

The Management Board's Report on the Operations of the Capital Group of Grupa Kęty S.A. in the First Half of 2017

3 AUGUST 2017

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

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. The holding company processes ca. 80 thousand tonnes of aluminium materials annually and consolidated sales revenue in the reporting period amounted to ca. 1.2 billion PLN. At the end of the first half of 2017, the employment in the Group amounted to 4,657 employees, including 1,235 employees in Grupa Kęty S.A. All the companies of the Group focus on their development and modern technologies. Since 2000, the Group has spent 1.8 billion PLN on investments in machinery, new products and services, owing to which its companies 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.

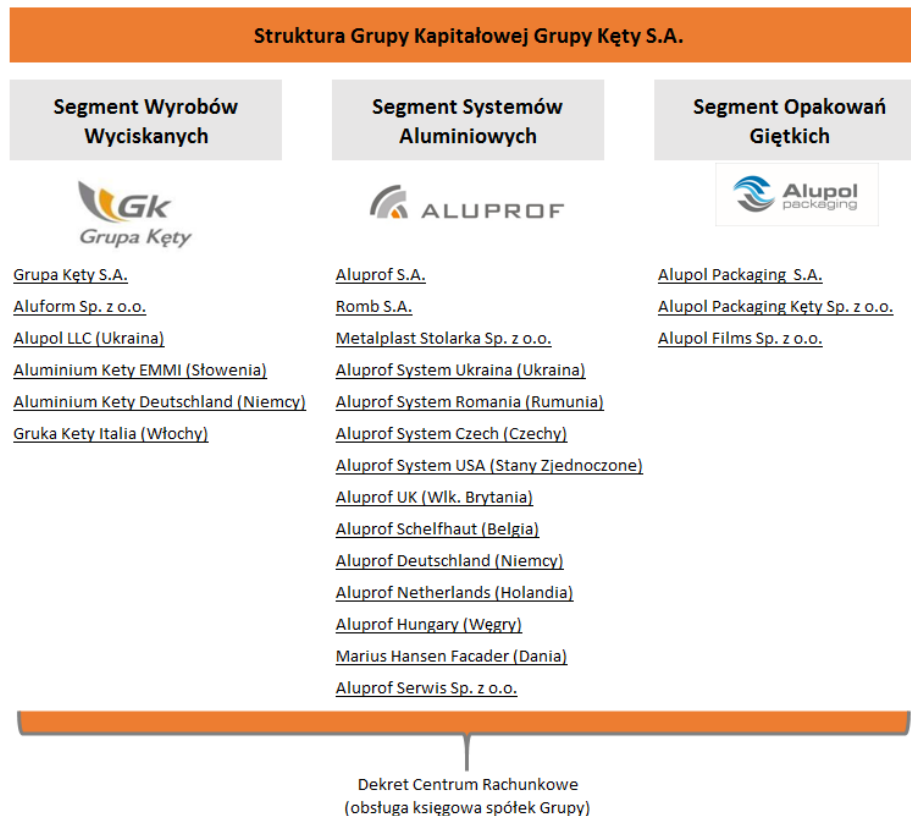
1.2. The structure of the Group

The Group is composed of 26 companies divided into three 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 present structure of the Group is presented in the following chart:

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Alutech Sp. z o.o. and Alu Trans Sp. z o.o. do not carry out any operations, therefore they are not included in the above graph. In the period covered by this report, the Group got expanded with Aluprof Netherlands B.V., an entity that will be involved in the distribution of aluminium systems in the Netherlands. The Group continued activities involving the integration of Aluprof S.A., Metalplast Stolarka Sp. z o.o. and Romb S.A. with the Aluminium Systems Segment. Apart from the above changes, the structure of the Group management did not change materially. The table below shows the assignment of particular companies to business segments.

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Company name	Registered office	Core business	Parent's name	Percentage of the share capital as at 30-06-2017	Date of control take-over	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	The company does not carry out any activities	Grupa Kęty S.A.	100.00%	03/1999	Other
Dekret 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.	Kęty, Poland	The company does not carry out any activities	Grupa Kęty S.A.	100.00%	04/2000	Other
Aluprof Hungary	Dunakeshi, Hungary	Sales of aluminium systems	Aluprof S.A.	100.00%	07/2000	ASS
Metalplast-Stolarka sp. z o.o.	Goeszów, Poland	Production of construction joinery	Grupa Kęty S.A.	100.00%	07/2000	ASS
Alupol LLC	Borodianka, Ukraine	Manufacture of products extruded from aluminium	Aluform Sp. z o.o.	100.00%	12/2004	EPS
Aluprof Deutschland GmbH	Schwanevede, Germany	Sales of aluminium systems	Aluprof S.A.	100.00%	02/2005	ASS
Aluprof System Romania s.r.l	Bucharest, Romania	Sales of aluminium systems	Aluprof S.A.	100.00%	05/2005	ASS
Aluprof System Czech s.r.o.	Ostrava, Czech Republic	Sales of aluminium systems	Aluprof S.A.	100.00%	05/2005	ASS
Aluprof UK Ltd.	Altrincham, UK	Sales of aluminium systems	Aluprof S.A.	100.00%	05/2006	ASS
ROMB S.A.	Złotów, Poland	Manufacture of building hardware	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	Manufacture of products extruded from aluminium	Grupa Kęty S.A.	100.00%	06/2009	EPS
Aluprof System Ukraina	Kiev, Ukraine	Sales of aluminium systems	Aluprof S.A.	100.00%	11/2009	ASS
Aluprof Serwis Sp. z o.o.	Bielsko-Biała, Poland	Scientific research and development works	Aluprof S.A.	100.00%	1/2012	ASS
Grupa Kęty Italia s.r.l.	Milan, Italy	Sales of products extruded from aluminium	Grupa Kęty S.A.	100.00%	5/2014	EPS
Marius Hansen Facader A/S	Viborg, Denmark	Production of construction joinery	Aluprof S.A.	100.00%	6/2014	ASS
Aluprof System USA, Inc	Wilmington, USA	Sales of aluminium systems	Aluprof S.A.	100.00%	7/2014	ASS
Alupol Films Sp. z o.o.	Oświęcim, Poland	Production of flexible packaging	Alupol Packaging Kęty Sp. z o.o.	100.00%	12/2014	FPS
Aluprof Schelfhaut N.V.	Dendermonde, Belgium	Sales of aluminium systems	Aluprof S.A.	100.00%	6/2015	ASS
Aluminium Kety 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	Sales of products extruded from aluminium	Aluform Sp. z o.o.	100.00%	6/2016	EPS
Aluprof Netherlands B.V.	Rotterdam, the Netherlands	Sales of aluminium systems	Aluprof S.A.	55.00%	4/2017	ASS

All companies of the Group are subject to consolidation.

2. THE GROUP OPERATIONS

2.1 The most important events and accomplishments in the reporting period
February 7 – publishing forecasts for 2017 and updates of the strategy by 2020, and the recommendation of the Company's Management Board concerning the amount of the dividend for 2016.

March 16 – publishing the annual financial statements for 2016.

April 25 – publishing the quarterly report for the first quarter of 2017, which was a very good quarter in terms of both sales and financial results.

May 31 – General Meeting of Shareholders.

June 5 – a subsidiary Aluprof S.A. was notified that its bid had been selected in the tender for the construction of the façade of Mennica Legacy Tower building (the estimated contract value is ca. 70 million PLN); the contract is to be implemented in 2018 -2019.

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June 28 – the Group companies which are parties to the overdraft facility agreement with Bank PEKAO S.A. (i.e. Grupa Kęty S.A., Alupol Packaging S.A., Aluprof S.A., Metalplast-Stolarka Sp. z o.o., Aluform Sp. z o.o., Alupol Packaging Kety Sp. z o.o., Alupol Films Sp. z o.o., Aluminium Kety Emmi predlava aluminija, d .o.o.) agreed to accept the terms and conditions of the annex to the agreement increasing the maximum shared available credit limit from 200 million PLN to 300 million PLN. The loan is to be used to finance the current operations of the companies.

2.2 Description of business segments

Extruded Products Segment

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 – a subsidiary Aluform; Borodianka in Ukraine – a subsidiary Alupol LLC; Slovenska Bistrica – a subsidiary Aluminium Kety EMMI), owing to which the Company is able to flexibly utilise its production capacity throughout the year (75 thousand tonnes of extruded products annually) and 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 sales is to customers from modern and innovative industries where we record the highest sales growths. They include the automotive industry, the transport industry including rail transport (high speed rail, metro) and air transport with which we have launched the cooperation.

Market situation, sales, customers

The size of the aluminium profiles market in Europe in 2016 was estimated at ca. 3 million tonnes and the growth rate in the first half of the year is estimated at ca. 2%. In such a market situation, the results of the Extruded Products Segment are very good. The segment, in the area of its operating activities (the production of aluminium profiles and their prefabrication), reported an increase by 15% in terms of volume (from 31.7 thousand tonnes in the first half of 2016 to 36.6 thousand tonnes in the first half of 2017). Sales value amounted to 571 million PLN, while domestic sales increased by 24% and exports by as many as 70%, where its share in the segment's total sales was at the level of as many as 46%. The main export countries in 2016 included Germany, Italy, the Czech Republic, the United Kingdom and Slovenia in connection with the acquisition, at the end of the first half of 2016, of a company on this market (Aluminium Kety EMMI). In the first half of the year, this company recorded 53 million PLN of sales revenue and ca. 3 million PLN of EBITDA.

Aluminium Systems Segment

Aluprof S.A. is the leading company in the Segment and one of major manufacturers of aluminium systems in Europe. The company has its branches in many European countries and in the USA. The headquarters of Aluprof S.A. 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

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experience, Aluprof S.A. has more than 1,300 permanent customers in several countries. The Segment has over 2,000 employees in plants located in Bielsko-Biała, Opole, Golezów and Złotów. The Segment plants have the area of almost 220 thousand m² and modern equipment and machinery, 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.

Market situation, sales, customers

In the first half of 2017, the Aluminium Systems Segment had to face many challenges related to the internal integration of the organisation commenced in the second half of 2016. Changed market priorities resulted in a reduction in the value of the sales of construction services, which is evident from the global segment sales after 6 months of 2017. However, the visible growth in the priority area, i.e. aluminium and roller-shutter systems, is the most important. Despite a ca. 40% decrease in the value of provided construction services, the Segment, after the first half of the year, recorded a 3% increase in sales revenue - 522.9 million PLN, and the prospects for the second half of the year are even more promising.

Flexible Packaging Segment

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, fat, dairy, meat, cold cuts, pharmaceutical and chemical industries. The Segment's production capacities located in two plants (in Tychy and Kęty) make it possible to manufacture ca. 33 thousand tonnes of packaging in the form of multilayer laminates (e.g. based on paper, aluminium foil and plastic films) and plastic monofoils.

In November 2016, Alupol Films, a few months ahead of the final deadline, started the launch of the production of BOPP polypropylene films and printing cylinders. The green field project is located in 'Krakowski Park Technologiczny' Special Economic Zone in Oświęcim, and the new line is currently the largest and the most modern line of this type in Poland and one of the most modern such lines in Europe. This project has made it possible to significantly increase the production capacity related to the manufacturing and refinement of plastic films, which are the base for the production of packaging for the most popular products on our shelves such as cookies, candies, chocolate, crisps, pasta, ice cream, diet and fresh bread, snack bars, sticks, snacks, tea, cocoa, vegetables, spices, matches, toys, clothing, paper products etc. Moreover, owing to the sales of large quantities of pure BOPP films (transparent, white, pearl, matte and metallised), the Flexible Packaging Segment has become a European supplier in the industry of raw materials for the production of packaging.

Market situation, sales, customers

In the first half of 2017, the Segment's sales revenue was record-high. It reached almost 297.7 million PLN, which represents an increase by 25% as compared to the same period in the previous year. Such a high growth rate was possible due to the rapid development of the sales of a new product, i.e. BOPP

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film. In a few months, the production capacity of the new machine was used up almost fully, which resulted in additional 40 million PLN of revenue and ca. 3.3 million PLN of EBITDA for the segment as compared to the same period in the previous year. In addition, such good results were possible due to growing sales of laminates printed using the flexographic method, laminates bonded and/or coated with liquid polyethylene, and laminates with HBF9™ high-barrier films used to pack loose products and fresh food.

At the same time, due to a more and more extensive portfolio of projects and the acquisition of new customers on European markets, 2017 was also record-breaking in terms of export sales (an increase by +26%). On key export markets (Germany, the Netherlands, the Czech Republic and Switzerland), the Segment recorded 20 to 40% increase in sales. The highest growth rates were recorded on the following markets: Austria (+100%), the UK (+450%) and Italy (over 1000%); however, these markets only aspire to join the largest group of the Segment's customers.

Financial results of segments

6 months of 2017:

Group's business segments	FPS	EPS	ASS	Other	Eliminations	Total
Income statement						
Sales	297,743	571,270	522,877	7,092	(133,155)	1,265,827
- outside the Group	297,709	447,730	520,294	94	0	1,265,827
- to other segments	34	123,540	2,583	6,998	(133,155)	0
Operating profit (EBIT)	42,213	42,802	74,011	206,679	(214,477)	151,228
Depreciation/Amortisation	13,342	28,733	15,697	1,417	40	59,229
EBITDA	55,555	71,535	89,708	208,096	(214,437)	210,457
Balance sheet						
Segment's assets	832,541	807,963	798,261	225,282	(219,111)	2,444,936
Segment's trade payables	90,320	81,082	150,330	1,212	(79,217)	243,727
Unallocated liabilities (joint)	0	0	0	963,148	0	963,148
Total liabilities	90,320	81,082	150,330	964,360	(79,217)	1,206,875
Other						
Capital expenditure on non-current assets	5,156	24,241	16,475	706	0	46,578

Second quarter of 2017:

Group's business segments	FPS	EPS	ASS	Other	Eliminations	Total
Income statement						
Sales	150,218	298,537	287,776	3,533	(75,779)	664,285
- outside the Group	150,211	227,751	286,273	50	0	664,285
- to other segments	7	70,786	1,503	3,482	(75,778)	0
Operating profit (EBIT)	20,415	24,527	41,684	209,021	(214,250)	81,397
Depreciation/Amortisation	6,654	14,268	7,872	732	19	29,545
EBITDA	27,069	38,795	49,556	209,753	(214,231)	110,942
Other						
Capital expenditure on non-current assets	2,839	13,696	11,555	516	0	28,606

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6 months of 2016:

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	6,067	(98,429)	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 payables	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

Second quarter of 2016:

Group's business segments	FPS	EPS	ASS	Other	Eliminations	Total
Income statement						
Sales	116,965	229,827	268,689	3,134	(54,428)	564,187
- outside the Group	116,941	179,481	267,693	72	0	564,187
- to other segments	24	50,346	996	3,063	(54,429)	0
Operating profit (EBIT)	19,123	27,135	31,709	151,833	(154,405)	75,395
Depreciation/Amortisation	4,915	12,549	7,686	585	(4)	25,731
EBITDA	24,038	39,684	39,395	152,418	(154,409)	101,126
Other						
Capital expenditure on non-current assets	63,572	9,331	17,819	1,288	0	92,010

- 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. w likwidacji 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 item 'Eliminations' in the income statement contains inter-segmental sales. It is mainly the sales of aluminium profiles from the EPS to the ASS. In the balance sheet, it is mainly the elimination of shares and interests of the parent company in subsidiaries as well as 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 31 May 2017, 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 2016. The General Meeting of Shareholders distributed the Company's net profit for 2016 amounting to 176,333,398.14 PLN allocating it all to dividend.

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Shareholders also decided to use the Company's reserve capital by allocating 108,366,001.86 PLN to the payment of the dividend to the Company's shareholders.

The total amount allocated to dividend amounts to 284,699,400.00 PLN. In addition, the General Meeting of Shareholders discharged all members of the Management Board and of the Supervisory Board for the performance of their duties in the financial year 2016. In addition, the General Meeting of Shareholders selected members of the Supervisory Board for the 10th term of office.

3.2 Supervisory Board

Until 31 May 2016, 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

On May 31, the General Meeting of Shareholders elected the following Supervisory Board of the 10th term of office:

Piotr Kaczmarek	– Member
Bartosz Kazimierczuk	– Member
Paweł Niedziółka	– Vice-Chairman
Piotr Stępnik	– Member
Szczepan Strublewski	– Chairman
Wojciech Włodarczyk	– 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.

	No. of shares of Grupa KĘTY S.A. held as at 30.06.2017	Remuneration in the period 1.01 to 30.06.2017
Maciej Matusiak	N/A	69,189.09 PLN
Szczepan Strublewski	0	71,391.17 PLN
Jerzy Surma	N/A	46,126.06 PLN
Paweł Niedziółka	0	57,570.71 PLN
Jerzy Marciniak	N/A	46,126.06 PLN
Piotr Kaczmarek	0	9,591.71 PLN
Bartosz Kazimierczuk	0	9,591.71 PLN
Piotr Stępnik	0	9,591.71 PLN
Wojciech Włodarczyk	0	9,591.71 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	- 513,000.00 PLN
Member of the Management Board	- 309,625.00 PLN

Furthermore, the Members of the Management Board received the annual bonus for the previous year of 1,803,197.00 PLN in the case of the President of the Management Board, and of 1,081,918.00 PLN in the case of the Member of the Management Board. The annual bonus is awarded by the Supervisory Board and its value depends on the degree of the accomplishment of financial forecasts for a particular year. Its maximum value is 250% 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 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 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 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.

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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 Grupa Kęty S.A. Group, 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 Grupa Kęty S.A. Group.

4. CONSOLIDATED FINANCIAL RESULTS

4.1 Consolidated financial statements

Selected financial figures

	in '000' PLN		in '000' EUR	
	First half of 2017	First half of 2016	First half of 2017	First half of 2016
Net sales revenue	1,265,827	1,083,225	298,024	247,283
Profit (loss) on operating activities	151,229	141,412	35,605	32,282
Gross profit (loss)	148,967	134,436	35,073	30,690
Net profit (loss)	119,518	143,439	28,139	32,745
Net profit (loss) attributable to equity holders of the parent	119,501	143,439	28,135	32,745
Total net income (loss)	114,042	153,908	26,850	35,135
Total net income (loss) attributable to equity holders of the parent	114,025	153,908	26,846	35,135
Net cash flow from operating activities	96,812	160,825	22,793	36,714
Net cash flow from investing activities	-71,986	-150,770	-16,948	-34,418
Net cash flow from financing activities	-34,933	32,851	-8,225	7,499
Total net cash flow	-10,107	42,906	-2,380	9,795
Earnings (loss) per share (in PLN/EUR)	12.60	15.18	2.97	3.47
Diluted earnings (loss) per share (in PLN/EUR)	12.57	15.16	2.96	3.46
Balance sheet items	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Total assets	2,444,936	2,322,835	578,478	525,053
Liabilities and provisions for liabilities	1,206,875	917,474	285,550	207,386
Long-term liabilities	241,713	227,631	57,190	51,454
Short-term liabilities	965,162	689,843	228,360	155,932
Equity attributable to equity holders of the parent	1,238,061	1,405,361	292,928	317,667
Share capital	67,625	67,534	16,000	15,265
Number of shares	9,489,980	9,478,376	9,489,980	9,478,376
Book value per share (in PLN/EUR)	130.46	148.27	30.87	33.51
Diluted book value per share (in PLN/EUR)	130.14	148.06	30.79	33.47
Dividend per share — declared or paid (in PLN/EUR)	0.00	30.00	0.00	6.78

The above financial figures for the first half of 2017 and of 2016 were translated into EUR as follows:

- assets and liabilities – at the average exchange rate of the National Bank of Poland (NBP) as at 30.06.2017 – 4.2265 PLN/EUR and as at 31.12. 2016 – 4.4240 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 2017 – 4.2474 PLN/EUR; the first half of 2016 – 4.3805 PLN/EUR.

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Income statement

INCOME STATEMENT	01.01.2017 - 30.06.2017 (not audited)	01.01.2016 - 30.06.2016 (not audited)
Total operating income, including:	1,274,329	1,088,542
Sales revenue	1,265,827	1,083,225
- including from the sales to an associate	9	308
Other operating income	8,502	5,317
Share of net profit of entities accounted for using the equity method	1,430	1,163
Change of inventories of finished goods and work in progress	24,472	15,117
Cost of manufacturing products for own needs	7,797	5,885
Total operating costs, including:	(1,156,799)	(969,295)
Depreciation/Amortisation	(59,229)	(51,116)
Consumption of materials, energy and the value of goods and materials sold	(801,173)	(651,083)
External services	(94,179)	(96,167)
Taxes and charges	(7,270)	(6,906)
Employee benefits	(182,722)	(148,465)
Other operating costs	(12,226)	(15,558)
Net profit on operating activities	151,229	141,412
Finance income	3,567	1,112
Finance costs	(5,829)	(8,088)
Profit before tax	148,967	134,436
Income tax expense	(29,449)	9,003
Net profit on continuing operations	119,518	143,439
Attributable to non-controlling interests	17	0
Attributable to equity holders of the parent	119,501	143,439
Earnings per share attributable to equity holders of the parent (PLN)		
Basic	12.60	15.18
Diluted	12.57	15.16

Statement of comprehensive income

	6 months ended on 30.06.2017 (not audited)	6 months ended on 30.06.2016 (not audited)
Net profit for the period	119,518	143,439
Other comprehensive income*:	(5,476)	10,469
Cumulative translation adjustment	(3,276)	812
Valuation of cash flow hedging instruments	(1,256)	9,181
Result from cash flow hedge	(1,597)	2,217
Income tax related to other comprehensive income to be charged to profit or loss	653	(1,741)
Comprehensive income for the period:	114,042	153,908
Attributable to non-controlling interests	17	0
Attributable to equity holders of the parent	114,025	153,908

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Consolidated balance sheet

ASSETS	30.06.2017 (not audited)	31.12.2016 (audited)
I. Non-current assets	1,375,701	1,395,571
Property, plant and equipment	1,161,366	1,176,582
Intangible assets	48,113	49,173
Goodwill	19,849	19,954
Investment properties	6,577	6,490
Investments in entities accounted for using the equity method	2,963	4,206
Other investments	11	11
Other receivables	2,258	3,570
Advance payments for the purchase of property, plant and equipment	11,772	10,003
Deferred tax assets	122,792	125,582
II. Current assets	1,069,235	927,264
Inventories	429,257	393,632
Current tax receivables	1,317	863
Trade and other receivables	570,110	452,584
Short-term investments	188	219
Derivative financial instruments	3,528	5,024
Cash and cash equivalents	64,835	74,942
Total assets	2,444,936	2,322,835
EQUITY AND LIABILITIES	30.06.2017 (not audited)	31.12.2016 (audited)
I. Equity	1,238,061	1,405,361
Share capital	67,625	67,534
Share premium	27,543	23,385
Non-registered capital from the issue of shares	0	2,890
Capital from share based payments	20,304	18,592
Result from cash flow hedging transactions	722	337
Capital from the revaluation of hedging instruments	(76)	2,509
Capital from the revaluation of property, plant and equipment	3,787	3,787
Retained earnings	1,148,564	1,313,762
Cumulative translation adjustment	(30,711)	(27,435)
Equity attributable to equity holders of the parent	1,237,758	1,405,361
Equity attributable to non-controlling interests	303	0
II. Long-term liabilities	241,713	227,631
Liabilities due to borrowings and finance lease	152,346	138,541
Other liabilities	1,730	1,834
Provisions	499	2,791
Provisions due to employee benefits	10,269	10,081
Deferred income	35,427	36,111
Deferred tax liability	41,442	38,273
III. Short-term liabilities	965,162	689,843
Liabilities due to borrowings and finance lease	282,425	333,865
Income tax payable	10,314	14,471
Trade and other payables	637,227	298,254
Provisions and accruals	28,359	37,737
Derivative financial instruments	3,593	1,844
Deferred income	3,244	3,672
Total equity and liabilities	2,444,936	2,322,835

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Consolidated cash flow statement

	6 months ended on 30.06.2017 (not audited)	6 months ended on 30.06.2016 (not audited)
Cash flow from operating activities		
Profit before tax	148,967	134,436
Adjustments:	60,053	57,029
Share of net profit of entities accounted for using the equity method	(1,430)	(1,163)
Depreciation/Amortisation	59,229	51,116
Recognition/(reversal) of write-downs	(40)	9
Profit from net currency translation differences	(4,126)	2,072
Profit from derivative financial instruments	35	(614)
(Profit) / loss from sales of property, plant and equipment	(227)	(79)
Interest and share of profits	4,240	3,334
Proceeds/(expenses) related to hedging instruments charged to equity	404	2,217
Share based payments	1,712	832
Gain from a bargain purchase	(58)	(1,176)
Other items (net)	314	481
Cash flow from operating activities before the change of working capital	209,020	191,465
Change in inventories	(35,625)	(15,852)
Change in net receivables	(116,214)	(61,377)
Change in short-term liabilities, except for loans	80,249	67,215
Change in provisions	(11,482)	1,576
Change in deferred income	(1,112)	(1,928)
Net cash generated from operating activities	124,836	181,099
Tax paid	(28,024)	(20,274)
Net cash from operating activities	96,812	160,825
Cash flow from investing activities		
(+) Proceeds:	656	579
Sales of intangible assets and property, plant and equipment	639	579
Paid loans	17	0
(-) Expenses:	(72,642)	(151,349)
Acquisition of intangible assets and property, plant and equipment	(71,667)	(141,454)
Cash loans granted	(24)	(99)
Acquisition of investments in subsidiaries	(951)	(9,796)
Net cash from investing activities	(71,986)	(150,770)
Cash flow from financing activities		
(+) Proceeds:	118,132	126,010
Net proceeds from the issue of shares	1,359	1,371
Proceeds from borrowings	116,773	124,639
(-) Expenses:	(153,065)	(93,159)
Repayments of borrowings	(147,457)	(90,270)
Finance lease rentals	(906)	(127)
Interest	(4,702)	(2,762)
Net cash from financing activities	(34,933)	32,851
Total net cash flow:	(10,107)	42,906
- change in cash due to currency translation differences	0	0
Cash and cash equivalents at the beginning of the period	74,942	72,704
Cash and cash equivalents at the end of the period	64,835	115,610

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Consolidated statement of changes in equity

Attributable to equity holders of the parent

	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 revaluation of hedging instruments	Capital from the revaluation of property, plant and equipment	Retained earnings	Cumulative translation adjustment	Equity attributable to the equity holders of the parent	Equity attributable to non-controlling interests	Total equity
Equity as at 01 January 2017 (audited)	67,534	23,385	2,890	18,592	337	2,509	3,787	1,313,762	(27,435)	1,405,361	0	1,405,361
Comprehensive income for the period:	0	0	0	0	385	(2,585)	0	119,501	(3,276)	114,025	17	114,042
<i>Net profit for the period</i>	0	0	0	0	0	0	0	119,501	0	119,501	17	119,518
<i>Other comprehensive income</i>	0	0	0	0	385	(2,585)	0	0	(3,276)	(5,476)	0	(5,476)
Valuation of share based payments	0	0	0	1,712	0	0	0	0	0	1,712	0	1,712
Payment of dividend	0	0	0	0	0	0	0	(284,699)	0	(284,699)	0	(284,699)
Issue of shares	91	4,158	(2,890)	0	0	0	0	0	0	1,359	0	1,359
Sale of shares	0	0	0	0	0	0	0	0	0	0	286	286
Equity as at 30 June 2017 (not audited)	67,625	27,543	0	20,304	722	(76)	3,787	1,148,564	(30,711)	1,237,758	303	1,238,061
Previous year												
Equity as at 1 January 2016 (audited)	67,505	22,043	0	13,959	(1,872)	(3,925)	3,003	1,205,976	(27,846)	1,278,843	0	1,278,843
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	(170,166)	0	(170,166)
Issue of shares	29	1,342	0	0	0	0	0	0	0	1,371	0	1,371
Equity as at 30 June 2016 (not audited)	67,534	23,385	0	14,790	356	3,504	3,003	1,179,249	(27,034)	1,264,787	0	1,264,787

4.2 The Management Board's comments

Maintaining a high level of return on operating activities, stable cash flows and optimal use of capitals are the long-term priorities of the Management Board in the financial area of the company. These priorities are provided for in Strategy 2020 that the company announced in February 2015 and updated in February 2017 due to the high level of the accomplishment of its objectives in the Aluminium Systems Segment and organisational changes in the Group (incorporating the Building Services Segment and the Building Accessories Segment in the Aluminium Systems Segment).

In the period covered by this report, the sales revenue amounted to 1,265.8 million PLN, i.e. it grew by ca. 18% as compared to the previous year, mainly due to the increase in the sales volume in the core business segments of the Group and a higher growth of aluminium prices on global markets (growth

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by ca. 20%). The revenue was driven by fast-growing exports (+21%) another year in a row, but also the Polish market recorded a very good result and grew by ca. 13%. Due to accomplished sales figures and the resulting effective use of the production capacity, 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 151.2 million PLN (+7%), and EBITDA (earnings before interest, taxes, depreciation and amortisation) increased to 210.5 million PLN (+9%). Consolidated net profit attributable to equity holders of the parent amounted to 119.5 million PLN (a decrease by 17%). The recognition in 2016 of the deferred tax asset due to the operations in an economic zone, which increased the result by ca. 25 million PLN, was the factor which contributed greatly to lower net profit. In 2017, no additional asset was recognised, hence the significant difference in net profit.

As estimated by the Management Board, the balance sheet of the Group has a safe borrowing structure. Despite the continuous development, considerable investments and high rates of dividend payments, equity still accounts for the major part of the balance sheet total. As at the balance sheet date, it accounted for 51% of total equity and liabilities, which denotes a decrease by 10 p.p. as compared to the end of the previous year. As the main companies of the Group are mostly production enterprises that continuously invest in their development, property, plant and equipment constitute a significant item of non-current assets. As at the balance sheet date, they accounted for 47% of total assets (the figure lower by 4 p.p. as compared to the end of 2016). Current assets as at the balance sheet date, due to the high sales growth rate, rose to 1,069.2 million PLN (+15%) and accounted for ca. 44% of total assets.

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 period of 6 months of the reporting period, due to significant sales growth and the launch of the operating activities in Alupol Films (greater demand for working capital), consolidated cash flow from operating activities amounted to 96.7 million PLN and it was lower by ca. 40% than the figure recorded in previous year. The Management Board expects the cash flow stabilisation in the second half of the year, which means that it was a temporary situation and it will not affect 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 interest-related debt.

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	31.12.2016	Increase (decrease)	30.06.2017
Grupa Kęty S.A.	BGŻ BNP PARIBAS	PLN	15,181	(4,366)	10,815
Alupol Packaging Kęty Sp. z o.o.	BGŻ BNP PARIBAS	PLN	99,720	(11,080)	88,640
Aluprof S.A.	BGŻ BNP PARIBAS	PLN	16,692	(4,769)	11,923
Aluprof S.A.	Bank PEKAO S.A.	PLN	0	30,000	30,000
Aluminium Kety Emmi d.o.o.	Bank PEKAO S.A.	EUR	4,866	5,079	9,945
Aluminium Kety Emmi d.o.o.	AK Servicing	EUR	849	(849)	0
Total loans			137,308	14,015	151,323
Aluprof Romania	Finance lease obligations	RON	102	(12)	90
Metalplast Stolarka sp. z o.o.		PLN	386	(136)	250
Aluprof UK		GBP	31	(7)	24
Aluminium Kety Emmi d.o.o.		EUR	668	(31)	637
Marius Hansen Facader A/S		DKK	46	(24)	22
Total lease			1,233	(210)	1,023
Total long-term loans and lease			138,541	13,805	152,346

Short-term loans (in '000' PLN)

Borrower	Lender	Loan currency	31.12.2016	Increase (decrease)	30.06.2017
Grupa Kęty S.A.	Bank PKO BP	PLN, EUR	3,843	(2,620)	1,223
Grupa Kęty S.A.	BGŻ BNP PARIBAS	PLN	11,072	(2,288)	8,784
Grupa Kęty S.A.	BGŻ BNP PARIBAS	PLN	5,608	(4,636)	972
Grupa Kęty S.A.	ING Bank Polska	PLN	3	20,269	20,272
Grupa Kęty S.A.	Bank PeKaO S.A.	PLN	22,205	11,469	33,674
Grupa Kęty S.A.	Bank Societe Generale	EUR	13,771	(606)	13,165
Alupol Packaging S.A.	Bank PKO BP	PLN	0	2,592	2,592
Alupol Packaging S.A.	BGŻ BNP PARIBAS	PLN	9,580	(5,961)	3,619
Alupol Packaging S.A.	Bank PEKAO S.A.	PLN	23,342	(23,342)	0
Alupol Packaging Kęty Sp. z o.o.	Bank PKO BP	PLN, EUR	11,542	(11,542)	0
Alupol Packaging Kęty Sp. z o.o.	Bank PEKAO S.A.	PLN, EUR	16,945	(1,417)	15,528
Alupol Packaging Kęty Sp. z o.o.	BGŻ BNP PARIBAS	PLN	14,304	491	14,795
Alupol Packaging Kęty Sp. z o.o.	BGŻ BNP PARIBAS	PLN	11,770	11,090	22,860
Aluprof S.A.	Bank PEKAO S.A.	PLN, EUR	43,757	(30,872)	12,885
Aluprof S.A.	Societe Generale S.A.	GBP	3,756	165	3,921
Aluprof S.A.	BGŻ BNP PARIBAS	PLN	19,665	(14,888)	4,777
Aluprof S.A.	BGŻ BNP PARIBAS	PLN	9,753	(125)	9,628
Aluprof S.A.	BGŻ BNP PARIBAS	PLN	12,356	(12,356)	0
Metalplast Stolarka Sp. z o.o.	Bank PEKAO S.A.	PLN, EUR	32,074	(4,746)	27,328
Metalplast Stolarka Sp. z o.o.	ING Bank Polska	PLN	24,951	(14,368)	10,583
ROMB S.A.	BGŻ BNP PARIBAS	PLN	7,949	1,378	9,327
ROMB S.A.	Bank PKO BP		4,066	1,396	5,462
Alupol Films sp. z o.o.	Bank PEKAO S.A.	PLN, EUR	5,899	13,825	19,724
Alupol Films sp. z o.o.	BGŻ BNP PARIBAS	PLN	6,805	12,990	19,795
Aluform Sp. z o.o.	Bank PEKAO S.A.	PLN	0	6,712	6,712
Aluminium Kety Emmi d.o.o.	Delavska Hranilnica	EUR	3,468	(2,268)	1,200
Aluminium Kety Emmi d.o.o.	Unicredit	EUR	13,272	(592)	12,680
Total loans			331,756	(50,250)	281,506
Aluprof Romania	Finance lease obligations	RON	2	6	8
MHF A/S		DKK	80	(6)	74
Aluprof UK		GBP	10	(5)	5
Aluminium Kety Emmi d.o.o.		EUR	1,730	(1,185)	545
Metalplast Stolarka Sp. z o.o.		PLN	287	0	287
Total lease			2,109	(1,190)	919
Total short-term loans and lease			333,865	(51,440)	282,425

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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	30.06.2017 (not audited)	31.12.2016 (audited)
Building bank guarantees granted by Metalplast Stolarka Sp. z o.o.*	33,292	35,669
Building guarantees granted by other companies	2,031	1,294
Bank rental agreement performance bond	0	434
Total granted guarantees	35,323	37,397

*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

Due to the accomplishment of a part of objectives to be implemented as part of the strategy for 2015-2020 and measures aiming at the consolidation of smaller business units within the Aluminium Systems Segment, the Management Board of Grupa Kęty S.A. have developed and submitted to the Company's Supervisory Board a new version of 'Strategy 2020' strategic plan.

STRATEGY OBJECTIVES

The basic objective of Strategy 2020 is ensuring steady increase in shareholder value owing to:

- sustainable development resulting in the systematic increase in generated profit and cash;
- stable dividend policy;
- creating the potential for future development in further periods;
- maintaining high corporate governance standards.

OPERATIONAL OBJECTIVES AND MACROECONOMIC ASSUMPTIONS

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 – 1,444 million PLN (+53% as compared to 2016)
- Aluminium Systems Segment – 1,420 million PLN (+32% as compared to 2016)
- Flexible Packaging Segment – 665 million PLN (+34% as compared to 2016)

Taking the above into consideration, consolidated sales revenue of the Group in 2020 should amount to 3,257 million PLN (+44% as compared to 2016), operating profit to 359 million PLN (+24% as compared to 2016), EBITDA to 506 million PLN (+28% as compared to 2016) and consolidated net profit to 265 million PLN (-4% as compared to 2016).

The above forecasts have been prepared on the basis of the following macroeconomic assumptions:

- average aluminium price (3M) – 1,800 USD/tonne
- average USD exchange rate – 4.05 PLN
- average EUR exchange rate – 4.30 PLN
- EUR/USD relation – 1.06
- GDP growth in Poland – 3.4%

CHANGES IN THE MANAGEMENT STRUCTURE

The Management Board of Grupa Kęty S.A. intends to take measures to separate the production activities of the Extruded Products Segment from the structures of Grupa Kęty S.A. Grupa Kęty S.A.

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would remain the holding company listed on Warsaw Stock Exchange with assets in the form of shares and interests in leading companies in each segment.

INVESTMENT PLAN

The Management Board assumes that, in the period covered by this strategy (taking into account the expenses incurred to date from the beginning of the implementation of the strategy, i.e. from 2015), the capital expenditure will amount to ca. 1,246 million PLN (+316 million PLN as compared to the 2015 strategy and the total of 787 million PLN of spending in 2017-2020), including:

- Extruded Products Segment – 550 million PLN
- Aluminium Systems Segment – 393 million PLN
- Flexible Packaging Segment – 257 million PLN

This forecast does not comprise any possible additional expenditure on acquisitions, whose effects are also not included in the forecast of sale and results.

DIVIDEND POLICY

The dividend policy adopted by the Supervisory Board of Grupa Kęty S.A. provides for the payment of dividend amounting to 60%-100% of consolidated net profit of Grupa Kęty S.A. during the implementation period of Strategy 2020. The Management Board assumes that the payment of dividend during the implementation period of Strategy 2020 strategic plan will amount on average to 80% of consolidated net profit of Grupa Kęty S.A.

The Management Board, when determining the recommended dividend, will take into account, among other things:

- the Group's net debt to EBITDA ratio calculated as at the last balance sheet date of the previous financial year with the maximum level of 2.0;
- time shifts of dividends received from subsidiaries affecting the maximum level of recommended dividend;
- the value of potential and feasible acquisitions;
- the value of actual capital expenditure to be made in the year of dividend payment.

POTENTIAL ACQUISITIONS

The forecasts for 2017 do not take into account any effects of potential acquisition projects. Nevertheless, the Management Board takes into account two directions of potential acquisitions within existing segments and the establishment of a new segment:

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.

A new segment with the potential enabling the generation of sales revenue in 2020 at the minimum level of 200 million PLN.

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DEBT

In relation to the investment programme being implemented and the planned payment of dividend, the Group's debt will rise to ca. 820 million PLN at the end of 2018 (ca. 762 million PLN in net terms) and ca. 801 million PLN at the end of 2020 (ca. 682 million PLN in net terms).

UNCERTAINTY RISK AND THE FREQUENCY OF THE EVALUATION OF THE STRATEGY ACCOMPLISHMENT LEVEL

These strategy objectives, including the forecasts of future revenue and profits, have been established on the basis of a number of assumptions, expectations and projections and, as a result, are subject to uncertainty risk and may change due to both external and internal factors. The Company will assess the possibility of the implementation of Strategy 2020 and make any possible adjustments on an annual basis.

FORECAST OF FINANCIAL RESULTS FOR 2017

The Management Board assumes that 2017 will be another year of the growth of the Group's sales and profits. 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 – 1063 million PLN (+13%)
- Aluminium Systems Segment – 1180 million PLN (+10%)
- Flexible Packaging Segment – 515 million PLN (+4%)

Consolidated sales revenue will amount to 2.5 billion PLN and will be higher by 11% than the revenue generated in 2016. The Management Board is projecting that consolidated operating profit will amount to 297 million PLN, i.e. it will be higher than in the previous year by 2%. EBITDA (earnings before interest, taxes, depreciation and amortisation) will amount to 420 million PLN, i.e. it will increase by 6%. The expected financing activities balance in 2016 will amount to -18.2 million PLN and is based solely on the calculation of loan costs. In addition, when calculating the net profit for 2017, the Company took account of 5 million PLN of a deferred tax asset related to business activities in the Special Economic Zone (in 2016, it was ca. 50 million PLN). As a result, consolidated net profit will amount to 227 million PLN.

The table below shows the forecast of basic consolidated financial figures for 2017 in million PLN as compared to results for 2016:

	2016	2017*	Change
Sales revenue	2,267.4 mill. PLN	2,500 mill. PLN	+ 10%
EBIT	282.3 mill. PLN	297 mill. PLN	+ 5%
EBITDA	394.1 mill. PLN	420 mill. PLN	+ 7%
Net profit	277.9 mill. PLN	227 mill. PLN	-18%
Capital expenditure	271.3 mill. PLN	287.5 mill. PLN**	

* forecast

** including 41 million PLN of payments carried forward from investment projects in 2016

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. 1.8 billion PLN and, until the end of 2020, it intends to spend, in line with its development strategy, another 0.8

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billion PLN. In total, in the period of 20 years from 2000, the capital expenditure will amount to ca. 2.5 billion PLN.

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 period of 6 months of 2017 and of 2016 was as follows:

	6 months of 2017	6 months of 2016
Total expenditure (in million PLN)	72.6	151.3

FLEXIBLE PACKAGING SEGMENT

During the period, Alupol Films, a company from Grupa Kęty S.A. Group, launched the line for the production of a five-layer biaxially oriented polypropylene film (BOPP), which is the most modern line of this type in Poland and one of the most modern lines in Europe (the total value of this investments is ca. 150 million PLN); BOPP film is the base for the production of packaging for the most popular products in our shops such as cookies, candies, chocolate, crisps, tea, condiments, pasta or ice cream. This is one of the biggest investments in the company's history. The production line was assembled in the new plant located on an over 5-hectare parcel in Oświęcim in 'Krakowski Park Technologiczny' Special Economic Zone, and devices were supplied by the global leader in designing and construction of BOPP film production machines, i.e. Brückner Maschinenbau from Germany.

In addition to the production and refinement of BOPP films, the new plant also began the production of printing cylinders used in rotogravure printing. To this end, the company purchased a state-of-the-art production line from Maschinenfabrik Kaspar Walter GmbH & Co. KG. Together with the two other lines, the plant will have three automatic electroplating lines and nine engraving machines which will produce printing tools both for plants from Alupol Packaging Group and external customers. The production capacity of this investment project will amount to more than 30,000 cylinders p.a. and will be among the biggest capacities in Poland.

EXTRUDED PRODUCTS SEGMENT

The Segment has begun designing works related to two production halls and an analysis of the specification of two profile extrusion devices which will enrich the machine base in 2018 and 2019. The first purchased press will be used in the production of the so-called 'soft alloys', and the second press will be used to start a long-awaited project of the upgrade of the production of the so-called 'hard alloys'. In total, the devices will make it possible to increase the production capacity by ca. 13 thousand tonnes.

ALUMINIUM SYSTEMS SEGMENT

During the first half of 2017, the Segment implemented a number of small investment projects to improve the infrastructure and machines base.

In the period of 12 months after the balance sheet date, the Group intends to spend ca. 250 million PLN on investment projects. The spending will be related to the purchase of new equipment and the development of infrastructure. The most important of them are as follows:

- a press for the extrusion of profiles from soft alloys and a production hall (in the EPS);
- a press for the extrusion of profiles and rods from hard alloys (in the EPS);
- further investments in the infrastructure and modernisation of the machines base (in the ASS);
- the development of production capacity in the area of flexographic printing (in the FPS);

Research and development projects

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. 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. The company, when working on new system elements, carries out thorough and rigorous tests on such components before they are marketed. In the first half of 2017, a number of works were carried out to improve the offer and to expand it with new solutions. Among other things, the Group developed an innovative fire-rated external windows system, which, in addition to the fire resistance, is also characterised by high thermal insulation. These products meet the latest European requirements. The Group launched the sales of upgraded versions of mullion and transom façade systems, including a semi-structural fire-rated façade. The Group developed, tested and started the production of segment-based façade systems for specific high-rise facilities located in Poland, Europe and the United States. The Group was also developing and modifying on a regular basis selected window and door systems and façade systems. These works resulted from the need to ensure the compliance with changing legal regulations, individual requirements related to the facilities and the markets where they are to be sold. New versions of several door and window systems for selected markets in Western Europe have been developed. Such examples show the global aspirations of the Segment, which wants to target its offer not only at European customers but also at customers in other parts of the world.

On the other hand, the Research and Development Centre in the Extruded Products Segment, in response to the market demand, has been carrying out projects to optimise manufacturing processes and to expand the range of products that also meet higher and higher customer requirements. The research projects include:

- upgrading the extrusion production line as a result of the application of an innovative technology of ingots heating in a magnetic heater;
- optimising the production process of sections intended for crumpled zones and bodywork structures in the automotive industry that meet high requirements of renowned manufacturers from the automotive segment;
- optimising the chemical composition and developing the technology of casting ingots intended for the high-speed extrusion process;
- developing the technology of producing sections using dies allowing for the rotating outflow of the P/M compact;
- developing the technology of producing sections from series 6XXX alloys with adequate electrical conductivity for the power-generation industry.

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The R&DC, due to its activities, ensures the continuous development of the offer and expands the capabilities of the Segment with the products intended for more and more demanding customers and industries.

The technological development and the expansion of the Flexible Packaging Segment's portfolio with new and innovative products build up its position among the major manufacturers of packaging in Europe. This is possible owing to a long-term process of making organic investments and, consequently, an increase in production capacity, reduction of production costs and the implementation of new technical solutions. The launch of a new production facility called Alupol Films located in 'Kraków Technology Park' SEZ in Oświęcim was the most important investment event at the end of 2016 and the beginning of 2017. This project has made it possible for the FPS to significantly increase the production capacity related to the manufacturing and refinement of plastic films. Alupol Films has developed and implemented technologies of the production of a wide range of various types of BOPP film. This resulted in the production of transparent, white, matt and metallised films with various properties. They are the base for the production of packaging for the most popular products on our shelves such as cookies, candies, chocolate, crisps, pasta, ice cream, diet and fresh bread, snack bars, sticks, snacks, tea, cocoa, vegetables, spices, matches, toys, clothing, paper products etc.

At the same time, the process of strengthening the market position of Alupol Packaging as regards the production of flexible packaging was carried out. In the first half of 2017, Alupol Packaging S.A. in Tychy launched the fourth tandem extruder device in the FPS. The new machine makes it possible to produce new laminates in the FPS portfolio using the extrusion-based laminating and coating technology on the basis of plastic films such as BOPP and PET. They can be used to pack both salty snacks and other food products. For example, BOPP/copolymer/metBOPP packaging offers very high water vapour and oxygen barrier, higher puncture resistance and increased stiffness in comparison to laminates produced using the adhesive lamination technology. The laminate structure makes it possible to open packaging easily and reduce the risk of its uncontrolled tearing.

Alupol Packaging companies also develop packaging production technologies which allow for the reduction of the packaging environmental impact to minimum. The company continued development works on the production of more and more popular packaging based on eco-paper. These are primarily the laminates produced in the process of extrusion-based adhesion and coating with polyethylene. Owing to this technology, non-biodegradable PET/Al/PE-based laminates may be replaced with paper-based Pap/PE/Al/PE laminates, which allows for the reduction of the amount of non-biodegradable materials released to the environment by ca. 50%.

Simultaneously, works are underway concerning the thinning of layers in laminates both in the extrusion lamination technology and the adhesive lamination technology. The production of double-layer laminates based on proprietary HBF9™ high-barrier film is one of such innovative technologies. They replace e.g. PET/Al/PE, PET/PETmet/PE and PETmet/PE laminates, which enables the company to reduce the basis weight of the packaging by 30% - 50%. It means that the customers buying such packaging introduce to the environment on average 40% less of waste.

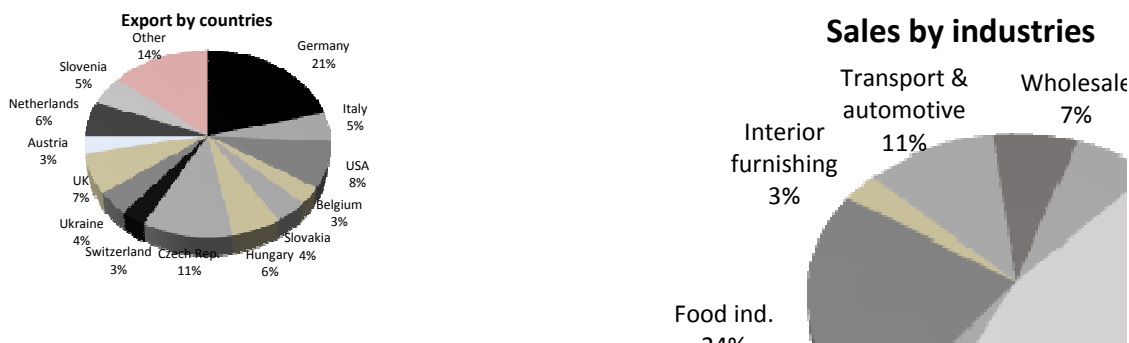
7. FACTORS DETERMINING THE DEVELOPMENT OF THE GROUP

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 entire Grupa Kęty S.A. Group.

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. 52% of the sale, and in the economies of other European countries, which receive ca. 48% of the Group's total sales. The situation on the markets of Germany, the Czech Republic, Italy, Hungary, the USA, the UK, the Netherlands, Slovenia and Ukraine, which receive 70% of the export sales, and, to a lesser degree, on the markets of Slovakia, Austria, Belgium, Romania, Russia, France and Switzerland, is of special importance for the sales growth. At the same time, when analysing sales by industries, one can notice high share of the sales in the building industry (ca. 46% 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. However, the significant fact is that the automotive and transport market (ca. 11% of total sales) and the food industry (ca. 24% of sales) are of greater and greater importance for the Group, which contributes to systematic reduction of the risk of concentration in a single industry.



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 group of raw materials used in the Group. In aggregate, they account for ca. 50% of all purchased raw

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materials and production materials. 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, which in aggregate represent 20% of all purchased raw and other materials. The list of basic items is supplemented with accessories for the production of aluminium systems with a 10% share. 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 Management Board's estimates, in the reporting period, ca. 42% of the Group's sales were generated in PLN and ca. 50% in EUR. Ca. 5% were sales in USD, while the remaining 3% were sales in GBP, UHR and DEK. As regards expenses, ca. 39% of costs are costs incurred in PLN, 31% are costs in USD, 28% are costs in EUR and ca. 2% are costs in other currencies (GBP, UHR and DEK). 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:

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

Source: own study

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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. Any possible future write-downs related to the deteriorating economic situation or potential military actions in Ukraine may affect the results in further years.

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-GROWING 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. However, given the current market situation, one can expect that employees will have higher and higher expectations as regards remunerations and, if they are not met by the employer, it may lead to an outflow of skilled workforce.

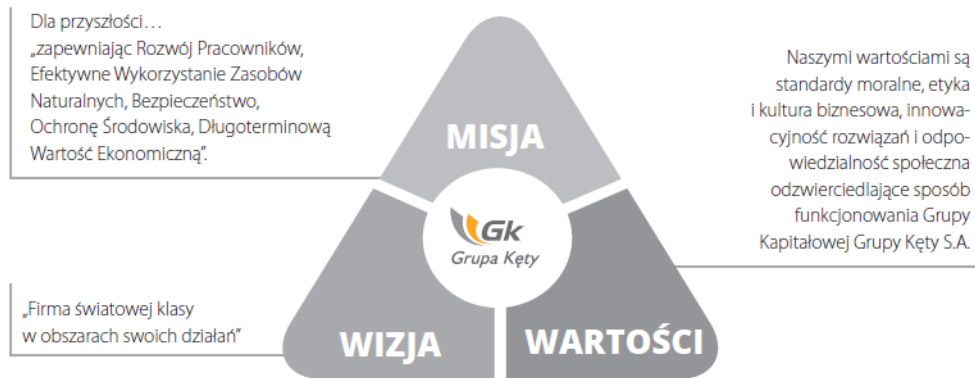
THE ABILITY TO FINANCE CURRENT OPERATIONS AND INVESTMENT PROJECTS

The continuous development of the Group depends on the preservation of the stable financial situation (high operating profitability and large cash flow generated from operating activities). Therefore, the Management Board pays a lot of attention to continuous improvement of production processes and logistics, which should result in high effectiveness of activities, further reflected in profits and positive cash flows. Appropriate currency risk management is also an important factor for the accomplishment of stable results. It results from the Company's high exposure to foreign currencies as regards both purchases and sale.

8. NON-FINANCIAL RATIOS

8.1 Corporate Social Responsibility

The Corporate Social Responsibility (CSR) Policy is our response to the challenges related to sustainable development, not only in economic and market terms, but also as regards social and ecological aspects.



We declare that, as part of the Company's operations, we have made and will continue to make efforts to ensure the creation of better society, retain balance and protect the environment.

We believe that the long-term success of GRUPA KĘTY S.A. depends on the cooperation with a broadly-defined group of stakeholders. We place particular emphasis on the activities which influence the Company's employees, their families and local communities in a positive way.

We operate in line with the adopted code of ethical conduct and corporate governance principles, and partnership is the basic value that drives us in our Company. We are aware that we impact the environment in a direct and indirect way, therefore we operate in such a way so as to reduce this influence to minimum.

The adopted CSR policy is the main document and the philosophy of our company in the area of corporate social responsibility. It determined our activities in this area a long time ago.

8.2 THE COMPANY AND ITS EMPLOYEES

HR Policy

The Human Resources Policy of the Capital Group of Grupa Kęty S.A. is built on the idea that employees are the most precious resources in the organisation. Their knowledge, abilities and skills create the identity of the enterprise and its product value, and build the company's competitive edge. The objectives of our HR Policy refer to our Mission, Vision and Values.

The HR management in the companies of the Capital Group of Grupa Kęty S.A. is based on shared standards, with a focus on their high quality and professionalism. This way, all basic HR processes are regulated, developed on an ongoing basis and improved.

All measures are taken in compliance with high standards in terms of ensuring EQUAL OPPORTUNITIES related to the access to any benefits, SAFETY at work and the proper DEVELOPMENT of employees.

Ensuring equal opportunities

In the companies the Capital Group of Grupa Kęty S.A., all HR processes, including recruitment, development processes, payroll systems, and situations when an employee leaves the organisation, are carried out so as to ensure equal access to all offered benefits.

The tools used under the equal opportunities policy comprise e.g. procedures published in a way ensuring transparency. Other information channels ensuring access to information for all employees comprise notice boards, the Intranet or appraisal meetings. At least twice a year, the Company holds meetings during which employees are informed about the Company's results and important plans for successive periods.

The development of the organisation's intellectual potential

Acting upon the motto: "Human capital as a path to success," the Group takes measures to develop the potential of employees. Training programmes are one of the tools contributing to professional development. They are designed not only to develop and improve skills, but are also a part of the incentive system and they play a team-building role. The policy in this area makes it possible to ensure the continuity of the organisation's operation in the case of planned and abrupt changes in employment in key positions. On the other hand, the reserve staff that is built now allows for the smooth implementation of development plans.

Employees' health and safety

Measures to improve safety at work are carried out as part of the Safe Work Programme. Preventative measures comprise e.g. additional (to basic statutory) 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. Thanks to our reporting system, we constantly analyse the results of our measures and potential risks.

The companies of Grupa Kęty S.A. Group have in place teams of H&S specialists responsible for monitoring the work environment. They identify hazards at workstations and suggest preventive measures to prevent accidents at work and occupational diseases. Third-party laboratories accredited by the Polish Centre for Accreditation to take tests and measurements of work environment parameters measure harmful factors on a regular basis.

As part of a broadly-defined H&S policy, on 1 June 2017 all Group companies in Poland launched a special additional insurance programme for employees called 'Opieka medyczna S' ('S Medical Care'). More than 2500 employees have joined the programme, which accounts for over 60% of all the Group's employees in Poland. The insurance is co-financed by the employer in ca. 70% on average, depending on the package selected by employees.

Projects for employees

The Company's activities aim at engaging employees and initiating projects dedicated to them. The most important activities in the first half of 2017 in the area of corporate social responsibility include:

- 'Etyka dla Smyka - Super Bohater!' ('Ethics for the Little Ones - a Superhero!') — an annual art competition for children of employees. 1,185 works were collected in the entire Group. Each art work is rewarded.

- sport — The Company has always tried to engage employees in all sports-related initiatives (we describe all these projects in more detail in chapter: *Educating through sport*).

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- employees' voluntary work – We support and foster employees' voluntary work initiatives, e.g. through the programme called 'Razem z GRUPĄ' ('Together with the GROUP') described in Chapter: *Community involvement*, and the involvement of our employees in initiatives and programmes organised by 'Grupa Kęty for the Children of Podbeskidzie Region' Foundation. 'The Christmas of Children's Dreams' is the most spectacular, cyclical initiative of this type; employees voluntarily prepare Christmas gifts for children supported by the Foundation. They take letters hung by children on Christmas trees in the Group's companies and fulfil their dreams. The Foundation organises Christmas parties for children where the gifts are given.

Employment

In the period covered by this report, the number of employees in the Group increased by 11 as compared to the end of 2016. This increase is associated with the growing production on existing machines and new investment projects implemented systematically in the Group companies.

Segment	31.12.2016	30.06.2017
Extruded Products Segment	1,778	1,823
Aluminium Systems Segment	2,060	2,014
Flexible Packaging Segment	727	736
Other	81	84
TOTAL	4,646	4,657

8.3 Community involvement

Social activities

The Company carries out its social and charity activities through Fundacja Grupa Kęty Dzieciom Podbeskidzia ('Grupa Kęty for the Children of Podbeskidzie Region' Foundation), which, in the first half of the year, allocated 161 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. 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. In addition to the projects, programmes and events described in the report, in which the activities of the Group and of the Foundation are combined, other significant initiatives in the first half of 2017 include:

'A Stands for Art' programme — this year's edition comprised workshops with the 360degrees camera. Children supported by the Foundation shoot their own music video for *My City* song by Krzywa Alternatywa. The video was shot in Kęty, Oświęcim, Pszczyna, Bielsko-Biała and Międzywieć, i.e. the places in which the children taking part in the workshops live.

A charity tournament in January 2017. Traditionally, at the beginning of January, athletes gather for the tournament in the sports arena in Kęty. The Foundation is a co-organiser of the Tournament. This year, the auction of sports gadgets brought the record amount of 20 thousand PLN for the Children's Home in Kęty.

Transitional living flat — in the first half of the year, according to the rules and regulations, two young females lived in the flat in Kęty. They both ended their lease agreement and from September two further teenagers will live there. According to the rules, the maximum period of living in the flat is 2 years.

'How to Like Maths' educational workshops — i.e. how to explain maths in a student-friendly way. Workshop participants had the opportunity to learn about it for themselves doing shopping and

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calculations for it alone, dividing a pizza into equal parts, calculating the radius and the diameter or calculating the acceleration of the cableway to the peak of Mount Szyndzielnia. Young people from Children's Homes from Bielsko-Biała, Cieszyn, Pszczyna and Żywiec participated in the project.

'16plus' programme — individual support for young people preparing to start their adult lives. In the first half of the year, as part of the programme, the Foundation paid for foreign language lessons, driving licence courses or equipped flats of subsequent teenagers who started their independent lives.

In the first half of the year, apart from the activities of 'Grupa Kęty for the Children of Podbeskidzie Region' Foundation, the Company ran 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 17 agreements with partners, donating 34 thousand PLN for the projects.

The beneficiaries of the project include the broadly-defined local community. The comprehensive report on this programme will be presented in the Management Board's report for 2017. This year's edition was called 'Eco-edition' and was devoted entirely to ecological measures and projects.

Grupa Kęty S.A. Group developed and promoted eco-friendly activities by also engaging in other projects, including:

'LET'S CLEAN THE BESKIDS 2017' campaign organised by the Polish Tatra Society. The effects of this campaign:

- the participation of 823 people, including 579 children and young people;
- 7,880 litres of rubbish collected from 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.

'A Top to Get a Wheelchair' programme — an ongoing programme implemented across the Group. In the first half of the year, 472 kg of bottle tops were collected and over 3 tonnes from the beginning of the campaign.

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 2017, the Company was a partner of a number of local sporting events and projects:

- 6TH REKSIO THE DOG'S CUP — skiing competitions for children (two editions: February and March 2017)
- 42ND Bielski Family Bike Rally (April 2017)
- 'Młoda Plaża Open' — a beach volleyball tournament for under-18 participants (May, June 2017)
- 'Preschoolers from Podbeskidzie Region' — the cooperation with TS Podbeskidzie local club.
- Preventive run for children and young people — 'I Can Get Addicted Only to Sport' (June 2017)
- 'BIKE HELPS' sports and charity initiative

The idea of educating through sport is crucial element of social impact. In the first half of the year, the Company allocated ca. 70 thousand PLN for such measures.

8.4 Environmental aspects

In the first half of 2017, due to the expiry of the 5-years' legal period, the Marshal of Małopolskie Province conducted an analysis of the terms of the integrated ecological permit for the plant in order to verify the need to adapt the systems of Grupa Kęty S.A. to the requirements of the so-called 'BAT (best available techniques) Conclusions'. The analysis coincided with the issuing of the implementing decision of the European Commission providing for new, stricter requirements for the production of non-ferrous metals (2016/1032/EU) according to the Directive of the European Parliament and of the Council 2010/75/EU. The new requirements apply specifically to the non-ferrous metals secondary smelting system used in the plant. The detailed inspection carried out by the Marshal of Małopolskie Province in the plant did not result in the identification of any significant discrepancies between the environmental protection techniques and devices used in the plant and the requirements of the best available techniques. Thus, the continued operation of the ingots production system is still possible without the implementation of expensive investment processes. The plant has been required to submit within one year an application to change the integrated permit in terms of the volume of emissions of pollutants to air and their monitoring methods in order to comply with new emission standards and techniques contained in the conclusions of Decision 2016/1032/EU.

On 3 March 2017, the Company's management reviewed the environmental management system based on ISO14001 requirements. On the basis of the information on the environmental impact of activities, the monitoring outcomes and measurements, the satisfaction of legal obligations and the results of audits, the compliance of Grupa Kęty S.A. with the environmental laws and other requirements was confirmed. The company confirmed the high level of the accomplishment of the Environmental Programme and higher process efficiency noticeable in reduced emissions and consumption of the main utilities per production unit.

Due to the release of ISO 14001:2015, even though the deadline for meeting new stringent requirements expires at the end of September 2018, the Group decided to obtain the certification for the plant as early as in June 2017. This required the completion of a number of adaptation measures, including the implementation of: risk management in the processes that may have impact on the environment; the elements of knowledge management; methods of the environmental verification and assessment of co-operating parties; a new environmental policy and the environmental report including the assessment of the environmental impact according to the requirements of GRI (Global Reporting Initiative) standard.

The certification audit was conducted by an external unit Tuv Nord Cert on 26-28 June and it confirmed full compliance with the new requirements. The plant obtained the certificate of compliance with ISO14001:2015.

Due to legislative works, measures were taken to meet the requirements of the new Polish Water Act in a timely manner, in particular the regulations regarding the calculation and payment of water withdrawal and sewage collection charges, the development of risk analysis and the verification of water intake protection zones. The Group obtained, for the next four years, an advantageous permit to discharge wastewater from the plant to the Sofa river and purchased the system for the continuous monitoring of COD for such wastewater.

Exceeding legal requirements, the Group assesses the environmental efficiency using the 'green accounting' model, which combines the plant's accounting with eco-friendly measures.

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Great emphasis was placed on responsible and committed attitude of employees, e.g. through training and participation in the company's Employee Suggestion system supporting pro-ecological activities.

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 2016. Details concerning 2016 are presented in note 35 to the Consolidated Financial Statements of Grupa Kęty S.A. for 2016.

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

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 31 December 2016, the number of all issued shares of Grupa KĘTY S.A. amounted to 9,478,376 shares with the nominal value of 2.50 PLN each. The list of shareholders holding more than 5% of shares as at 30 June 2017 and 31 December 2016 is as follows:

	No. of shares as at 30.06.2017	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	49.95%	4,729,376	49.90%
Total	9,489,980	100.00%	9,478,376	100.00%

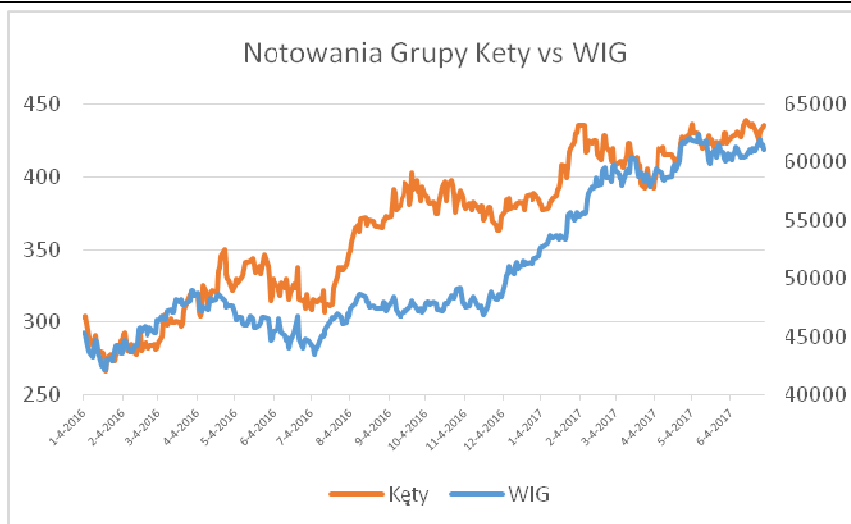
After the balance sheet date, there were no material changes in the structure of shareholders holding more than 5% of shares at the Company's General Meeting of Shareholders. Furthermore, the Management Board did not have any information about any agreement, including any agreement concluded after the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

SHARE QUOTATIONS AT WARSAW STOCK EXCHANGE

In the first half of 2017 (on the basis of the closing prices):

- the average share price amounted to 416.19 PLN;
- the minimum share price (January 5) amounted to 377.00 PLN;
- the maximum share price (June 16) was 439.00 PLN;
- price change throughout the period (between 30 June 2017 and 31 December 2016) amounted to 12%; for comparison purposes, in the same period WIG index increased by 18%;
- the average per session turnover amounted to ca. 2.4 million PLN as compared to 2.3 million PLN in 2016.

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INVESTOR RELATIONS

The information policy of Grupa Kęty S.A. is based on open relations with existing and potential shareholders with due observance of the fundamental principles governing equal access to information. Implementing its objectives, the company representatives communicate with the capital market participants through electronic channels (ESPI system, website) and in direct meetings during quarterly presentations of results, individual meetings or tele- and video-conferences.

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. In February 2017, the dividend policy was changed again. The present dividend policy adopted by the Supervisory Board of Grupa Kęty S.A. provides for the payment of dividend amounting to 60%-100% of consolidated net profit of Grupa Kęty S.A. during the implementation period of Strategy 2020. The Management Board assumes that the payment of dividend during the implementation period of Strategy 2020 strategic plan will amount on average to 80% of consolidated net profit of Grupa Kęty S.A. The Management Board, when determining the recommended dividend, will take into account, among other things:

- the Group's net debt to EBITDA ratio calculated as at the last balance sheet date of the previous financial year with the maximum level of 2.0;
- time shifts of dividends received from subsidiaries affecting the maximum level of recommended dividend;
- the value of potential and feasible acquisitions;
- the value of actual capital expenditure to be made in the year of dividend payment.

Pursuant to the adopted policy, the Management Board, on 7 February 2017, recommended the payment of 80% of the consolidated net profit for 2016 in the form of dividend.

11. OTHER REPORT ELEMENTS

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.

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 11,604 series G 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	11,604	1,358.8
TOTAL	-	11,604	1,358.8

PURCHASE OF TREASURY SHARES

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

PENDING PROCEEDINGS

The companies of Grupa Kęty S.A. Group, 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.

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 accomplishment of the forecasts published on 7 February 2017.

Derivative instruments

Details concerning derivative financial instruments are presented in note 27 to the Interim Condensed Consolidated Financial Statements for the first half of 2017.

Intra-group transactions

Intra-group transactions from the point of view of the parent company for the period from 1 January 2017 to 30 June 2017 and as at 30 June 2017.

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Related party	Sales	Purchases	Receivables	Liabilities	Dividends
Aluprof S.A.	121,800	1,891	75,798	667	120,000
Alupol Packaging S.A.	907	0	330	0	74,464
Alu Trans System Sp. z o.o.	2	0	0	0	0
Dekret Sp. z o.o.	358	825	43	170	144
Aluprof Hungary Sp. z o.o.	50	210	43	118	0
Metalplast Stolarka Sp. z o.o.	275	184	281	35	0
Alupol Ukraina LLC	1,440	4,391	165	2,173	0
Alutech Sp. z o.o. w likwidacji	2	0	0	0	0
Romb S.A.	357	22	134	0	0
Aluform Sp. z o.o.	973	29,514	293	7,114	17,052
Alupol Films sp. z o.o.	187	0	87	0	0
Alupol Packaging Kęty Sp. z o.o.	3,846	12	971	0	0
Aluprof Schelfhaut ltd	34	0	3	0	0
Aluprof System Czechy sro	0	1,732	0	30	0
Aluminium Deutschland Kęty GmbH	12	845	4	239	0
Grupa Kęty Italia srl	0	561	0	88	0
Aluminium Kęty EMMI d.d.o	486	637	190	144	0
Total	130,729	40,824	78,342	10,778	211,660

In addition, the Company has dividend receivables of 120,000 thousand PLN from Aluprof S.A. and of 74,464 thousand PLN from Alupol Packaging S.A. Apart from the aforementioned transactions, in the period of 6 months of 2017, the Company did not carry out any other related party transactions.

The transactions with the Management Board and the Supervisory Board are described in note 28 to the Interim Condensed Consolidated Financial Statements. There were no other significant related party transactions apart from the aforementioned transactions and balances.

Events after the reporting period

Apart from the above-mentioned events, there were no other significant events to be included in this report.

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 figures and the comparative data recognised in the interim consolidated financial statements of the Capital Group of Grupa Kęty S.A. for the period from 1 January to 30 June 2017 were prepared according to the applicable accounting policies, and they present a true and fair view of the financial standing and assets of the Capital Group of Grupa Kęty S.A. The Management Board's Report for the first half of 2017 included in this document 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. in this period.

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 period from 1 January to 30 June 2017, 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 audit, according to the law and professional standards.

Dariusz Mańko

Adam Piela

President of the Management Board

Member of the Management Board

Kęty, 3 August 2017