

CAPITAL GROUP OF GRUPA KĘTY S.A.

**THE NOTES OF THE MANAGEMENT BOARD OF GRUPA KĘTY S.A. TO THE INTERIM
CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED ON
30 September 2018**

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SUMMARY OF THE ISSUER'S MATERIAL ACCOMPLISHMENTS OR FAILURES IN THE REPORTING PERIOD AND THE SUMMARY OF RESPECTIVE KEY EVENTS

As expected, the third quarter brought about the continuation of good economic conditions both on the Polish market and European export markets. In terms of value, the biggest growths of export were recorded for the German, Dutch, Hungarian, Czech, British, Swiss and Austrian markets. All main production lines were utilised in 90-95%. It generated 811.6 million PLN sales revenue (an increase by 13%), of which domestic sales increased by 17% more compared to the corresponding quarter of the previous year and sales on the remaining EU markets rose by 15%. Due to such good sales results, the Group generated 109.2 million PLN of consolidated operating profit, i.e. 11% more than in the corresponding quarter of 2017. The consolidated net profit amounted to 83.2 million PLN, i.e. 8% more than in the previous year. The fact that the Group recorded very good results in terms of cash flows is crucial. Despite the increase in working capital, cash flows from operating activities in the first quarter amounted to 200 million PLN. As regards the operating activity, the Group implemented the following tasks:

- Continuing investments to increase production capacity.
- Developing the sale abroad, which allowed for the diversification of the risk related to business conditions and demand on the Polish market.
- Product development which makes it possible to reach new customers and markets.

FACTORS WITH SIGNIFICANT IMPACT ON THE RESULTS OF THE PRESENT QUARTER

Demand for the Company's products

All three segments of the Group recorded an increase in sales revenue. In the Extruded Products Segment (the EPS), the increase in the revenue was attributable both to a bigger sales volume (+5%) and higher price of aluminium (+4% converted into PLN). In the Flexible Packaging Segment (the FPS), revenue increased mainly due to the fast growth of the sales of BOPP films on the Polish market and high exports growth (by almost 12%). In all segments, revenue growth was recorded on both Polish and foreign markets. As a result, the actual sales revenue figures were as follows:

Segment (in million PLN)	REVENUE 3Q	Growth rate	Poland	Foreign markets
Extruded Products Segment	351.9	+15%	187.2	164.7
Aluminium Systems Segment	360.0	+13%	232.8	127.1
Flexible Packaging Segment	178.7	+11%	98.3	80.4

Exchange rates

According to the Management Board's estimates, ca. 45% of sales were generated in PLN; ca. 50% in EUR; and ca. 5% in USD, GBP, UHR and DEK. As regards expenses, ca. 43% of costs are costs incurred in PLN, 15% are costs in USD, 40% are costs in EUR and ca. 2% are costs in other currencies (GBP, UHR and DEK). In the reporting period, Polish currency appreciated against EUR by ca. 3%, from ca. 4.40 to 4.22 and appreciated against USD by ca. 2%, from 3.78 to 3.69. The appreciation of the Polish currency against EUR has negative impact on export profitability and the competitive position on the Polish market. In addition, the companies of the Group hold trade receivables and liabilities in foreign currencies. From this point of view, the fluctuations of EUR and USD against PLN and of USD against UHR (settlements between the companies of the Capital Group in Poland and in Ukraine are made in USD) are of key importance here.

Prices of basic raw materials

Aluminium, aluminium scrap, sheet aluminium and aluminium film are the basic raw materials in the Group, accounting for ca. 50% of the costs of materials. Thus, the Group is exposed to the risk of increased prices of this raw material, considering the fact that it cannot in any way influence the prices quoted at the London Metal Exchange (LME), which are the pricing base for aluminium supplies contracts concluded by the companies of the Group. In the period, aluminium prices fell from 2,100 to 2,050 USD per tonne. The changes of the prices of materials in a short period of time may affect the profitability of operations, particularly in the Extruded Products Segment and the Aluminium Systems Segment, as the prices are transferred upon customers with a certain delay (1 up to 1.5 months in the EPS and 3-6 months in the ASS). The transactions hedging the purchases of aluminium (futures), the result of which, in the case of decreases in the metal prices on global exchanges, is negative and, in an opposite situation (increases in the prices of metals), the transactions “generate” positive result, are a stabilising factor for the results.

Debt

At the end of the reporting period, the Group had 231.1 million PLN of long-term loans and 661.1 million PLN of short-term loans. Ca. 16% of the value of loans is held in foreign currencies (15% in EUR and 1% in USD), which is reflected in the income statement due to the monthly evaluation of the impact of the changes of EUR and USD exchange rates upon the value of the loan. In the present quarter, the valuation was negative and amounted to 0.6 million PLN.

Other

In the reporting period, there were no other significant factors or events, especially of unusual character, with significant impact on the accomplished financial results, apart from those mentioned in these notes and in the interim condensed consolidated financial statements for three quarters of 2018.

FACTORS LIKELY TO INFLUENCE THE RESULTS GENERATED BY THE ISSUER IN THE PERIOD OF AT LEAST ONE QUARTER (ACCORDING TO THE ISSUER)

Demand for the Company's products

The Management Board of Grupa Kęty S.A. expects that, in the next quarter, the sales of particular segments will be as follows (as compared to the corresponding period in the previous year):

Extruded Products Segment – an increase by ca. 10-15%

Aluminium Systems Segment – an increase by ca. 10-15%

Flexible Packaging Segment – an increase by ca. 5-10%

Exchange rates

Having regard for the currency position of the Group, any possible appreciation of PLN against EUR will be negative for the sale and margins. Therefore, the Management Board of Grupa Kęty S.A. intends to continue to maintain a part of debt in foreign currencies and to continue the policy of hedging currency risk with forwards and futures. In addition, the financial result may be affected by the fluctuations of the Ukrainian currency due to the persisting level of debt between the Ukrainian and Polish companies of the Group.

Prices of basic raw materials

The Management Board of Kety S.A. assumes that within the nearest quarter the prices of aluminium will fluctuate between 2,000 – 2,200 USD per ton. The possible growth of aluminium prices at the LME may result in the temporary decline in the profitability due to the fact that increases in product prices are realised on the market with a 1- or 1.5-month delay in relation to the movements of aluminium prices at the London Metals Exchange in the Extruded Products Segment and 3-6-month delay in the Aluminium Systems

Segment. A certain portion of items to which Segments are exposed are hedged systematically in the perspective of max. 12 months; the level of hedging is between 50% and 20% of items for a given month.

Debt

The Management Board estimates that the debt in the next three months will increase by ca. 30 million PLN due to the need to finance planned investment projects. The value of estimated investment expenditures in the fourth quarter amounts to ca. 140 million PLN.

EFFECTS OF CHANGES IN THE BUSINESS STRUCTURE, INCLUDING THOSE RESULTING FROM BUSINESS COMBINATIONS, ACQUISITION OR SALE OF THE GROUP'S BUSINESSES, LONG-TERM INVESTMENT PROJECTS, DEMERGER, RESTRUCTURING AND DISCONTINUED OPERATIONS

In the reporting period, there were no material changes in the structure of the Group.

ISSUE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES

On 2nd July 2018 Grupa Kęty S.A. bought back 38,191 (in words: thirty-eight thousand one hundred and ninety-one) bonds of "H" series from the Trustee, i.e. Dom Maklerski TRIGON S.A. [Brokerage Company] at the nominal price, i.e. 0.01 PLN each. The total amount of the buyback is 381.91 PLN. The bonds have been cancelled. The buyback of bonds was effected due to the fact that a part of "H" series bonds were not granted to Authorised Persons taking part in an incentive programme for managerial staff of Kęty Group and its subsidiaries.

THE MANAGEMENT BOARD'S POSITION ON PUBLISHED FORECASTS

The Management Board of Grupa Kęty S.A. upholds the forecast published on 1st February 2018.

SHAREHOLDERS HOLDING AT LEAST 5 % OF TOTAL VOTES AT THE GENERAL MEETING OF SHAREHOLDERS AS AT THE DATE OF SUBMITTING THIS REPORT

	No. of shares as at 24.10.2018	Interest in capital	No. of shares as at 31.12.2017	Interest in capital
Aviva OFE	1,750,000	18.33%	1,750,000	18.38%
Nationale-Nederlanden OFE	1,733,000	18.16%	1,733,000	18.20%
OFE PZU ŻŁOTA JESIEŃ	865,000	9.06%	865,000	9.08%
AEGON PTE	590,000	6.18%	590,000	6.20%
PTE Allianz Polska	498,000	5.22%	498,000	5.23%
MetLife OFE	490,535	5.14%	no data	no data
Others	3,618,912	37.91%	4,085,700	42.91%
Total	9,545,447	100.00%	9,521,700	100.00%

SHARES HELD BY MEMBERS OF THE COMPANY'S MANAGEMENT BOARD AND SUPERVISORY BOARD AS AT THE PUBLICATION DATE OF THIS REPORT

According to the declarations made as at the last day of the reporting period, the Management Board of the Company held 248,044 ordinary bearer shares of Grupa Kęty S.A., including: President of the Management Board: 142,217 shares; a Member of the Management Board: 48,724 shares; a Member of the Management Board: 44,435 shares; a Member of the Management Board: 12,668 shares; a Member of the Management Board: 0 shares. In addition, on the basis of incentive programmes adopted at the General Meeting of Shareholders on 29th May 2012 and on 23rd April 2015, members of the Management Board have:

- the right to acquire 28,000 series J bonds with the pre-emptive right to subscribe for series G ordinary bearer shares, including: the President of the Management Board – 17,500 bonds, and the Member of the Management Board – 10,500 bonds, under the programme conditions;

- the right to acquire 33,000 series K bonds with the pre-emptive right to subscribe for series H ordinary bearer shares, including: the President of the Management Board – 9,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; under the conditions laid down in the programme.

- the right to acquire 33,000 series L bonds with the pre-emptive right to subscribe for series H ordinary bearer shares, including: the President of the Management Board – 9,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; under the conditions laid down in the programme.

- the right to acquire 33,000 series M bonds with the pre-emptive right to subscribe for series H ordinary bearer shares, including: the President of the Management Board – 9,000 bonds, and the Member of the Management Board – 6,000 bonds, a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; under the conditions laid down in the programme.

Members of the Supervisory Board did not hold any shares of Grupa Kęty S.A.

MATERIAL PROCEEDINGS CURRENTLY IN PROGRESS IN THE COURT, ARBITRATION COURT OR PUBLIC ADMINISTRATION AUTHORITY

In the reporting period, no proceedings before the court or public administration authority concerning liabilities or claims of the Issuer or of the Issuer's subsidiaries, whose total value amounts to minimum 10 % of the Issuer's equity, were initiated or pending against the Issuer or its subsidiaries.

RELATED PARTY TRANSACTIONS

In the reporting period, there were related-party transactions with the total value in the period since the beginning of the financial year exceeding the PLN equivalent of 500,000 EUR, but these transactions were typical and routine, and their nature as well as terms and conditions were determined by current operations of the Issuer and its subsidiaries.

INFORMATION ON THE ISSUER'S OR ITS SUBSIDIARIES' SURETIES FOR LOANS OR CREDITS, OR OTHER GRANTED GUARANTEES

In the reporting period, the Issuer and its subsidiaries did not grant any sureties for loans or credits or guarantees jointly to a single entity outside the Group or to this entity's subsidiary, whose total value amounts to minimum 10% of the Issuer's equity.

OTHER INFORMATION MATERIAL FOR THE ASSESSMENT OF THE ISSUER'S STAFF SITUATION, ASSETS AND FINANCIAL STANDING, AND INFORMATION MATERIAL FOR THE ASSESSMENT OF THE POSSIBILITY OF THE PAYMENT OF THE ISSUER'S OBLIGATIONS

Apart from information contained in the interim condensed consolidated financial statements for 3 quarters of 2018 and in these notes, the Management Board is not cognizant of any essential information significantly affecting assessment of the personnel condition and financial standing of Grupa Kęty S.A. and the Capital Group of Grupa Kęty S.A.

Signatures of all Members of the Management Board

Dariusz Mańko

President of the Management Board

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Adam Piela

Member of the Management Board

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Piotr Wysocki

Member of the Management Board

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Rafał Lechowicz

Member of the Management Board

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Tomasz Grela

Member of the Management Board

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Kęty, 24th October 2018