

Letter of the President of the Management Board

GRI:102-14

Dear Stakeholders,

I am pleased to present to you another Annual Report of Grupa Kęty S.A. and the whole Capital Group. The financial and operational information included therein and the described events clearly indicate that 2018 was another year of rapid development of the Company and the Capital Group. The key business segments reported growth of sales in volumes and value, which contributed to an increase in consolidated sales revenues. These amounted to PLN 2.99 billion and were higher by 13.3% compared to the previous year. We have also generated a significant growth of consolidated net profit to PLN 268.5 million (+13.5%).

Record sales in all of the three business segments, record investments and high dividend paid out to the shareholders confirm that Grupa Kęty entered another, higher level of operation and development. Moreover, growth of the particular profit or loss items, both as regards revenues and profits, clearly reflects that Grupa Kęty has made a quantum leap on its way to the effective accomplishment of the 'Strategy 2020' objectives, with the level of fulfilment of the particular targets set out in the Strategy reaching approximately 90%. What is more, based on the financial and operating results projection, the Company expects that at the end of 2019 the targets will be fulfilled in more than 95%.

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The Capital Group sales increased by 13.3% y/y. The consolidated net profit amounted to PLN 268.5 million and was higher by 13.5% compared to that of the previous year. Grupa Kęty S.A. has made a quantum leap on its way to the effective accomplishment of the 'Strategy 2020' objectives.

Availing of the favourable economic situation globally, the companies of the Capital Group concentrated in 2018 on further organic development and improvement of their strong position on the domestic and international markets in all three segments: extruded products, aluminium systems and flexible packaging. The demand for the offered products which persisted throughout the year, on the part of both the existing and new customers, resulted in sales volume increase and inclusion of the growing costs in the prices of the offered products. That, in consequence, contributed to the maintenance of good operating margins. The improvement in figures was also supported by the investment projects carried in the previous periods, which again confirms the validity of the development strategy assumed by the Management Board for the whole Capital Group and its effective implementation.

2018 was also a hectic period in the performance of investment projects in all segments of operation, the value of which was the highest in the history of Grupa Kęty and amounted to PLN 230 million.

The largest projects include those carried out by the Flexible Packaging Segment. That refers mainly to the project carried out at the Special Economic Zone in Oświęcim, worth PLN 110 million and consisting in the construction of a complete plant furnished with a propylene packaging production line, identical to the project carried out by the Segment in the previous years, which enabled production capacity increase with regard to manufacturing and refining plastic films. The project complies with the development strategy of that business segment, which assumes diversification of the sources of income in the coming years and extension of the value-added chain.

The projects carried out by the Extruded Products Segment covered mainly the installation of two new presses, one of 28 MN for the production of aluminium profiles from soft alloys and another one of 36 MN for the production of aluminium profiles from hard alloys. The project will contribute to the increase in the Segment output of extruded products by roughly 8,000 tonnes in 2019. Mentioning the projects carried out by that segment, worth emphasising is also the commissioning of aluminium components production for the automotive industry in a newly completed hall of the Advanced Aluminium Products Plant in Kęty. The investments completed in 2018 will result in a considerable extension of the production potential of that Segment, currently operating 13 extrusion presses in Kęty, Tychy, and in Borodianka near Kiev, Ukraine.

The constantly growing market requirements for the Aluminium Systems Segment, mainly in the area of quality of the production and logistic services offered to customers, somehow force the Capital Group to incur capital expenditure related to innovative solutions in that Segment. That resulted in the commencement of warehouse and production space extension in 2018 for the second state-of-the-art vertical paint shop line to be commissioned in 2019. The growing activeness of the Group Segment on Western European and US markets, which are characterised with higher requirements in quality standards, has also affected the decision on commencing the construction of a modern Research and Innovation Centre, planned to be open in the second half of 2019. After commissioning, the Centre will provide specialised research, tests and certification services related to the offered products in compliance with the rigorous requirements of those markets. Worth mentioning is the fact that it is going to be the first accredited laboratory of an aluminium systems manufacturer in Poland and the second such laboratory in Europe.

Dear Stakeholders,

I'm convinced that an effectively implemented investment plan during the term of validity of the current 'Strategy 2020', whose value is estimated at approximately PLN 1.35 billion, will make a strong foundation for further development of the Capital Group in Poland and become a supporting factor of its bold foreign expansion in the coming years.

Owing to the coming end of validity of the 'Strategy 2020', the Management Board has decided that work on the strategy for the years 2020-2025 will be preceded by a strategic options review process, covering, among other things, the assessment and analysis of the activities, market conditions and competitive position in order to arrive at more effective utilisation of assets.

At the same time I wish to ensure that we have always tried to carry out our investment projects with future generations in mind. We have focused on the company economic development, its people and local communities, caring for environmental aspects and ensuring environmental protection. We are proud to present in this Annual Report our non-financial information, which, for the fourth time already, enriches this document demonstrating the social and environmental dimension of our business. Each year, we have tried to develop our competences as well as to improve and expand the scope of information presented for all the Polish companies of our business segments. As a large company in the region, we assume full responsibility for our actions in the social and environmental area. Therefore, in this report, we focused on these aspects trying to present them in a reliable and transparent manner.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Dariusz Mańko', written in a cursive style.

Dariusz Mańko
President of the Management Board