

The Management Board's Report on the  
Operations of the Capital Group of Grupa  
Kęty S.A. in the first half of 2016

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2 AUGUST 2016

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## 1. THE DESCRIPTION OF THE CAPITAL GROUP OF GRUPA KĘTY S.A.

### 1.1. A company with a financial and production potential

Grupa Kęty S.A. has been operating in the aluminium processing sector since 1953. The Company was established as a result of the transformation of a state-owned company Zakłady Metali Lekkich "KĘTY" into a sole-shareholder company of the State Treasury pursuant to the notary deed dated 3 March 1992. The Company is registered at the address: 32 650 Kęty, ul Kościuszki 111. Grupa Kęty S.A. is the parent company for the Group composed of three core business segments operating in the following areas:

- the production of aluminium profiles and components (Extruded Products Segment, EPS)
- designing and production of architectural systems and external aluminium roller shutters (Aluminium Systems Segment, ASS)
- the production of flexible packaging (Flexible Packaging Segment, FPS)

The Group comprises 25 companies; half of them are foreign subsidiaries. The holding company processes ca. 70 thousand tonnes of aluminium materials annually and total sales revenue in the reporting period exceeded 1.1 billion PLN. At the end of June 2016, the headcount in the Group was 4,505 employees, including 1,137 employees in Grupa Kęty S.A. All the companies of the Group focus on their development and modern technologies. Since 2010, the Group has spent over half a billion Polish zloty on investments in machines, new products and services. Owing to the expenditure, the companies of the Group joined the group of the most modern manufacturing companies in Europe in their respective industries. The Group operates on a global scale providing its products and services to customers in 50 countries.

### 1.2. The most important events and accomplishments in the first half of 2016

February 1 – a subsidiary Alupol Films Sp. z o.o. obtained the permit to expand its business in 'Krakowski Park Technologiczny' Special Economic Zone as part of the project to increase the capacity of the production of plastic films.

February 10 – publishing forecasts for 2016.

February 10 – the recommendation of the Company's Management Board concerning the amount of the dividend for 2015.

April 14 – the selection of Ernst & Young Audyt Polska as the entity to audit separate and consolidated financial statements for the years 2016-2019.

April 26 – the subsidiary ALUFORM Sp. z o.o. signed an agreement concerning the acquisition of 100 % of the shares and the sale and assignment of the debts of AHA EMMI Predelava Aluminija, d.o.o. with its registered office in Slovenska Bistrica in Slovenia from its owner, i.e. BAMC d.d. (Bank Assets Management Company).

May 12 – General Meeting of Shareholders

June 13 – the subsidiary ALUFORM Sp. z o.o. with its registered office in Tychy (operating in the Extruded Products Segment) established a limited liability company with the business name Aluminium Kety Deutschland GmbH, with its registered office in Dortmund in the Federal Republic of Germany. Aluminium Kety Deutschland GmbH will be involved mainly in commercial, marketing and promotional activities.

June 17 – the subsidiary Aluprof S.A. (the Aluminium Systems Segment) informed about submitting an application to the Ministry of Development for the co-financing, under the Smart Growth Operational Programme, of the project: “The Construction of the Research and Innovation Centre to Conduct Research and Development Works on the Development of Innovative Systems for the Construction Industry.” The value of the project is 66 million PLN; the application has been filed to obtain co-financing amounting to 10.7 million PLN.

June 28 – the Management Board of Grupa Kęty S.A., in connection with the planned changes in the Group's management structure, made the decision to change the method of presenting the results of individual business segments. From the publication of the current report, the results of subsidiaries (Metalplast Stolarka Sp. z o.o. and ROMB S.A.), which so far have been parts of the Building Services Segment and of the Building Accessories Segment, will be consolidated within the Aluminium Systems Segment. This decision is related to the works on the update of the Group's strategy, which will be presented, following the approval of the Company's Supervisory Board, at the time of the publication of financial forecasts for 2017.























## **2. THE OPERATIONS OF THE CAPITAL GROUP**


### **2.1 The structure of the Group**

Until June 2016, the Group had operated through five business segments. However, the Management Board of the parent company made a decision that, due to the need to better coordinate the works related to the handling of large export contracts and the associated higher turnover within the Group between Aluprof S.A (the Aluminium Systems Segment), Metalplast Stolarka SP. z o.o. (formerly the Building Services Segment) and Romb S.A. (formerly the Building Accessories Segment), these companies will be consolidated within a single segment, forming together the Aluminium Systems Segment. Therefore, the Group, at the end of the reporting period, consisted of 25 companies divided into three business segments. In addition, the Group comprises the following entities not allocated to any segment:

- 1) Dekret Centum Rachunkowe – providing bookkeeping and accounting services to the Polish companies of the Group;
- 2) Alutech – the management of heat distribution networks, which, in the past, belonged to Grupa Kęty S.A. in Kęty;
- 3) AluTrans System – following the organisational changes carried out in 2015 (the transfer of the production to Grupa Kęty S.A.), the company does not carry out any business activities.

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SEGMENT WYROBÓW WYCISKANYCH	SEGMENT SYSTEMÓW ALUMINIOWYCH	SEGMENT OPAKOWAŃ GIĘTKICH
 Grupa Kęty S.A.	 Aluprof S.A.	 Alupol Packaging S.A.
 Aluform Sp. z o.o.	 Metalplast Stolarka Sp. z o.o.	 Alupol Packaging Kęty Sp. z o.o.
 Alupol LLC (Ukraina)	 ROMB S.A.	 Alupol Films Sp. z o.o.
 Grupa Kęty Italia s.r.l. (Włochy)	 Aluprof Serwis Sp. z o.o.	
 Aluminium Kety Deutschland (Niemcy)	 Aluprof Hungary (Węgry)	
 AHA EMMI (Słowenia)	 Aluprof System Ukraina (Ukraina)	
	 Aluprof UK (Wielka Brytania)	
	 Aluprof System Romania (Rumunia)	
	 Aluprof System Czech (Czechy)	
	 Aluprof Deutschland (Niemcy)	
	 Aluprof Schelfhaut (Belgia)	
	 Marius Hansen Facader (Dania)	
	 Aluprof USA (Stany Zjednoczone)	

 DEKRET  
Centrum Rachunkowe Kęty  
Obsługa finansowa

The table below shows the assignment of particular companies to business segments. All companies of the Group were subject to consolidation.

Company name	Registered office	Core business	Parent's name	Shares in the basic capital as at 30.06.2016	Date of control take-over	Reporting segment
Alupol Packaging S.A.	Tychy, Poland	Production of flexible packaging	Grupa Kęty S.A.	100.00 %	04/1998	FPS
Aluprof S.A.	Bielsko-Biała, Poland	Production of aluminium systems for the building industry	Grupa Kęty S.A.	100.00 %	06/1998	ASS
Alutech Sp. z o.o. w likwidacji	Kęty, Poland	Heat distribution networks lease	Grupa Kęty S.A.	100.00 %	03/1999	Other
Dekret Centrum Rachunkowe Sp. z o.o.	Kęty, Poland	Accounting and bookkeeping services	Grupa Kęty S.A.	100.00 %	09/1999	Other
Alu Trans System Sp. z o.o.	Wrocław, Poland	The company does not carry out any activities.	Grupa Kęty S.A.	100.00 %	04/2000	Other
Aluprof Hungary Kft.	Dunakeshi, Hungary	Sale of aluminium systems	Aluprof S.A.	100.00 %	07/2000	ASS
Metalplast-Stolarka Sp. z o.o.	Goleszów, Poland	Production and assembly of woodwork	Grupa Kęty S.A.	100.00 %	07/2000	ASS
Alupol LLC	Borodianka, Ukraine	Production of aluminium profiles	Aluform Sp. z o.o.	100.00 %	12/2004	EPS
Aluprof Deutschland GmbH	Schwanewede, Germany	Sale of aluminium systems	Aluprof S.A.	100.00 %	02/2005	ASS
Aluprof System Romania s.r.l.	Bucharest, Romania	Sale of aluminium systems	Aluprof S.A.	100.00 %	05/2005	ASS
Aluprof System Czech s.r.o.	Ostrava, Czech Republic	Sale of aluminium systems	Aluprof S.A.	100.00 %	05/2005	ASS
Aluprof UK Ltd.	Altrincham, UK	Sale of aluminium systems	Aluprof S.A.	100.00 %	05/2006	ASS
ROMB S.A.	Złotów, Poland	Production of windows joinery accessories	Aluprof S.A.	100.00 %	04/2007	ASS
Alupol Packaging Kęty Sp. z o.o.	Kęty, Poland	Production of flexible packaging	Alupol Packaging S.A.	100.00 %	05/2009	FPS
Aluform Sp. z o.o.	Tychy, Poland	Production of aluminium profiles	Grupa Kęty S.A.	100.00 %	06/2009	EPS
Aluprof System Ukraina Sp. z o.o.	Kiev, Ukraine	Sale of aluminium systems	Aluprof S.A.	100.00 %	11/2009	ASS
Aluprof Serwis Sp. z o.o.	Bielsko-Biała, Poland	The company does not carry out any activities	Aluprof S.A.	100.00 %	01/2012	ASS
Grupa Kęty Italia s.r.l.	Milan, Italy	Trading intermediation	Grupa Kęty S.A.	100.00 %	5/2014	EPS

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Marius Hansen Facader A/S	Viborg, Denmark	Production and assembly of woodwork	Aluprof S.A.	100.00 %	6/2014	ASS
Aluprof System USA, Inc	Wilmington, USA	Sale of aluminium systems	Aluprof S.A.	100.00 %	7/2014	ASS
Alupol Films Sp. z o.o.	Kęty, Poland	Production of flexible packaging	Alupol Packaging Kęty Sp. z o.o.	100.00 %	12/2014	FPS
Aluprof Schelfhaut N.V.	Dendermonde, Belgium	Sale of aluminium systems	Aluprof S.A.	100.00 %	6/2015	ASS
AHA EMMI d o.o.	Slovenska Bistrica, Slovenia	Processing of aluminium profiles	Aluform Sp. z o.o.	100.00 %	6/2016	EPS
Aluminium Kety Deutschland GmbH	Dortmund, Germany	Trade and marketing activities	Aluform Sp. z o.o.	100.00 %	6/2016	EPS

## 2.2 The supply chain

Primary aluminium, aluminium scrap as well as semi-finished products based on aluminium (sheet aluminium and aluminium tape as well as ingots made from aluminium and its alloys) are the basic group of raw materials used in the Group. In the production of flexible packaging, the Group also uses various types of films and plastics granulates (polyethylene, polypropylene), printing paper, paints, adhesives and binders. The list of basic raw materials is supplemented with accessories for the production of aluminium systems and semi-finished steel products. Due to the necessity of maintaining high quality of the production, the purchasing policy of the Group is based on the cooperation with selected suppliers who guarantee a proper standard of the cooperation. Simultaneously, such diversification of suppliers so as to ensure safety and maintain the competitiveness of supplies is the basic assumption. Being aware of its impact on the environment, the Company is trying, in the first place, to use the services of local or national suppliers. Unfortunately, due to the nature of the industry, it is possible only to a very limited extent (aluminium scrap, paints, varnishes, thinners, some accessories for systems production). The vast majority of raw materials (ca. 85 - 90 %) are imported. The present materials procurement areas for the companies of the Group cover the entire Europe and Far East. In terms of sales, ca. 54 % of products are sold to Polish customers, while the remaining part (ca. 46 %) to customers abroad in 50 countries serviced by the Group.

## 2.3 Description of business segments

### 2.3.1 Extruded Products Segment

#### Background

The Extruded Products Segment of Grupa Kęty S.A. is the biggest Polish manufacturer of aluminium profiles with an estimated ca. 30-percent share in the Polish market. For several years now, it has also been listed among the most significant European manufacturers, with a ca. 2-percent share in this market. Grupa Kęty S.A. has 13 production lines for the extrusion of aluminium profiles (located in Kęty, Tychy, Borodianka in Ukraine), and a profiles processing plant in Slovenska Bistrica in Slovenia acquired in June 2016, owing to which the Company is able to flexibly utilise its production capacity throughout the year (70,000 tonnes of extruded products annually) and to adapt to any possible changes in the periodical structure of customer orders. The extensive product portfolio which makes it possible to supply aluminium profiles, elements and components to customers representing many diversified market segments is an additional asset. Apart from customers from traditional segments, including the leading one, i.e. building and construction industry, a significant portion of sale is made to customers from fast-growing industries such as automotive and transport, including rail transport. Fabricated components are also supplied to the electrical engineering and engineering industries. In addition, the segment manufactures various types of accessories for the furniture or furnishings industries.

Market situation, sales, customers

The size of the aluminium profiles market in Europe in the first half of 2016 is estimated at ca. 1,550 thousand tonnes, i.e. it increased by ca. 1 % as compared to the previous year. In such a market situation, the sales results of the Extruded Products Segment are very good. The segment, in its operating activities area (the production of aluminium profiles and their prefabrication), reported an increase by 10 % in terms of volume (31.7 thousand tonnes) and by 3 % in terms of value (427 million PLN). In geographical terms, exports grew at a rate of ca. 14 %, while the sales in Poland remained at the level similar to last year's level.

### 2.3.2 Aluminium Systems Segment



Background

Aluprof S.A. is one of major manufacturers of aluminium systems in Europe. Aluprof S.A. has its subsidiaries in many European countries and in the USA. The headquarters are in Bielsko-Biała, where production lines and the logistics centre are also located. The branch in Opole manufactures roller-blind systems. With over 50 years of experience, Aluprof S.A. has more than 1,300 permanent customers. The production plants located in Bielsko-Biała and Opole have the area of almost 80,000 sq.m. and boast modern equipment, including:

- an automated line for the production of thermally insulated profiles;
- ten latest-generation lines for the production of profiles and roller-boxes;
- high bay warehouses;
- modern, fully automated powder painting lines, including one vertical painting line.

Metalplast Stolarka Sp. z o.o. and Romb S.A. are the remaining companies of the Segment. Metalplast Stolarka is a company from the construction services sector. Designing, manufacture and assembly of modern façades and glass roofs based on aluminium systems offered by Aluprof S.A. and steel systems are the pillars of the company's business. ROMB Spółka Akcyjna is the only Polish manufacturer of the complete range of hardware for window joinery. The company also offers a wide range of system accessories and other solutions used in the production of windows and doors, also for systems of Aluprof S.A. Its rich technical base, including a tool room, an electroplating unit and an accredited measurement and testing laboratory, is an additional asset of the company.

Market situation, sales, customers

In the first half of 2016, the Segment reported the record level of sales exceeding the limit of 0.5 billion PLN. The gradual increase in the sales on the Polish market (+8 %) and rapidly growing exports (+33 %) also contributed to this huge export success. The biggest increases in the first quarter were recorded on the markets in the USA, Belgium and Romania. The Segment has been expanding its distribution network in Europe systematically, both organically and through its distribution companies located in eight European countries and in the USA. Owing to their gradual development, the architectural systems of Aluprof effectively compete with solutions offered by the competition from Western countries. In the first half of 2016, these systems were used, among others, in the following facilities:

- in Warsaw – Domaniewska 48, Grójecka Offices, MANGALIA – Sobieski Business Park, Galeria Północna – ŚWIATOWID, Polna 40, Neopark;
- in Wrocław – Galeria Wood/Wroclavia, Alexanderhaus;
- in Łódź – Nowa Formiernia, Nowa Fabryczna;
- in Kraków – Centrum Biurowe Lobos, Astris, Park Club;
- other cities – Baltic Park Molo (Świnoujście), Alchemia III (Gdańsk), 6MW Marina Royale (Darłowo).



### 2.3.3 Flexible Packaging Segment

#### Background



Alupol Packaging is one of major manufacturers of flexible packaging in Europe. As estimated by the company, the Flexible Packaging Segment has a ca. 20-percent share in the Polish market of printed flexible packaging and a 1.5-percent share in the European market. It cooperates with the biggest international concerns (including Nestle, Mondelez, Unilever, Orkla Foods, AB Foods, Jacobs Douve Egberts, McCormick) and with companies operating on European and local markets (Maspex, Mokate, Prymat, Woseba, Colian, Wawel, Sonko, Pini, Kania, Mlekovita, Mlekpól) providing packaging for such industries as food concentrates, confectionery, dairy, fat, meat, cold cuts, pharmaceutical, chemical and cosmetics industries. The Segment's production capacities located in two plants (in Tychy and Kęty) make it possible to manufacture ca. 27,000 tonnes of packaging in the form of multilayer laminates (e.g. based on paper, aluminium foil and plastic films) and plastic monofoils printed using rotogravure or flexographic method. In 2015, the Segment commenced the construction of the third plant located in Oświęcim (Małopolskie Province). According to plans, the plant will start its production in the first half of 2017.

#### Market situation, sales, customers

For Alupol Packaging, the first half of 2016 was a very good period, both in terms of sales value (an increase by over 13 %) and generated profits. As in previous years, thanks to wide-scale works on the optimisation of production and technology processes, the company managed to reduce costs, which, ultimately, ensured new orders from the market (mainly for laminates printed using the flexographic method, laminates bonded and/or coated with liquid polyethylene, and HBF9™ high-barrier films used to pack loose products and fresh food). The fact that both domestic and international sales grew at a similar pace, which is the evidence of the systematic growth of the Segment's share in the European market, was favourable. As far as foreign markets are concerned, in the first half of year, the largest growth was recorded on the following markets: Hungarian, Dutch, Slovak and Swiss.

## 2.4 Financial results of segments

Figures for 6 months ended on 30 June 2016 (in thousand PLN)

Group's business segments	FPS	EPS	ASS	Other	Eliminations	Total
Income statement						
Sales	239,095	427,370	508,986	6,203	(98,429)	1,083,225
- outside the Group	239,058	336,905	507,126	136	0	1,083,225
- to other segments	37	90,465	1,860	6,068	(98,430)	0
Operating profit (EBIT)	37,413	42,722	66,921	148,713	(154,357)	141,412
Depreciation/Amortisation	9,758	24,873	15,347	1,143	(5)	51,116
EBITDA	47,171	67,595	82,268	149,856	(154,362)	192,528
Balance sheet						
Segment's assets	704,902	727,184	746,357	531,415	(455,489)	2,254,369
Segment's trade liabilities	73,823	68,908	135,707	533	(56,844)	222,127
Unallocated liabilities (joint)	0	0	0	767,455	0	767,455
Total liabilities	73,823	68,908	135,707	767,988	(56,844)	989,582
Other						
Capital expenditure on non-current assets	77,405	16,181	25,457	1,445	0	120,488

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Figures for 6 months ended on 30 June 2015 (in thousand PLN)

<b>Group's business segments</b>	<b>FPS</b>	<b>EPS</b>	<b>ASS</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
<b>Income statement</b>						
Sales	211,119	416,802	431,535	13,303	(111,892)	960,867
- outside the Group	211,091	312,424	429,160	8,192	0	960,867
- to other segments	28	104,378	2,375	5,111	(111,892)	0
Operating profit (EBIT)	39,568	22,473	55,086	118,022	(120,671)	114,478
Depreciation/Amortisation	9,036	21,957	11,413	1,028	(5)	43,429
EBITDA	48,604	44,430	66,499	119,050	(120,676)	157,907
<b>Balance sheet</b>						
Segment's assets	536,113	679,138	673,945	523,289	(469,238)	1,943,247
Segment's trade liabilities	68,512	57,243	122,183	4,980	(67,384)	185,534
Unallocated liabilities (joint)				715,852	(122,074)	593,778
Total liabilities	68,512	57,243	122,183	720,832	(189,458)	779,312
<b>Other</b>						
Capital expenditure on non-current assets	19,692	38,940	27,333	568	0	86,533

- the column 'Other' contains figures for the units responsible for the centrally managed areas (IT, finances, PR and IR, risk management, equity investments, HR) and figures for companies not organisationally grouped in the core business segments such as Alu Trans System Sp. z o.o., Alutech Sp. z o.o. and Dekret Centrum Rachunkowe Sp. z o.o.
- a segment's assets comprise: non-current assets (except for shares and interests in subsidiaries which are reclassified to 'Other' item), inventories, trade and other receivables (except for public law receivables) and derivative financial instruments.
- the column 'Eliminations' in the income statement contains inter-segmental sales. It is mainly related to the sale of aluminium profiles from the EPS to the ASS. In the balance sheet, it is mainly the elimination of the parent company's interests in subsidiaries as well as of inter-segmental receivables and liabilities. Transaction prices applied in transactions between operating segments are determined at arm's length, as in the case of transactions with unrelated parties.

### **3. THE COMPANY'S AUTHORITIES**

#### **3.1 General Meeting of Shareholders**

On 12 May 2016, the Ordinary General Meeting of Shareholders of Grupa KĘTY S.A. was held. It approved of the separate and consolidated financial statements of Grupa KĘTY S.A. for 2015. In addition, the General Meeting of Shareholders distributed the Company's net profit for 2015 amounting to 150,821,060.75 PLN as follows:

- a) the amount of 150,313,718.70 PLN (one hundred and fifty million three hundred and thirteen thousand seven hundred and eighteen zloty and 70/100) for the payment of the dividend to shareholders;
- b) the amount of 507,342.05 PLN (five hundred and seven thousand three hundred and forty two zloty and 05/100) for the reserve capital;
- c) shareholders also decided to use the Company's reserve capital by allocating 19,852,755.30 PLN to the payment of the dividend to the Company's shareholders.

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The total amount allocated to dividend amounts to 170,166,474.00 PLN.

The General Meeting of Shareholders discharged all members of the Supervisory Board and of the Management Board for the performance of their duties in the financial year 2015.

### 3.2 Supervisory Board

The composition of the Supervisory Board in the reporting period was as follows:

Maciej Matusiak	Chairman
Szczepan Strublewski	Vice-Chairman
Jerzy Surma	Member
Paweł Niedziółka	Member
Jerzy Marciniak	Member

In the two most recent financial years, the participation of women in the Supervisory Board of Grupa Kęty S.A. was at the level of 0 %.

The table below contains the information about the remunerations of the members of the Supervisory Board in the reporting period and about the number of the Company's shares held by them as at the last day of this report.

	Number of shares of Grupa KĘTY S.A.	Remuneration
Maciej Matusiak	0	79,800.57 PLN
Szczepan Strublewski	0	66,500.48 PLN
Jerzy Surma	0	53,200.38 PLN
Paweł Niedziółka	0	53,200.38 PLN
Jerzy Marciniak	0	53,200.38 PLN

### 3.3 Management Board

The Management Board headed by its President manages the Company's affairs and represents the Company vis-a-vis third parties. If the Management Board consists of more than one member, two members of the Management Board acting jointly or one member of the Management Board acting jointly with the Proxy are authorised to make statements and sign documents on behalf of the Company. Any matters related to the management of the Company's affairs, not reserved to other authorities of the Company, are handled by the Management Board. The operation of the Management Board is determined in detail in the By-laws of the Management Board approved of by the Supervisory Board. The meetings of the Company's Management Board, convened by its President, are held at least once a month.

As at the last day of the reporting period, the Management Board was composed of:

Dariusz Mańko	- President
Adam Piela	- Member

In the two most recent financial years, the participation of women in the Company's Management Board was at the level of 0 %.

The basic remuneration of the members of the Company's Management Board in the reporting period was as follows:

President of the Management Board	- 513,080.48 PLN
Member of the Management Board	- 309,680.00 PLN

Furthermore, the Members of the Management Board received an annual bonus for the previous year of 1,383,674.00 PLN in the case of the President of the Management Board, and of 830,204.00 PLN in the case of the Member of the Management Board. The annual bonus is awarded by the Supervisory Board and its

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value depends on the degree of the accomplishment of financial forecasts for a particular year. Its maximum value is 150 % of the annual basic remuneration of a given member of the Management Board.

According to the declarations made as at the last day of the reporting period, the Management Board of the Company held 161,681 ordinary bearer shares of Grupa KĘTY S.A., including: the President of the Management Board – 126,550 shares, and the Member of the Management Board – 35,131 shares. In addition, on the basis of incentive programmes adopted at the General Meeting of Shareholders on 29 May 2012 and on 23 April 2015, members of the Management Board have:

- the right to acquire 11,604 series H bonds with the pre-emptive right to subscribe for series G ordinary bearer shares, including: the President of the Management Board – 7,231 bonds, and the Member of the Management Board – 4,373 bonds; due to the fulfilment of the conditions laid down in the programme;
- the right to acquire 27,280 series I bonds with the pre-emptive right to subscribe for series G ordinary bearer shares, including: the President of the Management Board – 17,000 bonds, and the Member of the Management Board – 10,280 bonds, under the conditions laid down in the programme;
- 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 conditions laid down in the programme.
- the right to acquire 15,000 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 bonds, and the Member of the Management Board – 6,000 bonds, under the conditions laid down in the programme.

The Corporate Collective Bargaining Agreement (CCBA) concluded with the corporate trade unions on 30 June 1992 (as amended) is the basic corporate document concerning the remuneration policy. According to the CCBA, the employees of Grupa Kęty S.A. are entitled to the following remuneration components:

- the basic remuneration;
- the extra remuneration (e.g. for overtime or night shifts);
- incentive bonuses and discretionary awards and/or on-target bonuses.

In the companies of the Capital Group of Grupa Kęty S.A., depending on the headcount, remuneration principles are specified in remuneration rules or in contracts of employment.

The Management Board of Grupa Kęty S.A. and key managers of the Group are entitled to the following remuneration components:

- the basic remuneration;
- the annual bonus depending on the accomplishment of financial parameters with a limited maximum bonus level;
- discretionary awards;
- incentive programmes described in the financial statements, based on financial ratios and the share price.

In the opinion of the Management Board, the existing remuneration policy accomplishes the objectives of the long-term growth for shareholders, ensuring the stability of the Company's operations.

Members of the Management Board are not entitled to other, non-financial remuneration components, apart from those listed above. In the reporting period, Grupa Kęty S.A. neither concluded any material transactions with related, supervising and managing persons nor granted loans, guarantees or sureties to such persons and such persons' relatives. There are no agreements between Grupa KĘTY S.A. and managing persons which provide for any compensation in the case of their resignation or dismissal from their positions for no important reason or where their dismissal is related to the Issuer's merger by acquisition, except for the conditions included in the term of notice and conditions included in non-competition agreements. Managing persons do not receive any remuneration for being members of managing or supervisory authorities of other companies of the Capital Group of Grupa Kęty S.A.

## 4. CONSOLIDATED FINANCIAL RESULTS

### 4.1 Consolidated financial statements

#### 4.1.1 Selected financial figures

	in '000' PLN		in '000' EUR	
	First half of 2016	First half of 2015	First half of 2016	First half of 2015
Net sales revenue	1,083,225	960,867	247,283	232,425
Profit (loss) on operating activities	141,412	114,226	32,282	27,630
Gross profit (loss)	134,436	106,943	30,690	25,869
Net profit (loss)	143,439	92,689	32,745	22,421
Net profit (loss) attributable to the parent's shareholders	143,439	92,689	32,745	22,421
Total net income (loss)	153,908	89,605	35,135	21,675
Total net income (loss) attributable to the parent's shareholders	153,908	89,605	35,135	21,675
Net cash flow from operating activities	160,825	68,438	36,714	16,555
Net cash flow from investing activities	-150,770	-107,283	-34,418	-25,951
Net cash flow from financing activities	32,851	55,087	7,499	13,325
Total net cash flow	42,906	16,242	9,795	3,929
Earnings (loss) per ordinary share (in PLN/EUR)	15.18	9.86	3.47	2.39
Diluted earnings (loss) per ordinary share (in PLN/EUR)	15.16	9.84	3.46	2.38
<b>Balance sheet items</b>	<b>30.06.2016</b>	<b>31.12.2015</b>	<b>30.06.2016</b>	<b>31.12.2015</b>
Total assets	2,254,369	1,958,692	509,404	459,625
Liabilities and provisions for liabilities	989,582	679,849	223,609	159,533
Long-term liabilities	225,330	171,553	50,916	40,256
Short-term liabilities	764,252	508,296	172,693	119,276
Equity of the parent's shareholders	1,264,787	1,278,843	285,795	300,092
Share capital	67,534	67,505	15,260	15,841
Number of shares	9,453,693	9,441,988	9,453,693	9,441,988
Book value per share (in PLN/EUR)	133.79	135.44	30.23	31.78
Diluted book value per share (in PLN/EUR)	133.59	135.00	30.19	31.68
Dividend per share – declared or paid (in PLN/EUR)	0.00	18.00	0.00	4.22

The above financial figures for the first half of 2016 and of 2015 were translated into EUR as follows:

- assets and liabilities – at the average exchange rate of the National Bank of Poland (NBP) as at 30.06.2016 – 4.4255 PLN/EUR and as at 31.12. 2015 – 4.2615 PLN/EUR;
- the items of the income statement, of the statement of comprehensive income and of the cash flow statement – at the exchange rate being an arithmetic mean of the exchange rates of the NBP for the last two days of each month: the first half of 2016 – 4.3805 PLN/EUR; the first half of 2015 – 4.1341 PLN/EUR.

	3 months ended on 30.06.2016 (not audited)	6 months ended on 30.06.2016 (not audited)	3 months ended on 30.06.2015 (not audited)	6 months ended on 30.06.2015 (not audited)
<b>Total operating income, including:</b>	<b>568,244</b>	<b>1,088,542</b>	<b>503,391</b>	<b>971,072</b>
Sales revenue	564,187	1,083,225	494,916	960,867
- including from the sales to an associate	304	308	231	231
Other operating income	4,057	5,317	8,475	10,205
<b>Share of net profit of entities accounted for using the equity method</b>	<b>(120)</b>	<b>1,163</b>	<b>(109)</b>	<b>(252)</b>
<b>Change of inventories of finished goods and work in progress</b>	<b>6,459</b>	<b>15,117</b>	<b>5,362</b>	<b>8,239</b>
<b>Cost of manufacturing products for own needs</b>	<b>3,002</b>	<b>5,885</b>	<b>3,019</b>	<b>5,693</b>
<b>Total operating costs, including:</b>	<b>(502,190)</b>	<b>(969,295)</b>	<b>(449,614)</b>	<b>(870,526)</b>
Depreciation/Amortisation	(25,731)	(51,116)	(22,002)	(43,429)
Materials, energy and the value of goods and materials sold	(334,924)	(651,083)	(313,338)	(605,757)
External services	(50,881)	(96,167)	(39,603)	(75,225)
Taxes and charges	(3,551)	(6,906)	(3,564)	(6,877)
Employee benefits	(76,280)	(148,465)	(65,401)	(128,816)
Other operating costs	(10,823)	(15,558)	(5,706)	(10,422)
<b>Profit on operating activities</b>	<b>75,395</b>	<b>141,412</b>	<b>62,049</b>	<b>114,226</b>
Finance income	284	1,112	271	433
Finance costs	1	(8,088)	5,596	(7,716)
<b>Profit before tax</b>	<b>75,680</b>	<b>134,436</b>	<b>67,916</b>	<b>106,943</b>
Income tax expense	13,679	9,003	(10,341)	(14,254)
<b>Net profit on continuing operations</b>	<b>89,359</b>	<b>143,439</b>	<b>57,575</b>	<b>92,689</b>
Attributable to non-controlling shareholders	0	0	0	0
<b>Attributable to the parent's shareholders</b>	<b>89,359</b>	<b>143,439</b>	<b>57,575</b>	<b>92,689</b>
Earnings per share attributable the parent's shareholders (PLN)				
Basic	9.45	15.18	6.12	9.86
Diluted	9.44	15.16	6.11	9.84

#### 4.1.2 Income statement

#### 4.1.3 Statement of comprehensive income

	3 months ended on 30.06.2016 (not audited)	6 months ended on 30.06.2016 (not audited)	3 months ended on 30.06.2015 (not audited)	6 months ended on 30.06.2015 (not audited)
<b>Net profit for the period</b>	<b>89,359</b>	<b>143,439</b>	<b>57,575</b>	<b>92,689</b>
<b>Other comprehensive income:</b>	<b>6,932</b>	<b>10,469</b>	<b>(1,870)</b>	<b>(3,084)</b>
Cumulative translation adjustment	1,597	812	1,157	(88)
Valuation of cash flow hedging instruments	6,125	9,181	(3,775)	(2,291)
Result from cash flow hedge	278	2,217	(67)	(1,238)
Income tax related to other comprehensive income to be charged to profit or loss	(1,068)	(1,741)	815	533
<b>Comprehensive income for the period</b>	<b>96,291</b>	<b>153,908</b>	<b>55,705</b>	<b>89,605</b>
Comprehensive income attributable to:				
Non-controlling shareholders	0	0	0	0
<b>Parent's shareholders</b>	<b>96,291</b>	<b>153,908</b>	<b>55,705</b>	<b>89,605</b>

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#### 4.1.4 Consolidated balance sheet

ASSETS	30.06.2016 (not audited)	31.12.2015 (audited)
<b>I. Non-current assets</b>	<b>1,302,310</b>	<b>1,140,961</b>
Property, plant and equipment	1,059,090	947,657
Intangible assets	55,612	57,883
Goodwill	19,955	19,866
Investment properties	12,795	11,927
Interests in entities accounted for using the equity method	2,648	1,812
Other investments	11	11
Other receivables	6,342	5,670
Advance payments for the purchase of property, plant and equipment	46,190	23,573
Deferred income tax assets	99,667	72,562
<b>II. Current assets</b>	<b>952,059</b>	<b>817,731</b>
Inventories	350,728	323,330
Current tax receivables	988	4,315
Trade and other receivables	476,003	415,183
Short-term investments	113	71
Derivative financial instruments	8,617	2,128
Cash and cash equivalents	115,610	72,704
<b>Total assets</b>	<b>2,254,369</b>	<b>1,958,692</b>
EQUITY AND LIABILITIES	30.06.2016 (not audited)	31.12.2015 (audited)
<b>I. Equity</b>	<b>1,264,787</b>	<b>1,278,843</b>
Share capital	67,534	67,505
Share premium	23,385	22,043
Capital from share based payments	14,790	13,959
Result from cash flow hedging transactions	356	(1,872)
Capital from the valuation of hedging instruments	3,504	(3,925)
Capital from the valuation of property, plant and equipment	3,003	3,003
Retained earnings	1,179,249	1,205,976
Cumulative translation adjustment	(27,034)	(27,846)
<b>Equity attributable to the parent's shareholders</b>	<b>1,264,787</b>	<b>1,278,843</b>
Equity of non-controlling shareholders	0	0
<b>II. Long-term liabilities</b>	<b>225,330</b>	<b>171,553</b>
Liabilities due to borrowings and finance lease	133,126	90,601
Other liabilities	1,882	2,098
Provisions	6,054	1,188
Provisions due to employee benefits	8,847	5,559
Deferred income	36,733	37,230
Deferred income tax liability	38,688	34,877
<b>III. Short-term liabilities</b>	<b>764,252</b>	<b>508,296</b>
Liabilities due to borrowings and finance lease	242,555	224,219
Income tax liabilities	5,302	11,800
Trade and other liabilities	480,294	239,070
Provisions and accruals	28,493	21,769
Derivative financial instruments	4,657	7,857
Deferred income	2,951	3,581
<b>Total equity and liabilities</b>	<b>2,254,369</b>	<b>1,958,692</b>

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#### 4.1.5 Consolidated cash flow statement

Cash flow statement	6 months ended on 30.06.2016 (not audited)	6 months ended on 30.06.2015 (not audited)
Cash flow from operating activities		
<b>Profit before tax</b>	<b>134,436</b>	<b>106,943</b>
Adjustments:	57,029	44,796
Share of net profit of entities accounted for using the equity method	(1,163)	252
Depreciation/Amortisation	51,116	43,429
Recognition/(reversal) of revaluation write-downs	9	142
Profit from net currency translation differences	2,072	(942)
Profit from derivative financial instruments	(614)	0
(Profit) / loss from the sale of property, plant and equipment	(79)	(113)
Interest and share of profits	3,334	2,258
Proceeds/(expenses) related to hedging instruments charged to equity	2,217	(721)
Costs of share based payments	832	1,088
Change of the valuation of currency forwards/futures	0	33
Gain from a bargain purchase	(1,176)	(613)
Other items (net)	481	(17)
<b>Cash flow from operating activities before the change of working capital</b>	<b>191,465</b>	<b>151,739</b>
Change in inventories	(15,852)	(14,267)
Change in net receivables	(61,377)	(53,931)
Change in short-term liabilities, except for loans	67,215	6,824
Change in provisions	1,576	(1,858)
Change in deferred income	(1,928)	(996)
<b>Net cash generated from operating activities</b>	<b>181,099</b>	<b>87,511</b>
Tax paid	(20,274)	(19,073)
<b>Net cash from operating activities</b>	<b>160,825</b>	<b>68,438</b>
Cash flow from investing activities		
(+) Proceeds:	579	324
Sale of intangible assets and property, plant and equipment	579	310
Other proceeds	0	14
(-) Expenses:	(151,349)	(107,607)
Acquisition of intangible assets and property, plant and equipment	(141,454)	(95,405)
Cash loans granted	(99)	0
Expenditure on acquisitions of other entities	(9,796)	(12,202)
<b>Net cash from investing activities</b>	<b>(150,770)</b>	<b>(107,283)</b>
Cash flow from financing activities		
(+) Proceeds:	126,010	110,464
Net proceeds from the issue of shares	1,371	7,685
Proceeds from borrowings	124,639	102,777
Proceeds from the issue of debt securities	0	2
(-) Expenses:	(93,159)	(55,377)
Repayments of borrowings	(90,270)	(52,946)
Redemption of debt securities	0	(1)
Finance lease rentals	(127)	(87)
Interest	(2,762)	(2,343)
<b>Net cash from financing activities</b>	<b>32,851</b>	<b>55,087</b>
<b>Total net cash flow:</b>	<b>42,906</b>	<b>16,242</b>
- change in cash due to currency translation differences	0	0
<b>Cash and cash equivalents at the beginning of the period</b>	<b>72,704</b>	<b>66,430</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>115,610</b>	<b>82,672</b>



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#### 4.1.6 Consolidated statement of changes in equity

Attributable to the parent's shareholders

	Share capital	Share premium	Non-registered capital from the issue of shares	Capital from share-based payments	Result from cash flow hedging transactions	Capital from the valuation of hedging instruments	Capital from the valuation of property, plant and equipment	Retained earnings	Cumulative translation adjustment	Equity of the parent's shareholders	Equity of non-controlling shareholders	Total equity
<b>Equity as at 1 January 2016</b> (audited)	<b>67,505</b>	<b>22,043</b>	<b>0</b>	<b>13,959</b>	<b>(1,872)</b>	<b>(3,925)</b>	<b>3,003</b>	<b>1,205,976</b>	<b>(27,846)</b>	<b>1,278,843</b>	<b>0</b>	<b>1,278,843</b>
Comprehensive income for the period:	0	0	0	0	2,228	7,429	0	143,439	812	153,908	0	153,908
<i>Net profit for the period</i>	0	0	0	0	0	0	0	143,439	0	143,439	0	143,439
<i>Other comprehensive income</i>	0	0	0	0	2,228	7,429	0	0	812	10,469	0	10,469
Valuation of share based payments	0	0	0	831	0	0	0	0	0	831	0	831
Payment of dividend	0	0	0	0	0	0	0	(170,166)	0	0	0	(170,166)
Issue of shares	29	1,342	0	0	0	0	0	0	0	1,371	0	1,371
<b>Equity as at 30 June 2016</b> (not audited)	<b>67,534</b>	<b>23,385</b>	<b>0</b>	<b>14,790</b>	<b>356</b>	<b>3,504</b>	<b>3,003</b>	<b>1,179,249</b>	<b>(27,034)</b>	<b>1,264,787</b>	<b>0</b>	<b>1,264,787</b>
<b>Previous year</b>												
<b>Equity as at 1 January 2015</b> (audited)	<b>67,352</b>	<b>14,512</b>	<b>1,601</b>	<b>11,244</b>	<b>1,438</b>	<b>(475)</b>	<b>3,174</b>	<b>1,131,908</b>	<b>(27,522)</b>	<b>1,203,232</b>	<b>0</b>	<b>1,203,232</b>
Comprehensive income for the period:	0	0	0	0	(721)	(2,275)	0	92,689	(88)	89,605	0	89,605
<i>Net profit for the period</i>	0	0	0	0	0	0	0	92,689	0	92,689	0	92,689
<i>Other comprehensive income</i>	0	0	0	0	(721)	(2,275)	0	0	(88)	(3,084)	0	(3,084)
Valuation of share based payments	0	0	0	1,088	0	0	0	0	0	1,088	0	1,088
Payment of dividend	0	0	0	0	0	0	0	(136,073)	0	(136,073)	0	(136,073)
Issue of shares	31	1,569	4,483	0	0	0	0	0	0	6,083	0	6,083
<b>Equity as at 30 June 2015</b> (not audited)	<b>67,383</b>	<b>16,081</b>	<b>6,084</b>	<b>12,332</b>	<b>717</b>	<b>(2,750)</b>	<b>3,174</b>	<b>1,088,524</b>	<b>(27,610)</b>	<b>1,163,935</b>	<b>0</b>	<b>1,163,935</b>

#### 4.2 The Management Board's comments

In the first half of 2016, a good economic situation on both the domestic and international markets served by the Group's companies maintained. It was reflected in both the projected sales growth rate and accomplished margins. Sales revenue amounted to 1,083.2 million PLN, i.e. it increased by ca. 13 % as compared to the corresponding period in the previous year. Such dynamic growth was possible due to the further development of the position on the domestic market and the rapidly growing international sales (an increase by 22 % against the growth by 6 % on the domestic market). Due to the accomplished sales results, high operating margin could be maintained, as the fixed costs were distributed over a larger volume of sold products. As a result, consolidated operating profit increased to 141.4 million PLN (+23 %), and consolidated net profit attributable to the parent's shareholders amounted to 143.4 million PLN (an increase by 55 %).

As estimated by the Management Board, the balance sheet of the Group has a safe borrowing structure. Despite continuous development and considerable investment projects, equity still accounts for the major part of the balance sheet total. As at the balance sheet date, it accounted for 56 % of total equity and liabilities, which represents a decrease by nine percentage points as compared to the end of the previous year, due to the recognition in short-term liabilities of 170 million PLN of the dividend payable in the second half of the year. As the Group's companies are mostly production enterprises that continuously invest in their development, property, plant and equipment constitute a significant item of non-current assets. In the reporting period, they accounted for 47 % of total assets (the level lower by 1 p.p. than at the end of the previous year). The value of current assets as at the balance sheet date amounted to 952.1 million PLN and accounted for ca. 42 % of total assets (the level similar to last year's level).

Cash flows owing to which the Group's companies are able to continue their development is one of very important parameters from the point of view of the Management Board. In the first six months of the reporting period, due to very good financial results and skilful working capital management, consolidated cash flow from operating activities amounted to 160.8 million PLN and was higher by over 100 % than the figure recorded in the first half of 2015. The cash flow is sufficiently safe and stable and it does not influence the further policy of financing future development. As intended by the Management Board, further development is to be financed essentially from this source (cash from operating activities) and bank loans.

Summing up, the Management Board has a positive opinion about generated financial results in all material respects. The Group is based on solid financial foundations and is ready to face further challenges related to the implementation of the new strategy for 2015-2020.

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### 4.3 Loans and contingent liabilities

#### Long-term loans (in '000' PLN)

Borrower	Lender	Loan currency	31.12.2015	Increases (decreases)	30.06.2016
Grupa Kęty S.A.	BGŻ BNP PARIBAS S.A.	PLN	23,798	(4,332)	19,466
Alupol Packaging Kęty Sp. z o.o.	BGŻ BNP PARIBAS S.A.	PLN	40,000	45,960	85,960
Aluprof S.A.	BGŻ BNP PARIBAS S.A.	PLN	26,230	(4,768)	21,462
AHA EMMI d o.o.	Delavska Hranilnica d.d.	EUR	0	3,607	3,607
<b>Total loans</b>			<b>90,028</b>	<b>40,467</b>	<b>130,495</b>
Aluprof Romania	Liabilities due to finance lease	RON	110	(19)	91
Aluprof UK		GBP	0	33	33
Metalplast Stolarka Sp. z o.o.		PLN	463	(120)	343
AHA EMMI d o.o.			0	2,164	2,164
<b>Total lease</b>			<b>573</b>	<b>2,058</b>	<b>2,631</b>
<b>Total long-term loans and lease</b>			<b>90,601</b>	<b>42,525</b>	<b>133,126</b>

#### Short-term loans (in '000' PLN)

Borrower	Lender	Loan currency	31.12.2015	Increases (decreases)	30.06.2016
Grupa Kęty S.A.	BGŻ BNP PARIBAS S.A.	PLN	22,308	(6,532)	15,776
Grupa Kęty S.A.	ING BSK S.A.	PLN	3	0	3
Grupa Kęty S.A.	Bank PEKAO SA	PLN	42,026	9,100	51,126
Grupa Kęty S.A.	Societe Generale S.A.	EUR	3,705	1,585	5,290
Grupa Kęty S.A.	Bank PKO BP	PLN	3,312	1,035	4,347
Alupol Packaging S.A.	Bank PKO BP	PLN	2,307	(1,538)	769
Alupol Packaging S.A.	BGŻ BNP PARIBAS S.A.	PLN	5,962	(23)	5,939
Alupol Packaging S.A.	Bank PEKAO SA	PLN	10,088	1,721	11,809
Alupol Packaging Kęty Sp. z o.o.	Bank PEKAO SA	PLN, EUR, USD	2,489	4,653	7,142
Alupol Packaging Kęty Sp. z o.o.	Bank PKO BP	PLN, EUR	4,618	(3,359)	1,259
Alupol Packaging Kęty Sp. z o.o.	BGŻ BNP PARIBAS S.A.	PLN	13,377	3,607	16,984
Aluprof S.A.	Bank PEKAO SA	PLN, EUR	4,561	11,545	16,106
Aluprof S.A.	Bank PKO BP	EUR	2,131	(2,131)	0
Aluprof S.A.	Societe Generale S.A.	PLN, EUR	2,650	(1,352)	1,298
Aluprof S.A.	BGŻ BNP PARIBAS S.A.	PLN	24,827	(15,094)	9,733
Aluprof S.A.	BPH S.A.	PLN	13,935	(13,935)	0
Metalplast Stolarka Sp. z o.o.	Bank PEKAO SA	PLN, EUR	33,573	(451)	33,122
Metalplast Stolarka Sp. z o.o.	ING BSK S.A.	PLN, EUR	21,186	6,883	28,069
Metalplast Stolarka Sp. z o.o.	BGŻ BNP PARIBAS S.A.	PLN	2,127	(2,127)	0
ROMB S.A.	Bank PKO BP	PLN	47	2,866	2,913
ROMB S.A.	BGŻ BNP PARIBAS S.A.	PLN	4,932	59	4,991
Alupol Films Sp. z o.o.	Bank PEKAO SA	EUR, USD	3,623	(3,409)	214
Alupol Films Sp. z o.o.	BGŻ BNP PARIBAS S.A.	PLN	0	6,015	6,015
Aluform Sp. z o.o.	PEKAO S.A.	PLN	0	1,170	1,170
AHA EMMI d o.o.	Delavska Hranilnica d.d.	EUR	0	3,545	3,545
AHA EMMI d o.o.	Unicredit	EUR	0	13,277	13,277
<b>Total loans</b>			<b>223,787</b>	<b>17,110</b>	<b>240,897</b>
Aluprof Romania	Liabilities due to finance lease	RON	9	(9)	0
MHF A/S		DKK	117	(16)	101

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Aluprof Schelfhaut	EUR	47	(30)	17
Aluprof UK	GBP	0	16	16
Metalplast Stolarka Sp. z o.o.	PLN	259	(15)	244
AHA EMMI d o.o.	EUR	0	1,280	1,280
<b>Total lease</b>		<b>432</b>	<b>1,226</b>	<b>1,658</b>
<b>Total short-term loans and lease</b>		<b>224,219</b>	<b>18,336</b>	<b>242,555</b>

All loans bear interest at Wibor/Euribor rates plus the bank's margin. Loans repayments resulted from the repayment schedule. Borrowings are related to the management of the Group's liquidity.

Contingent liabilities (in '000' PLN)

Item	30.06.2016 (not audited)	31.12.2015 (audited)
Insurance performance bond from the ASS*	73,802	72,772
Other building guarantees granted by the ASS	740	0
Building bank guarantees granted by Metalplast Stolarka Sp. z o.o.**	31,059	30,342
Banking performance bond for a rental contract (expires in the first half of 2016)	418	411
<b>Total granted guarantees</b>	<b>106,019</b>	<b>103,525</b>

\* The Group supplies elements under a material contract. To guarantee the performance of the contract, the Group issued an insurance bond with the expiry date of 30.11.2016.

\*\*Building guarantees are related to the proper performance of construction services contracts, and their validity dates depend on the terms and conditions of particular contracts.

Apart from aforementioned liabilities, there are no other contingent liabilities.

## 5. ANNUAL FORECASTS AND THE DEVELOPMENT STRATEGY

### 5.1 Forecasts for 2016

The Management Board of Grupa Kęty S.A. assumes that 2016 will be another year of the growth of the Group's sales and profits. This expectation is based on the stable economic growth in Poland and the systematic development of export to markets in Europe and in the USA. On the basis of adopted assumption concerning the prices of raw materials and exchange rates, particular segments forecast the following sales revenue:

- Extruded Products Segment – 860 million PLN (+5 %)
- Aluminium Systems Segment – 930 million PLN (+9 %)
- Flexible Packaging Segment – 470 million PLN (+8 %)
- Other segments – 170 million PLN (-1 %)

Consolidated sales revenue will amount to 2,145 million PLN and will be ca. 6 % higher than the revenue generated in 2015. The Management Board is projecting that consolidated operating profit will amount to 250 million PLN, i.e. it will be higher than in the previous year by 5%. EBITDA (operating profit less depreciation and amortisation) will amount to 360 million PLN, i.e. it will increase by 9 %. The expected financing activities balance in 2016 will amount to -16.5 million PLN and is based

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solely on the calculation of loan costs. In addition, when calculating net profit for 2016, the Company took account of 50 million PLN of deferred tax asset due to operations in the Special Economic Zone. As a result, consolidated net profit will amount to 245 million PLN.

The table below shows the forecast of basic consolidated financial figures for 2016 in million PLN as compared to preliminary results for 2015:

	2015	2016*	Change
Sales revenue	2,027.1 mill. PLN	2,145 mill. PLN	+ 6 %
EBIT	244.4 mill. PLN	250 mill. PLN	+ 2 %
EBIT	336.1 mill. PLN	360 mill. PLN	+ 7 %
Net profit	209.8 mill. PLN	245 mill. PLN	+17 %
Capital expenditure	207.3 mill. PLN	359 mill. PLN**	

\* forecast

\*\* including 36 million PLN of payments carried forward from investment projects in 2015

The above forecasts were prepared on the basis of the following macroeconomic ratios:

- aluminium price – 1,600 USD/ton
- average USD exchange rate – 4.05 PLN
- average EUR exchange rate – 4.30 PLN
- EUR/USD relation – 1.06
- GDP growth – 3.6 %

Financing: According to the Company's estimates, at the end of 2016, the interest-related debt due to bank loans and lease will amount to ca. 564 million PLN, so it will be higher by ca. 250 million PLN than at the end of 2015, mainly due to the record-level investment programme (359 million PLN), assumed dividend payment (as per the dividend policy) and the needs related to the financing of working capital. The Management Board expects that credit lines held by the companies of the Group along with cash generated during the year satisfy the needs for the financing of the assumed expenditure.

Dividend policy: Despite the record level of investments, the Management Board upholds its decision to increase the dividend payment ratio to 60 % of consolidated net profit.

Potential acquisitions: The forecasts for 2016 do not take into account any effects of potential acquisition projects. However, the Management Board is considering two directions of potential acquisitions:

In the Extruded Products Segment – they may be related to the development of existing competences or the acquisitions of new competences in the area of profiles processing and the production of components based on aluminium profiles. Potential projects may be related to entities with sales revenue of up to 50 million EUR.

In the Aluminium Systems Segment – they may be related to the geographic or product-related development on new markets. Potential projects may be related to entities with sales revenue of up to 20 million EUR.

## 5.2 Strategy 2020

Strategy 2020 focuses on the systematic development in the areas with high levels of required competences and on the consistent expansion of the added value chain. For this reason, already in the first year of the strategy implementation, a number of projects meeting these criteria were launched. As regards the market, the Group's activity among international customers operating in demanding industries or seeking a specific product is on the increase. For example, the Group launched the cooperation on the US market related to the assembly of structural façades with laminated glass. The Extruded Products Segment has been developing its offer of aluminium-based components, collaborating more and more often with customers from the public transport sector (including aviation). From the technical and product-related point of view, the companies of the Group have launched the largest investment programme so far worth over 900 million PLN to be carried out in the period of six years. As part of the programme, the Group initiated the construction of a brand new production plant in the Flexible Packaging Segment, whose products will supplement the added value chain of this Segment.

Despite multiple tasks of an organisational and investing nature, the ongoing work on the market has not been forgotten. As a result, the Group boasts record-breaking financial results, which exceeded, for the first time in the Group's history, 200 million PLN of consolidated net profit.

## 6. INVESTMENT PROJECTS AND R&D PROJECTS

For many decades now, investment projects have been the driving force behind the Group's growth. The funds allocated to the construction of new facilities, the purchase of modern technologies, plant and machinery confirm that. Since 2000, the Company has spent on investment projects ca. 1.7 billion PLN and, until the end of 2020, it intends to spend, in line with its development strategy, another 700 million PLN. In total, in the period of 20 years from 2000, the capital expenditure will amount to ca. 2.4 billion PLN.

During the reporting period, the Group expanded with new production halls and modern warehouse buildings, innovative technological lines and a new company in Slovenia, which opens up further opportunities related to the processing of aluminium profiles. Major projects implemented in the first half of the year comprise, among others:

- 1) The construction of the polypropylene films production plant in the Flexible Packaging Segment. This project is one of the elements of the Segment's strategy consisting in lengthening the added value chain, as the majority of films manufactured in the plant in Oświęcim will be refined (printing, lamination, cutting) by Alupol Packaging S.A. and Alupol Packaging Kęty Sp. z o.o. The establishment of the new facility is, at the same time, the Group's response to the market demand for a flexible supplier of plastic films.
- 2) The expansion of the production infrastructure in the Aluminium Systems Segment.
- 3) The acquisition of 100 % of shares in a Slovenian company called AHA EMMI in the Extruded Products Segment.
- 4) Further expansion of production capacities in the area of the production of components and products from hard alloys in the Extruded Products Segment.

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Capital expenditure on the purchase of property, plant and equipment, intangible assets and shares and interests in acquired entities in the Capital Group of Grupa KĘTY S.A. in the first half of 2016 and of 2015 was as follows:

	First half of 2016	First half of 2015
Total expenditure (in million PLN)	151.3	107.6

The Group's planned capital expenditure in the next 12 months will amount to ca. 300 million PLN. The said expenditure will be allocated to the following crucial projects:

- launching the upgrade of the production of the so-called hard alloys (the press and auxiliary equipment);
- further expansion of the Advanced Aluminium Products Unit in the Extruded Products Segment;
- further projects related to the expansion of the production capacity in the Flexible Packaging Segment;
- the launch of the construction of a new plant manufacturing plastic films in the Flexible Packaging Segment.

The remaining part of the expenditure comprises the current expenditure on maintaining machines in an appropriate technical condition or small projects with an individual value not exceeding 1 million PLN. Capital expenditure made and scheduled is financed from own funds and bank loans.

## 6.1 Research and Development

High quality, innovative products and investments in state-of-the-art technologies and machinery are the basis of the operating philosophy and strategy of the Group as regards offered products and services. Over the years, the Company has consistently built its advantage by developing products, investing in human capital and the latest technologies. This approach is successful; the products of the companies of the Capital Group of Grupa Kęty S.A. are purchased by more and more customers in Poland and worldwide. The research and development activities, innovation and the continuous improvement of the machinery base are the factors driving the success of the organisation and the development of the core business segments of the Capital Group of Grupa Kęty S.A.

Aluprof S.A. (the Aluminium Systems Segment) is one of the European leading distributors of aluminium systems for architectural solutions commonly used in the construction business. The company, to accelerate the process of implementing innovation and new system-based solutions, established its own very good Development Department and the Centre for Research and Innovation, whose laboratory cooperates with IFT Rosenheim (Germany) and the Building Research Institute (ITB) in Warsaw.

In the first half of 2016, the Segment launched the sale of a few new window and exterior door systems, including the so-called 'passive' door system with very high thermal insulation performance, and tilt windows, especially popular on the UK market.

The Segment developed and launched a new line of external windows, which, due to the shape of the profiles and the construction method, are supposed to meet specific needs of selected Western markets.

The Segment launched the sales of a new, economical fire door system in individual construction and in 'window display' construction. Approval documents required by law, which are especially important in the case of fireproof systems, were amended. Tests and ratings were carried out according to harmonised European standards.

New façade systems were developed and launched. Mullion-transom façade systems, including fireproof and special segment-based systems carrying seismic tremors, are especially noteworthy. Selected curtain wall systems and individual solutions are intended for selected facilities located in Poland, but first of all abroad, particularly in the USA.

The offer was expanded with a number of new products in the area of roller shutters and insect screens, including OPOTERM system for the French market and SK45° front mounted "extruded" roller shutter system; a textile roller blinds system, a front mounted system designed to work with façade Venetian blinds.

Research and Development Centre (R&DC) in Grupa Kęty S.A. launched in 2011 was partially financed by the European Union from the European Regional Development Fund under the Operational Programme Innovative Economy 2007-2013. In retrospect, the establishment of this Centre proved to be a shrewd decision, as it enabled Grupa Kęty S.A. to attempt to win new markets that require the observance of high quality standards and the implementation of new innovative solutions. Owing to its activities, the R&DC ensured further upgrade and diversification of offered products in an effort to build up their competitiveness in existing and potential new markets. In addition, R&DC is a strong promotional element, which distinguishes Grupa Kęty from other companies from the aluminium industry.

The implementation of research projects in the first half of 2016 was focused on:

- developing the technology of manufacturing products extruded from a new grade of alloy and designed for high pressure conditions;
- launching the production of sections made from strong aluminium alloys for the aviation and defence industries;
- developing the technology of extruding profiles for the sports and leisure industry;
- optimising the service life of tools used in the extrusion process.

The effects of the implementation are as follows:

- broadening the range of products offered to innovative sectors of the industry;
- improving knowledge and gaining valuable experience in innovative areas of activities;
- energy savings and improving the efficiency of the use of available resources;
- mitigating the adverse impact on the environment;
- cooperation with Polish and international research and development units.



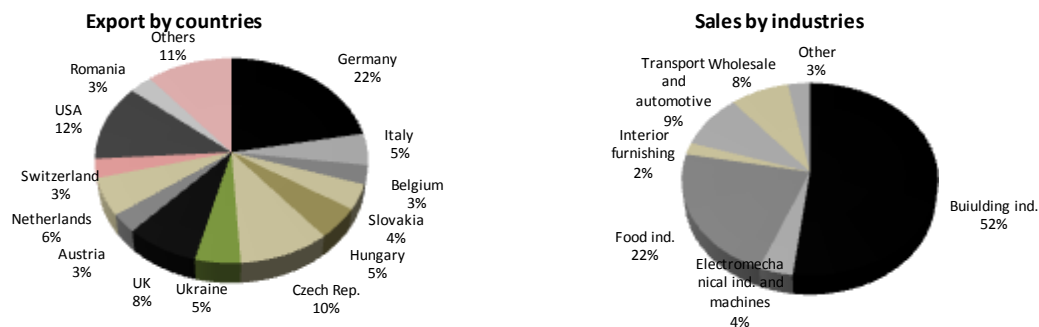
## 7. FACTORS DETERMINING THE DEVELOPMENT OF THE CAPITAL GROUP

### 7.1 External factors

Taking into account the materiality of the impact of the remaining companies of the Group upon the picture of the financial standing of Grupa Kęty S.A. as well as the risks to which the Company is exposed, if not stated otherwise, the presented factors are related to the whole Capital Group of Grupa Kęty S.A.

#### BUSINESS CONDITIONS ON MARKETS

The companies of the Group are exposed to demand fluctuations occurring both in the Polish economy, which is the recipient of ca. 54 % of the sale, and in the economies of other European countries, which receive ca. 46 % of the Group's total sales. The situation on the markets of Germany, the Czech Republic, the UK, the Netherlands and the USA, which receive 58 % of the export sale and, to a lesser degree, on the markets of Italy, Slovakia, Hungary, Austria, Belgium, Romania, Ukraine and Switzerland, is of special importance for the sales growth. At the same time, when analysing the sale by industries, one can notice high concentration of the Group's sale in the building industry (ca. 52 % of the consolidated sale value), thus, all factors affecting business conditions in the building industry (availability of loans, the level of investments) on the Polish market and the main export markets exert substantial influence on the sale generated by the Group. The Management Board estimates that, in the next six months, good business situation will be maintained; it will make it possible for particular segments to record from 5 up to even 20 % growth rate as compared to the previous year.



Source: own study

#### EU CUSTOMS POLICY

Since May 2007, the customs for aluminium imported from the states of the former USSR have been decreased from 6 % to 3 %; the producers located in these states are the main suppliers of the main raw material for the Company. The continuation of such activities, i.e. the reduction to 0 % in further years, may positively affect the Company's financial results. In turn, the return to previous rates (6 %) will affect the financial results in a disadvantageous way.

#### AVAILABILITY OF RAW MATERIALS

Primary aluminium, aluminium scrap as well as semi-finished products based on aluminium (sheet aluminium and aluminium tape as well as ingots made from aluminium and its alloys) are the basic

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group of raw materials used in the Group. In the production of flexible packaging, the Group also uses various types of films and plastics granulates (polyethylene, polypropylene), printing paper, paints, adhesives and binders. The list of basic raw materials is supplemented with accessories for the production of aluminium systems and semi-finished steel products. Due to the necessity of maintaining high quality of the production, the purchasing policy of the Group is based on the cooperation with selected suppliers who guarantee a proper standard of the cooperation. Simultaneously, such diversification of suppliers so as to ensure safety and maintain the competitiveness of supplies is the basic assumption.

#### PRICES OF RAW MATERIALS

In terms of shaping the selling prices of extruded products, the Group depends on world aluminium prices, which may significantly affect the changes in sales value, profitability and financial results as well as the level of working capital. All supplies of primary aluminium and semi-finished products based on aluminium (ingots), which are the basic raw materials used in the manufacturing processes, are based on aluminium prices established at the London Metal Exchange. A major increase in the prices of primary aluminium, if not balanced by the increase in the products prices, may have a significant detrimental impact upon financial results. To mitigate the risk of the volatility of aluminium prices, the companies of the Group apply price formulae based on exchange quotations of aluminium, transferring a part of the risk to customers, or they conclude futures for the purchase of aluminium. In the case of other raw materials groups, the companies of the Group do not use derivatives to hedge their exposure. However, in selected cases, they apply mechanisms of the indexation of product prices depending on the level of prices of the main groups of raw materials (e.g. plastics and paper in the Flexible Packaging Segment).

#### EXCHANGE RATES

According to the Company's estimates, in the reporting period, ca. 45 % of sales were generated in PLN, ca. 45 % in EUR, 5 % in USD, and the remaining 5 % in other currencies (GBP and UHR). As regards expenses, ca. 35 % of costs are costs incurred in PLN, 33 % are costs in USD, 30 % are costs in EUR and ca. 2 % are costs in other currencies (GBP, UHR). Having regard for the foregoing, the PLN/EUR, PLN/USD and EUR/USD exchange rates will materially affect the Company's results. The companies of the Group take measures to mitigate the currency risk by entering into currency forwards, purchasing options or maintaining a part of their debt in foreign currencies.

#### COMPETITION

Since the 1990s, we have observed steady increase in the competition due to the attractiveness of the Polish market and the vicinity of the markets of Eastern Europe. In the reporting period, the number of competitors in particular business segments did not change substantially. According to the Management Board's estimates, the main competitors in particular business areas are as follows:

<b>Extruded Products Segment</b>	<b>Sapa Aluminium, Yawal and Final (Yawal Group), Eurometal, Cortizo, Kaye Aluminium, Extral Aluminium, Aliplast, Albatros</b>
<b>Aluminium Systems Segment</b>	Sapa Building System, Schuco, Hydro Building System, Ponzio, Yawal, Aliplast, Blyweert, Heroal, Alukon, Reynaers
<b>Flexible Packaging Segment</b>	Amcor, Constantia Teich, Mondi Packaging, Suominen Polska, Fuji Seal Polska, Schur Flexibles Poland

Source: own study

#### LOANS

The companies of the Group systematically invest cash into further technical and technological development, using borrowings. Furthermore, due to the standards applicable on the market, it

partially finances its customers by granting trade credits to them. It means that, despite generated cash from operating activities, the restrictions concerning the access to borrowing in the form of bank loans may have significant impact upon the Company's development opportunities. It may also affect the amount of the dividend paid by Grupa Kęty S.A. The level of interest rates will directly affect the finance costs disclosed by particular companies, hence upon the generated net profit.

#### POLITICAL AND ECONOMIC SITUATION IN UKRAINE

In Ukraine, the Group has two companies: Alupol Ukraina LLC, a production company, and Aluprof System LLC, a trading company. The unstable political and economic situation in Ukraine results in the exposure of the said assets to the risk exceeding the usual economic risk. The Management Board has been analysing the situation of subsidiaries in Ukraine on an ongoing basis.

## 7.2 Internal factors

#### INVESTMENTS IN THE DEVELOPMENT OF TECHNOLOGIES AND OF THE DISTRIBUTION AND SALE NETWORK

The operation of the Group on a highly competitive market calls for constant meeting of the requirements of the competition and customers. Those requirements can only be met through technological development, new products, greater potential as well as the development of the distribution and sale network. The Company is aware of those requirements, therefore it has been implementing systematically its strategic plan that ensures the Company's development in all key areas which guarantee high competition level with respect to the other players on the market.

#### STAFF COMPETENCE LEVELS AND THE EMPLOYMENT STRUCTURE THAT ENSURES THE MEETING OF THE CHALLENGES POSED BY THE FAST DEVELOPING MARKET

The Group's success partially depends on the work of the management staff and the ability to retain and motivate highly qualified staff. The loss of services provided by qualified and experienced staff may have significant adverse impact upon the functioning of the Group. Therefore, the Group implemented a worked-out policy of recruitment and retention of key and valuable employees, whose work and contribution translates directly into its success.

#### THE ABILITY TO FINANCE CURRENT OPERATIONS AND INVESTMENT PROJECTS

The Group finances its current activities and development projects with the financial resources generated from operating activities and with borrowings (mainly bank loans). In addition, due to its status of a listed company, Grupa Kęty S.A. has access to financing through the capital market. The Company, owing to its high profitability and stable market position, is an attractive customer for banks, and owing to its high standards of corporate governance, the ongoing dialogue with existing and potential shareholders and an attractive dividend policy, is very appreciated by the capital market.

## 8. CORPORATE SOCIAL RESPONSIBILITY

In the first half of 2016, the Group continued the set directions in the area of the Company's social commitment and the implementation of the adopted CSR policy. The second meeting of the Sustainable Development and Social Responsibility Steering Committee was held. During the meeting,

the Committee approved of and adopted for implementation the schedule of activities in the areas of education through sport, environmental protection and corporate social activities (through Fundacja Grupa Kęty Dzieciom Podbeskidzia ('Grupa Kęty to the Children of Podbeskidzie Region' Foundation) and 'Together with the GROUP' programme), and focused on the subject of ethics in the organisation and on the update of the procedure concerning the implementation method for the CSR policy in the Group.

During the meeting, the Committee also assessed trends in the CSR area, and particular emphasis was placed on human rights, CSR in the supply chain and 17 UN sustainable development goals.

Apart from standard processes and activities taking place in the organisation on a daily basis, the Company's enhanced activities in the area of corporate social responsibility include:

The idea of educating through sport. For many years now, it has been the Company's method to promote physical culture and foster sports activity among children and adolescents. In the first half of 2016, the Company was a partner of a number of local sporting events:

- 1) 5<sup>TH</sup> REKSIO THE DOG'S CUP – skiing competitions for children (February 2016)
- 2) 40<sup>th</sup> Beskids Family Bike Race (April 2016)
- 3) 'Młoda Plaża Open' – a beach volleyball tournament for under-18 participants (May, June 2016)

The idea of educating through sport is crucial element of social impact. In the first half of the year, the Company allocated ca. 60 thousand PLN for such measures.

The Company's social commitment focuses mainly on the activities of Fundacja Grupa Kęty Dzieciom Podbeskidzia ('Grupa Kęty to the Children of Podbeskidzie Region' Foundation), which, in the first half of the year, allocated 118 thousand PLN for its statutory goals. The main tasks of the Foundation are as follows: ensuring equal opportunities for children and the youth at the risk of extreme exclusion, and providing assistance to young people in the process of becoming independent in life. '16plus' programme, which involves education on subjects important and sensitive for young people, and education which really helps protect young people against errors in life, is an important initiative fostering such goals. It includes, among other things, the following thematic workshops:

"Everyday ECONOMY" – assistance to manage and plan your own budget;

"I DO NOT EAT: restrictive diet and eating disorders"

"Sexual EDUCATION"

"PREVENTION of alcohol addictions"

"PREVENTION of drug addictions"

"PREVENTION of computer games addictions"

The programme of ensuring equal opportunities also comprises the continuation of 'Harry Potter Academy' project, in which the Foundation offered young people a chance to cooperate with and meet employees of the Jagiellonian University ('The Irresistible Project'). The model developed and made by the pupils from the Foundation was one of a few models shown at 'Welcome to the Nano-World' exhibition in the Museum in Collegium Maius in Kraków.

The activities of the Foundation are intertwined with other social activities of the Company, hence the participation of the children supported by the Foundation in sports and ecological events.

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Apart from the activities of 'Grupa Kęty to the Children of Podbeskidzie Region' Foundation, the Company runs a social and voluntary project called 'Together with the GROUP'. Under the programme, Grupa Kęty gets involved in local projects initiated and carried out voluntarily by employees of the Group's companies. In the first half of the year, the Company signed 22 agreements with partners, donating 39.6 thousand PLN for the projects. Grants were paid to 10 schools, 3 sports clubs, 5 kindergartens, 2 Voluntary Fire Brigades, the Polish Tatra Society and one local association.

The beneficiaries of the project include local communities, particularly children and adolescents attending the schools and kindergartens which are the project Partners, and using the sports infrastructure. The comprehensive report on this programme will be presented in the Management Board's report for 2016.

As a signatory to the UN Global Compact, Grupa Kęty endeavours in the organisation to respect, promote and develop its 10 principles. One of the projects promoting GC: 'Principle 1: Supporting and respecting internationally proclaimed human rights' involved the use of this subject-matter as the leading theme of this year's edition of the art contest held for the children of the employees of the Group's companies. In the contest titled 'Colourful World — draw how you play together with children from other countries', the total of 973 works from the entire Group were submitted. The objective of the contest was to build the awareness of multiculturalism among children, and the subject of human rights in the contemporary world.

The social engagement of Grupa Kęty has been noticed – two practices applied in the organisation qualified for '2015 RESPONSIBLE BUSINESS IN POLAND REPORT. GOOD PRACTICES.' Grupa Kęty was ranked sixth in 2016 Socially Responsible Companies List. The Responsible Companies Ranking and the Socially Responsible Companies List are compiled each year by prof. Bolesław Rok from Kozminski University in the collaboration with Jarosław Horodecki, and verified by Deloitte. The Responsible Business Forum is the patron of the ranking.

GRUPA KĘTY S.A. became one of the winners of 'Złoty Płatnik 2015' ('Golden Payer 2015') Poll held by Euler Hermes Collections. GRUPA KĘTY S.A. recorded average PMI at the level of 95 in 2015, and the average index for all the remaining analysed companies was 58.

In the first half of 2016, Grupa Kęty focused on secure technologies, the efficient use of natural resources and the strengthening of the links between environmental management and production in order to improve environmental performance and to implement the business strategy. Environmental measures in this period focused particularly on the fulfilment of the requirements of Directive of the European Parliament and of the Council on industrial emissions (IED), and changes made in relation to the release of ISO 14001:2015. Measures were focused on the improvement of the performance and the implementation of tools to minimise environmental risks as part of the Company's risk management system.

The tasks completed earlier, associated with the monitoring of soil and underground water quality, and with the implementation of the so-called 'BAT (best available techniques) Conclusions' in the plant systems, made it possible to submit, at the beginning of this year, the complete application to update the integrated permit by taking into account the new requirements of EDI and by adapting the limits of the consumption of raw materials, utilities, generated waste to the levels resulting from present production plans.

The environmental management system review carried out on 14 March 2016 by executives confirmed the compliance with environmental laws and other requirements applicable to the

Company's environmental aspects. The review confirmed a good level of the implementation of the Environmental Programme, further reduction of environmental costs and the increased efficiency of processes manifested in the reduction of emissions per production unit. The findings of the review were confirmed during the third-party supervision conducted on 16-17 June 2016 by independent auditors TUV NORD. In addition, the audit demonstrated the full compliance with the requirements of ISO14001.

Continuing the promotion of environmental measures in the first half of 2016, Grupa Kęty S.A. became a partner of 'LET'S CLEAN THE BESKIDS 2016' campaign organised by the Polish Tatra Society. The campaign resulted in the participation of 791 people, including 521 children and adolescents, who collected the total of 12,280 litres of rubbish from 192 kilometres of mountain trails. Children supported by 'Grupa Kęty for the Children of Podbeskidzie Region' Foundation and the Group's employees participated actively in the cleaning initiative.

Grupa Kęty S.A. also became the patron of 'Eco-inspirations 2016' project. The programme is focused on social and consumer education. It awards innovative, eco-friendly brands, products, companies, institutions, organisations and personalities working to promote the respect for the environment and sustainable development.

In the first half of 2016, the Company focused on the implementation of its HR Policy, as part of which the companies of the Capital Group of Grupa Kęty S.A. are guided by common standards and, according to the philosophy: "Human capital as a path to success", take measures to enhance the employees' potential. Training programmes are an important element supporting the professional development of employees. They are designated not only to gain and improve skills, but are also a part of the incentive system and they play an integrational role. The policy in this area pursued by Grupa Kęty ensures the continuity of the organisation's operation in the case of planned and abrupt changes in employment on key positions. On the other hand, the reserve staff that is built now allows for the smooth implementation of development plans.

The dynamic development of the organisation means a lot of responsibility in the area of smooth recruitment processes. Being aware of the potential and qualifications of its employees, Grupa Kęty seeks candidates first within its own structures. Positive examples confirm the Company's belief that it is the right solution. Each recruitment process is an opportunity to build the image of the organisation as a trustworthy employer. It is also one of the elements of personnel marketing. An induction process starts upon the hiring of a new employee. The Company ensures access to the information required both to properly perform work and to function in the new environment. This way, it helps meet professional expectations for employees and build their relations with the team.

All elements of the HR Policy are created and developed in a way ensuring the accomplishment of the organisation's goals. Each of them performs a specific function, affecting the implementation of other processes. The whole system forms standards in the area of human resources management. The flexibility principle allows the organisation to smoothly adjust to imminent changes.

To ensure employees' health and safety, the Group continued the measures under the Safe Work Programme, and the organisation strives to eliminate risks at work. Preventative measures comprise, apart from basic statutory ones, e.g. additional H&S and fire protection training courses with reference to the specific nature of the operations of a given company. Suggestions systems are also used to implement the programme objectives; they encourage employees to share their knowledge, allow them to suggest improvements and they are an additional source of information about potential

risks at work. Owing to the reporting system, we constantly analyse the results of undertaken measures and potential risks.

## 9. RISK MANAGEMENT

The basic risks as well as objectives and principles of risk management in the Capital Group of Grupa Kęty S.A. did not change as compared to the ones published in the most recent annual consolidated financial statements of Grupa Kęty S.A. for 2015 published on 16 March 2016.

## 10. GRUPA KĘTY S.A. ON THE CAPITAL MARKET

### 10.1 Shares and shareholders

The Company's shares have been quoted on Warsaw Stock Exchange since 30 January 1996. At present, the Company's shares are quoted as part of mWIG40 index. As at 30 June 2016, the number of all issued shares of Grupa KĘTY S.A. amounted to 9,453,693 shares with the nominal value of 2.50 PLN each. The list of shareholders holding over 5 % of shares as at 30 June 2016 and 31 December 2015 is as follows:

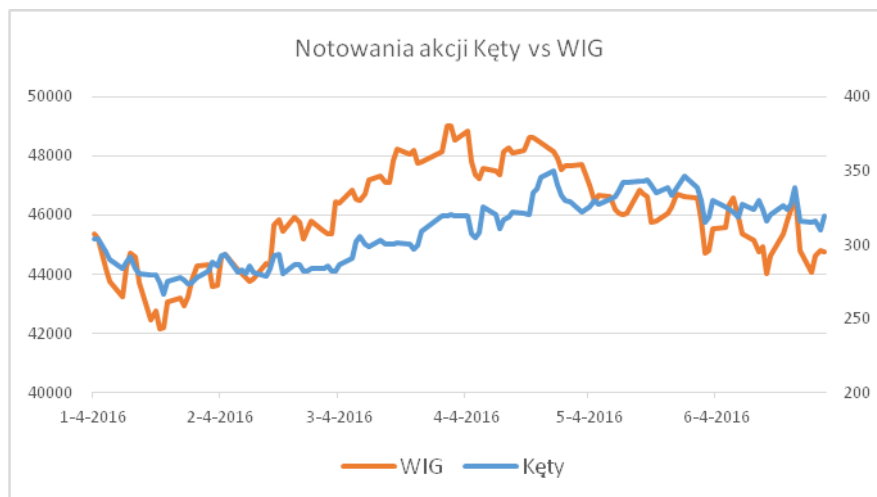
	No. of shares as at 30.06.2016	Interest in capital	No. of shares as at 31.12.2015	Interest in capital
Aviva OFE	1,691,276	17.89 %	1,691,276	17.91 %
Nationale-Nederlanden OFE	1,610,534	17.04 %	1,610,534	17.06 %
OFE PZU ŻŁOTA JESIEŃ	921,000	9.74 %	921,000	9.75 %
PTE Allianz Polska	499,748	5.29 %	499,748	5.29 %
Others	4,731,135	50.04 %	4,719,430	49.99 %
Total	9,453,693	100.00 %	9,441,988	100.00 %

After the balance sheet date, there were no material changes in the structure of shareholders holding more than 5 % of shares at the Company's General Meeting of Shareholders. Furthermore, the Management Board did not have any information about any agreement, including any agreement concluded after the balance sheet date, as a result of which significant changes in the shareholding structure of Grupa KĘTY S.A. might occur.

### 10.2 Share price

In the reporting period (on the basis of closing prices):

- the average share price amounted to 308.57 PLN;
- the minimum share price (January 21) amounted to 266.40 PLN;
- the maximum share price (April 25) amounted to 350.00 PLN;
- price change throughout the year (between 31 December 2015 and 30 June 2016) amounted to 1.9 %; in the same period, WIG index fell by 3.7 %;
- the average per session trading volume was 5,723 shares;
- 709,644 shares changed hands during the period (a decrease by 9 % as compared to the first half of 2015).



### 10.3 Dividend policy

Since 2001, the Company has paid dividend on a regular basis; until 2014, it had been at the level of ca. 40 % of consolidated net profit. In the strategy for 2015-2020 announced in 2015, the Management Board of Grupa Kęty S.A. declared that the dividend payment ratio would rise to 60 % of consolidated net profit.

## 11. OTHER REPORT ELEMENTS

### 11.1 The control system for employee share programmes

The share-based incentive programmes are approved in Grupa Kęty S.A. by the General Meeting of Shareholders and supervised by the Company's Supervisory Board.

### 11.2 The method of using the proceeds from the issue by the issuer

As part of the programme of the issue of employee shares, in the reporting period, eligible employees subscribed for the total of 11,705 series F shares from the first part of the 2012 programme. Detailed information is presented in the table below. The related proceeds were allocated to the financing of the current operations of the Company.

Shares	Issue price	Number	Value ('000' PLN)
Series G shares (first part) – the 2012 programme	117.10	11,705	1,370.7
<b>TOTAL</b>	-	<b>11,705</b>	<b>1,370.7</b>

### 11.3 Purchase of treasury shares

The Company did not purchase treasury shares in the period covered by this report.



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#### 11.4 Pending proceedings

The companies of the Capital Group of Grupa Kęty S.A., as at the last day of the reporting period and as at the date of this report, were not a party to any proceedings pending in the court, competent arbitration court or public administration authority with the total value accounting for at least 10 % of the equity of Grupa Kęty S.A.

#### 11.5 The explanation of the differences between financial results disclosed in the report and forecasts for a given year published previously

The Management Board upholds the forecasts published on 10 February 2016.

#### 11.6 Derivative instruments

Detailed information concerning derivative financial instruments is available in note 27 in the Interim Consolidated Financial Statements of the Capital Group of Grupa Kęty S.A. for the first half of 2016.

#### 11.7 Inter-company transactions

Transactions within the Group for the period from 1 January 2016 to 30 June 2016 and as at 30 June 2016, from the point of view of the parent company:

Related party	Sales	Purchases	Receivables	Liabilities	Dividends
Aluprof S.A.	87,448	1,409	139,085	541	85,000
Alupol Packaging S.A.	700	0	60,270	0	60,000
Alu Trans System Sp. z o.o.	2	0	0	0	0
Dekret Sp. z o.o.	398	745	70	153	150
Aluprof Hungary Sp. z o.o.	77	128	8	71	0
Metalplast Stolarka Sp. z o.o.	852	163	254	26	0
Alupol Ukraina LLC	1,591	2,275	0	339	0
Alutech Sp. z o.o. w likwidacji	2	8	0	8	0
Romb S.A.	379	4	144	0	0
Aluform Sp. z o.o.	1,029	28,850	9,711	6,108	9,364
Alupol Packaging Kęty Sp. z o.o.	4,149	11	1,221	0	0
Aluprof Schelfhaut ltd	6	0	6	0	
Aluprof System Czechy sro	0	150	0	30	0
Grupa Kęty Italia srl	0	771	244	243	0
AHA EMMI d.d.o	70	0	70	0	
<b>Total</b>	<b>96,703</b>	<b>34,514</b>	<b>211,083</b>	<b>7,519</b>	<b>154,514</b>

In addition, due to the payment of a part of receivables by Alupol Ukraina LLC, the Company reversed the revaluation write-down of 855 thousand PLN.

Apart from the aforementioned transactions, in the period of six months of 2016, the Company did not carry out any other related party transactions.

The transactions with the members of the Management Board and of the Supervisory Board are described in note 27 in the Interim Condensed Consolidated Financial Statements. There were no other significant related party transactions apart from the aforementioned transactions and balances.

#### 11.8 Events after the reporting period

After the reporting period, there were no events, which, in the opinion of the Management Board, could have a significant impact on the market and financial situation of the Company and of the Group.

## 12. DECLARATIONS OF THE MANAGEMENT BOARD

### THE DECLARATION OF THE MANAGEMENT BOARD OF GRUPA KĘTY S.A. CONCERNING THE TRUTH AND FAIRNESS OF PRESENTED FINANCIAL STATEMENTS

The Management Board of Grupa Kęty S.A. hereby declares that, according to their best knowledge, the financial information and comparative data recognised in the interim consolidated financial statements of the Capital Group of Grupa Kęty S.A. for the first half of 2016 were prepared according to the applicable accounting principles, and they present a true and fair view of the financial standing and assets of the Capital Group of Grupa Kęty S.A. The attached Management Board's Report on the Operations of the Capital Group of Grupa Kęty S.A. for the first half of 2016 presents a true view of the development and accomplishments as well as of the standing, including the description of basic risks and threats, of the Capital Group of Grupa Kęty S.A.

### THE DECLARATION OF THE MANAGEMENT BOARD OF GRUPA KĘTY S.A. CONCERNING THE SELECTION OF THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

The entity authorised to audit financial statements that reviews the interim consolidated financial statements of the Capital Group of Grupa Kęty S.A. for the first half of 2016, i.e. Ernst&Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k., was selected according to the law. The entity and the auditors performing the review observed the conditions for the issuance of an impartial and independent opinion on the review, according to the law and professional standards.

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Dariusz Mańko

President of the Management Board

Adam Piela

Member of the Management Board

Kęty, 2 August 2016