

**CAPITAL GROUP OF GRUPA KĘTY S.A.**

**THE COMMENTS OF THE MANAGEMENT BOARD OF GRUPA KĘTY S.A. TO THE  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST QUARTER  
ENDED ON 31 MARCH 2017**

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

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In the first quarter, very good business conditions both on the Polish market and on export markets persisted. The US market was the only market on which the Group recorded a decrease. In terms of value, the biggest growths of export were recorded for the Czech, Hungarian, German and Italian markets. The indices published by the Polish Central Statistical Office (GUS) related to the growth of the industrial production and retail sales are the confirmation of the signs of good business conditions. In addition, the launch of the sales of BOPP film, manufactured from the middle of the fourth quarter of 2016, was very successful. After just a few months from the line launch, it has achieved 60% of its production capacity. As a result, the Group generated 601.5 million PLN of consolidated sales revenue, 69.8 million PLN of consolidated operating profit and 54.7 million PLN of consolidated net profit. A lower operating margin is due to the increase in the raw materials base (average aluminium prices expressed in the Polish zloty increased in the first quarter by 25%), and due to the consolidation of the Slovenian company Aluminium Kety Emmi, which in the first quarter of 2016 was not consolidated, and which records lower margins than those achieved from previous activities. Due to higher aluminium price and the launch of production in Alupol Films, working capital increased in the first quarter and, hence, cash flows from operating activities were lower than the figures recorded in the past and in the first quarter amounted to 19 million PLN (the mean amount for the last four quarters amounted to 79 million PLN). As regards the operating activity, the Group implemented the following tasks:

- Continuing the implementation of projects as part of the new strategy approved of by the Company's Supervisory Board; its basic objectives were published on 7 February 2017.
- 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.

In addition, the following events had place in the first quarter:

February 7 – the publication of updated objectives of Strategy 2020 and of the Management Board's recommendation concerning the payment of 80% of consolidated net profit for 2016 in the form of dividend (23.50 PLN per share).

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## FACTORS WHICH HAVE MATERIAL IMPACT UPON THE RESULTS OF THE QUARTER

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### Demand for the Company's products

Sales revenue growth was recorded in the case of two out of three business segments of the Group. In the Extruded Products Segment (EPS), the revenue increased due to higher sales volumes (+19%), the consolidation of the Slovenian company Aluminium Kety Emmi acquired in June 2016 and the growing aluminium price on global markets (an increase in the average aluminium price translated into PLN by 25%). In the Flexible Packaging Segment (FPS), the revenue increased due to the launch of the sales of BOPP film manufactured in the plant opened in the middle of the fourth quarter of 2016. In all segments, revenue growths were recorded on the Polish market. In the case of export, only the Aluminium Systems Segment failed to replace lower revenue from the US market with revenue from orders from other countries/regions. In the other two segments, the export growth rate was similar to the growth rate for Poland (FPS) or higher (EPS). As a result, the actual sales revenue figures were as follows:

Segment (in million PLN)	Total revenue	Growth rate	Poland	Foreign markets
Extruded Products Segment	272.7	+38%	145.9	126.8
Aluminium Systems Segment	235.1	-2%	143.2	91.9
Flexible Packaging Segment	147.5	+21%	86.6	60.9

#### 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 and UHR. As regards expenses, ca. 44% of costs are costs incurred in PLN, 30% are costs in USD, 25% are costs in EUR and ca. 1% are costs in other currencies (GBP, UHR). In the reporting period, Polish currency appreciated against EUR by ca. 4%, from ca. 4.40 to 4.20 and by ca. 6% against USD (from 4.20 to 3.95). The appreciation of the Polish currency against the euro has an adverse impact on the profitability of export and on 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 Group in Poland and in Ukraine are made in USD) are of key importance here.

#### Prices of basic raw materials

Aluminium, aluminium scrap, aluminium strip and sheet aluminium are the basic raw materials in the Group, accounting for ca. 50 % of raw and other 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 reporting period, aluminium prices fluctuated between 1,700 and 1,950 USD per tonne. The changes of the prices of the raw material in a short period of time may affect the profitability of operations, particularly in the Extruded Products Segment, as the prices are transferred upon customers with a certain delay (1-1.5 months). The transactions hedging the purchases of aluminium (futures), the result of which, when decreases in the metal prices on global exchanges are rapid, is negative and, in an opposite situation (increases in the prices of metals), they "generate" positive result, are a stabilising factor for the results.

#### Debt

At the end of the reporting period, the Group had 152 million PLN of long-term loans and 343 million PLN of short-term loans. Ca. 26% of the value of loans is held in foreign currencies (22% in EUR and 4% in USD), which affects 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 positive and amounted to 2.6 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 above and in items 11-15 of the consolidated financial statements.

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

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*Demand for the Company's products*

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

Extruded Products Segment – an increase by ca. 30-40%

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

Flexible Packaging Segment – an increase by ca. 20-25%

*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 Grupa Kęty S.A. assumes that, in a few upcoming months, aluminium prices will remain at the level of ca. 1,850 – 1,950 USD per tonne. However, the Management Board would like to mention that the possible rapid 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 realized on the market with a 1- or 1.5-month delay in relation to the movements of aluminium prices at the London Metals Exchange. A certain portion of items are also hedged systematically in the perspective of 6-12 months; the level of hedging is between 50% and 20% of items for a given month. Having regard for continuous declines in the prices of metal, the levels of hedging are higher than the present quoted price (negative result on hedging transactions); however, it is positively reflected in the costs of the raw material, as, physically, the metal is purchased at lower prices. In the case of an increase in prices, the situation is reverse.

*Debt*

The Management Board estimates that the debt in the next three months will remain at the level similar to the present level.

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**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**

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In the first quarter, the Aluminium Systems Segment took measures to increase the integration of major Polish companies of this segment (Aluprof S.A., Metalplast Stolarka Sp. z o.o. and ROMB S.A.). These measures aim at increasing the Segment's efficiency, improving the customer service and optimising the product portfolio, and, as a result, may lead to the combination of certain business units within the Group.

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## ISSUE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES

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In the reporting period, as part of the implementation of the options programme for the management staff, eligible persons subscribed for 11,604 series G shares of the Company at the price of 117.10 PLN per share. In addition, as a result of an invitation by eligible persons, the Company bought back from those persons 11,604 series H bonds with the pre-emptive right to subscribe for series G shares. The buy-back price was 0.01 PLN per bond.

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## THE MANAGEMENT BOARD'S POSITION ON PUBLISHED FORECASTS

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The Management Board of Grupa Kęty S.A. upholds the forecast published on 7 February 2017.

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

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	No. of shares as at 25.04.2017	Interest in capital	No. of shares as at 31.12.2016	Interest in capital
Aviva OFE	1,649,000	17.38%	1,649,000	17.40%
Nationale-Nederlanden OFE	1,732,000	18.25%	1,732,000	18.27%
OFE PZU ZłOTA JESIEŃ	870,000	9.17%	870,000	9.18%
PTE Allianz Polska	498,000	5.25%	498,000	5.25%
Others	4,740,980	49.96%	4,729,376	49.90%
Total	9,489,980	100.00%	9,478,376	100.00%

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

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According to the declarations made as at 25 April 2017, the Management Board of the Company held 173,285 ordinary bearer shares of Grupa KĘTY S.A., including: the President of the Management Board – 133,781 shares, and the Member of the Management Board – 39,504 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 24,467 series I bonds with the pre-emptive right to subscribe for series G ordinary bearer shares, including: the President of the Management Board – 15,247 bonds, and the Member of the Management Board – 9,220 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 right to acquire 15,000 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 bonds, and the Member of the Management Board – 6,000 bonds, under the conditions laid down in the programme.

Supervising persons did not hold any shares of Grupa Kęty S.A.

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

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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.

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#### RELATED PARTY TRANSACTIONS

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In the period covered by this report, 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.

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

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In the period covered by this report, 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.

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#### 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

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Except for the information included in the consolidated financial statements for the period from 1 January 2017 to 31 March 2017 and the information included in this document, there is no other information which, in the Issuer's opinion, is material for the assessment of its staff, financial situation, assets, financial result and changes thereof and information material for the assessment of the possibility of the payment of the Issuer's liabilities.

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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***Kęty, 25 April 2017***