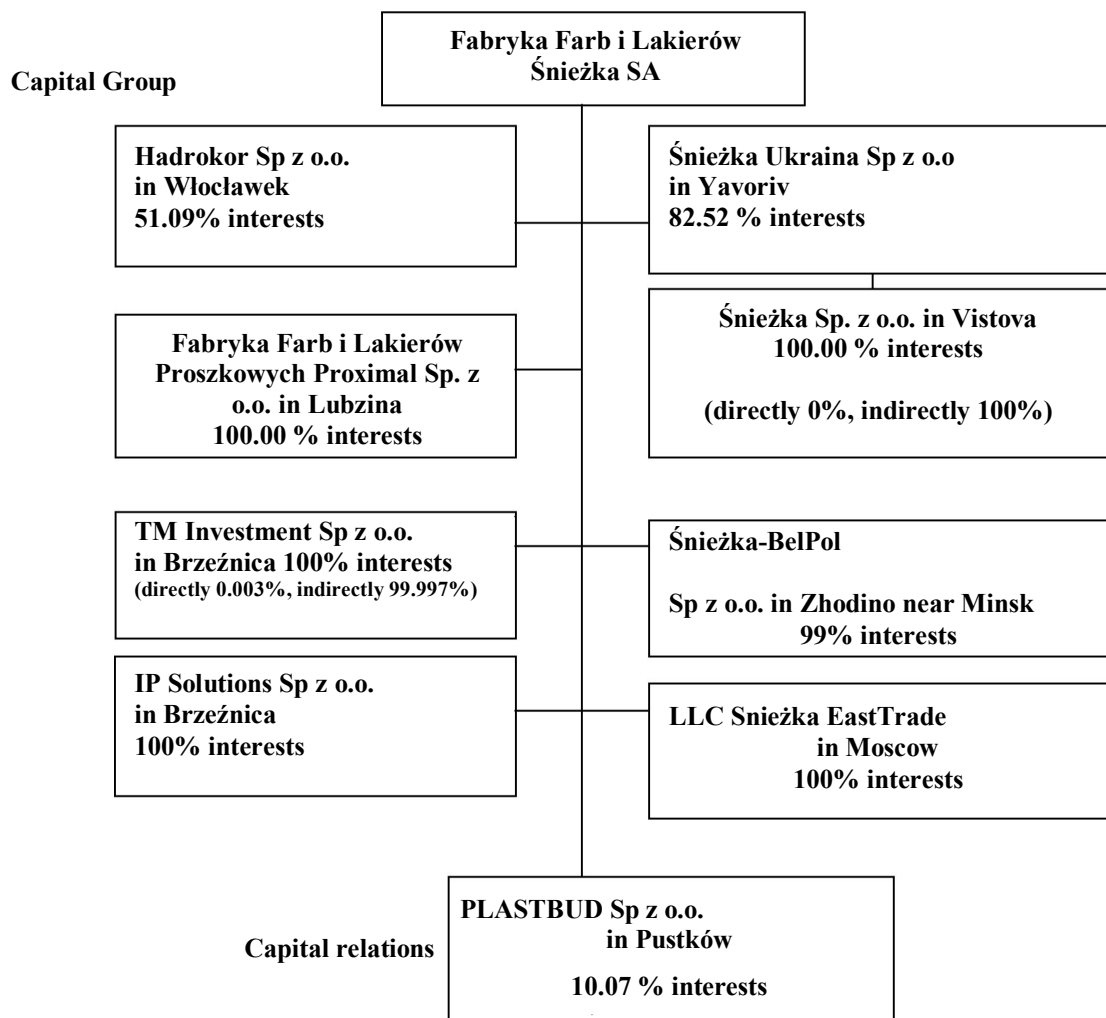
On 13 January 2010, the Parent Company lodged an appeal against the decision of the Office of Competition and Consumer Protection of 28 December 2009 on antimonopoly proceedings against FFiL Śnieżka S.A. in Lubzina, as a result of which the Office imposed a fine of PLN 855 thousand on the Parent Company. By way of decision of 20 December 2012, the Court of Competition and Consumer Protection in Warsaw dismissed the Company's appeal. FFiL Śnieżka S.A. lodged an appeal against this decision. In the letter of 2 July 2013, the President of the Office of Competition and Consumer Protection responded to the appeal.

5. Identification of factors which, in the issuer's view, will continue to influence the financial results for at least one quarter.

In the issuer's opinion, major factors that will influence its financial performance in the coming quarter are prices of raw materials used in the manufacturing process, currency exchange rate variations and the sales dynamics of the issuer's Capital Group companies. The consolidated profit/loss in the coming quarter will be mainly influenced by the results of the parent company, FFiL Śnieżka S.A., and its subsidiaries: Śnieżka Ukraina Sp. z o.o., with its registered office in Yavoriv, Śnieżka Belpol Sp. z o.o. and TM Investment Sp. z o.o.

14. Description of the capital group's organisation and capital relations

The Capital Group and its capital relations as at 30.06.2013



Collaboration with related parties and members of the Capital Group:

- Śnieżka Ukraina Sp. z o.o. in Yavoriv is a producer of paints and putty compounds in Ukraine and the main distributor of FFiL Śnieżka S.A.'s products. Its products are sold under the Śnieżka and Otto Farbe brands. It has a considerable output potential and its own network of customers,
- Śnieżka Sp. z o.o. in Vistova – the Company's production assets and operating activity have been transferred to Śnieżka Ukraina Sp. z o.o. in Yavoriv. The company is being prepared to start the liquidation process.
- Śnieżka EastTrade Sp. z o.o. in Moscow – the Company's business in 2013 consists in promoting Śnieżka's products, advertising and marketing activity as well as wholesale and retail sale of paints, varnishes and putty compounds.
- Hadrokor Sp. z o.o. in Włocławek – On 3 July 2013, the Company's Extraordinary Shareholders' Meeting passed a resolution on announcing the Company's liquidation.

The production operations will be relocated to Fabryka Farb i Lakierów Śnieżka S.A. Consequently, the subsidiary's liquidation will not affect the consolidated revenue of the Śnieżka Capital Group.

- Śnieżka- BelPol Sp. z o.o. in Zhodino near Minsk is a manufacturer of compounds, paints and varnishes in Belarus. Its products are sold under the Śnieżka brand. It has its own network of wholesale and retail customers,
- IP Solutions Sp. z o.o. in Brzeźnica – It is a majority shareholder of TM Investment Sp. z o.o.
- TM Investment Sp. z o.o. in Brzeźnica – the Company's business is licensing the use of trademarks to related companies within the Capital Group. The company creates new trademarks and development strategies for groups of products,
- Fabryka Farb i Lakierów Proszkowych Proximal Sp. z o.o. – Grupa Śnieżka, based in Brzeźnica – the company's business involves the lease of real property; the partnership between Proximal Sp. z o.o. and the Parent Company involves the lease of a part of the real property for the Parent Company's needs.
- Śnieżka EastTrade Sp. z o.o., with its registered office in Moscow – the Company's business will consist in promoting Śnieżka's products, advertising and marketing activity as well as wholesale and retail sale of paints, varnishes and putty compounds.

Partnership with related companies also involved:

- Plastbud Sp. z o.o. in Pustków, producing colouring compounds Colorex and colorants for Śnieżka's colouring systems. In addition, it is a supplier of certain raw materials and products.

Changes in the ownership structure of the Related Companies of the Śnieżka Capital Group in 2013 and by the date of this report:

- On 23 May 2013, Śnieżka EastTrade Sp. z o.o., with its registered office in Moscow, Russia, was registered in the Tax Office in Moscow. Interests in the amount of RUB 100,000 (one hundred thousand roubles) were fully acquired by FFIL Śnieżka SA. The company's business will consist in promoting Śnieżka's products, advertising and marketing activity as well as wholesale and retail sale of paints, varnishes and putty compounds.
- On 3 July 2013, the Extraordinary Shareholders' Meeting of HADROKOR Sp. z o.o., with its registered office in Włocławek, passed a resolution on announcing the company's liquidation. The production operations will be relocated to Fabryka Farb i Lakierów Śnieżka S.A. Consequently, the subsidiary's liquidation will not affect the consolidated revenue of the Śnieżka Capital Group.

List of members of the Capital Group consolidated or accounted for using the equity method

NAME	REGISTERED OFFICE	BUSINESS ACTIVITY
Hadrokor Sp. z o.o. in liquidation	Wrocław, ul. Smocza 19	Manufacture and sale of paints and varnishes and other chemical products
Fabryka Farb i Lakierów Proszkowych Proximal Sp. z o.o. – Śnieżka Group	Lubzina 34a	Manufacture and sale of powder paints and varnishes, acquired by Śnieżka
Śnieżka-Ukraina Sp. z o.o.	Yavoriv, ul. Prywokzalna 1A, Ukraine	Manufacture of paints, varnishes, solvents, adhesives, putty compounds, etc.; wholesale and retail sale of construction materials
Śnieżka-BelPol Sp. z o.o.	Zhodino, ul. Dorożnaja 3/1, Belarus	Manufacture of putty compounds and impregnating agents
Śnieżka Sp. z o.o.	Vistova, ul. Strijlciv 1b, Ukraine	Manufacture and sale of paints and varnishes, acquired by Śnieżka-Ukraina Sp. z o.o.
IP Solutions Sp. z o.o.	Brzeźnica, ul. Dębicka 44	Holds a majority interest in TM Investment Sp. z o.o.
TM Investment Sp. z o.o.	Brzeźnica, ul. Dębicka 44	Managing trademarks, creating development strategies for product groups
Plastbud Sp. z o.o.	Pustków 164 b	Manufacture and sale of paints and varnishes

As at 30 June 2013, the newly incorporated Russian company is not consolidated due to a lack of operating activity.

LLC Sniezka EastTrade	142784 Moscow, Umiancewo 2	Marketing, advertising and consulting activity
-----------------------	----------------------------	--

APPLIED CONSOLIDATION AND MEASUREMENT METHODS:

Hadrokor Sp. z o.o. in liquidation	Full consolidation method
Fabryka Farb i Lakierów Proszkowych Proximal Sp. z o.o. – Śnieżka Group	Full consolidation method
Śnieżka-Ukraina Sp. z o.o.	Full consolidation method
Śnieżka-BelPol Sp. z o.o.	Full consolidation method
Śnieżka Sp. z o.o.	Full consolidation method
IP Solutions Sp. z o.o.	Full consolidation method
TM Investment Sp. z o.o.	Full consolidation method
Plastbud Sp. z o.o.	Equity method

15. Ownership structure (information about shareholders and the present volume of interests)

Parties (shareholders) holding, directly and indirectly, at least 5% of the Company's share capital and at least 5% of the overall number of votes at the Company's General Meeting, with the total number of shares of 12,617,778 and the total number of votes of 14,617,778 as at the publication date of this half-yearly report:

Shareholder	Number of shares held	Share in the share capital (%)	Number of votes	Share in overall number of votes at the GSM (%)
Jerzy Pater*	2 541 667 of which directly 166 667	20.14 1.32	3 208 335 833 335	21.95 5.70
Stanisław Cymbor**	2 541 667 of which directly 166 667	20.14 1.32	3 208 335 833 335	21.95 5.70
Piotr Mikrut	directly 1 254 166	9.94	1 787 498	12.23
Rafał Mikrut	directly 1 254 167	9.94	1 254 167	8.58
AMPLICO OFE	1 250 000	9.91	1 250 000	8.55
Aviva OFE Aviva BZ WBK	781 669	6.19	781 669	5.35

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

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

On 19 July 2013, the Management Board of FFiL Śnieżka SA was notified by Amplico Otwarty Fundusz Emerytalny (later referred to as OFE) and Metlife Amplico Dobrowolny Fundusz Emerytalny (later referred to as DFE) about a decrease of commitment to less than 10% of overall votes in the Company.

The share decreased below the 10% threshold as a result of a transaction of sale of the Company's shares on 15 July 2013. Before the change of the share, OFE and DFE jointly held 1,560,862 (in words: one million, five hundred and sixty thousand, eight hundred and sixty-two) ordinary bearer shares out of 13,550,676 (in words: thirteen million, five hundred and fifty thousand, six hundred and seventy-six) shares, which accounted for 11.52% of the Company's share capital and were vested with 1,560,862 (in words: one million, five hundred

and sixty thousand, eight hundred and sixty-two) votes at the General Meeting, representing 10.04% of overall votes at the Company's General Meeting.

Following the decrease in the share, OFE and DFE held 1,250,000 (in words: one million, two hundred and fifty thousand) ordinary bearer shares out of a total of 13,550,676 (in words: thirteen million, five hundred and fifty thousand, six hundred and seventy-six) shares, which accounted for 9.22% of the Company's share capital and were vested with 1,250,000 (in words: one million, two hundred and fifty thousand) votes at the General Meeting, representing 8.04% of the overall number of votes at the Company's GSM.

Summary of changes in the shareholding of Fabryka Farb i Lakierów Śnieżka S.A. or the rights to shares (options) by managers and supervisors.

Managers:

Piotr Mikrut	1,254,166 – no changes
Witold Waśko	198 – no changes

Supervisors:

Stanisław Cymbor	2,541,667 – no changes
Stanisław Mikrut	33,333 – no changes
Jerzy Pater	2,541,667 – no changes

16. Awards and distinctions

The awards and distinctions bestowed on FFiL Śnieżka SA in H1 2013 testify to the highest quality and innovativeness as well as the market strength and recognisability of the Śnieżka brand.

The List of 500

Similarly to the previous year, Fabryka Farb i Lakierów Śnieżka SA ranked 441st among the leading Polish businesses in The List of 500 (Lista 500), a prestigious ranking of Rzeczpospolita. The company's presence among the leading Polish companies and excellent 2012 financial performance vindicate the adopted strategy and consolidate the company's market position.

Śnieżka Satynowa awarded the 2013 Paint of the Year title (FARBA ROKU 2013)

Śnieżka Satynowa, a paint for interiors with the Teflon® surface protector, won the 2013 Paint of the Year competition organised by the industry website, chemiabudowlana.info. During a 2-month voting period, Śnieżka's products had the highest number of votes of all products presented. Winning a competition thanks to the votes of Internet users, private customers, contractors, wholesalers, architects and property developer translates into prestige and testifies to the high quality and recognisability of Śnieżka Satynowa.

17. Summary

The Parent Company's Management Board positively evaluates the Capital Group's activity in H1 2013. These activities improved the Capital Group's effectiveness, and the generated sales volume, performance, market position and in particular the financial position are consistent with the Group's capabilities and provide a foundation for further growth of the Śnieżka Capital Group. In H2 2013, the Management Board of the Śnieżka Capital Group will continue to implement the Capital Group's strategy aimed at strengthening the Company's market position, constantly improving its results and increasing its market value.

Piotr Mikrut **President** **of** **the**
Management Board _____

Joanna Wróbel-Lipa **Vice-President** **of** **the**
Management Board _____

Witold Waśko **Vice-President** **of** **the**
Management Board _____

Lubzina, 27 August 2013