

CAPITAL GROUP OF GRUPA KĘTY S.A.

**THE NOTES OF THE MANAGEMENT BOARD OF GRUPA KĘTY S.A. TO THE INTERIM
CONSOLIDATED FINANCIAL STATEMENTS FOR THREE QUARTERS ENDED ON 30
SEPTEMBER 2017**

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

The third quarter brought the continuation of the trends from the first half of the year. Good business conditions continued both on the Polish market and European export markets. In terms of value, the biggest growths of export were recorded for the Italian, Hungarian, German, Czech, Dutch and US markets. Ratios published by the Polish Central Statistical Office (GUS) concerning the growth of industrial production and retail sales confirm the signs of prosperity. In addition, the Company managed surprisingly quickly to achieve the full capacity of BOPP film production line which was launched in mid-fourth quarter of 2016. Also, other production lines both in the Flexible Packaging Segment and in other segments achieved the capacity of at least 90%. Due to such good sales results, the Group generated 98.7 million PLN of consolidated operating profit, i.e. 9% more than in the third quarter of 2016. The lower margin is due to the increase in the resource base (average prices of aluminium expressed in PLN increased in the third quarter by 16%), which, according to the estimates of the Management Board, lowered the percentage margin by ca. 0.6 p.p. Disregarding this effect, the percentage margin would be comparable to the previous year's record-breaking margin.

Consolidated net profit amounted to 77.3 million PLN, which is in fact lower than last year's figure by 9 million PLN, but one should pay attention to the fact that, in the third quarter of 2016, the Group recognised ca. 15 million PLN of income tax asset related to the investment project implemented in the special economic zone, which increased last year's net result on a one-off basis. The fact that the Group recorded very good results in terms of cash flows is crucial. In only three quarters of the present year, the Group generated 97 million PLN of cash from operating activities and the total amount after three quarters was 194 million PLN. As regards the operating activity, the Group implemented the following tasks:

- Continuing the implementation of projects as part of the new strategy approved of by the Company's Supervisory Board; its basic objectives were published on 7 February 2017.
- Developing the sale abroad, which allowed for the diversification of the risk related to business conditions and demand on the Polish market.
- Product development which makes it possible to reach new customers and markets.

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

September 1 — the legal combination of Aluprof S.A. and Metalplast Stolarka Sp. z o.o. – two companies from the Aluminium Systems Segment

September 29 — two banks, i.e. PKO BP S.A. and BGŻ BNP Paribas S.A., extended for another 12 months credit lines for the Group companies with the total value of 200 million PLN.

FACTORS WITH SIGNIFICANT IMPACT ON THE RESULTS OF THE PRESENT QUARTER

Demand for the Company's products

All three segments of the Group recorded an increase in sales revenue. In the Extruded Products Segment (EPS), the revenue increased due to higher sales volumes (+ 5%) and the growing aluminium price on global markets (an increase in the average aluminium price expressed in PLN by 16%). In the Flexible Packaging Segment (FPS), the revenue increased owing to the fast growth of the sales of BOPP film produced in the plant launched in the middle of the fourth quarter of 2016. In all segments, revenue growth was recorded on both Polish and foreign markets. As a result, the actual sales revenue figures were as follows:

Segment (in million PLN)	Total revenue	Growth rate	Poland	Foreign markets
Extruded Products Segment	305.0	+11%	165.3	139.7
Aluminium Systems Segment	320.1	+9%	191.1	129.0
Flexible Packaging Segment	161.6	+24%	90.2	71.5

Exchange rates

According to the Management Board's estimates, ca. 42% of sales were generated in PLN; ca. 50% in EUR; and ca. 5% in USD. And the remaining 3% were generated 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). In the reporting period, Polish currency depreciated slightly against EUR by ca. 2%, from ca. 4.20 to 4.30 and appreciated against USD by ca. 3%, from 3.7 to 3.6. The appreciation of the Polish currency against EUR has negative impact on export profitability and the competitive position on the Polish market. In addition, the companies of the Group hold trade receivables and liabilities in foreign currencies. From this point of view, the fluctuations of EUR and USD against PLN and of USD against UHR (settlements between the companies of the Group in Poland and in Ukraine are made in USD) are of key importance here.

Prices of basic raw materials

Aluminium, aluminium scrap, sheet aluminium and aluminium film are the basic raw materials in the Group, accounting for ca. 50% of the costs of materials. Thus, the Group is exposed to the risk of increased prices of this raw material, considering the fact that it cannot in any way influence the prices quoted at the London Metal Exchange (LME), which are the pricing base for aluminium supplies contracts concluded by the companies of the Group. In the reporting period, aluminium prices fluctuated between 1,900 to 2,200 USD per tonne. The changes of the prices of the raw material in a short period of time may affect the profitability of operations, particularly in the Extruded Products Segment, as the prices are transferred upon customers with a certain delay (1 up to 1.5 months). The transactions hedging the purchases of aluminium (futures), the result of which, in the case of decreases in the metal prices on global exchanges, is negative and, in an opposite situation (increases in the prices of metals), the transactions "generate" positive result, are a stabilising factor for the results.

Debt

At the end of the reporting period, the Group had 146.9 million PLN of long-term loans and 340.9 million PLN of short-term loans. Ca. 25% of the value of loans is held in foreign currencies (22% in EUR and 3% in USD), which is reflected in the income statement due to the monthly evaluation of the impact of the changes of EUR and USD exchange rates upon the value of the loan. In the present quarter, the valuation was negative and amounted to 0.4 million PLN.

Other

In the reporting period, there were no other significant factors or events, especially of unusual character, with significant impact on the accomplished financial results, apart from those mentioned above and in items 11-15 of the interim condensed consolidated financial statements for three quarters of 2017.

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

Demand for the Company's products

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

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

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

Flexible Packaging Segment – an increase by ca. 20%

Exchange rates

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

Prices of basic raw materials

The Management Board of Grupa Kęty S.A. assumes that in a few coming months aluminium prices will remain at the level of ca. 2,100 USD per tonne. However, the Management Board would like to mention that the possible rapid growth of aluminium prices at the LME may result in the temporary decline in the profitability due to the fact that increases in product prices are realized on the market with a 1- or 1.5-month delay in relation to the movements of aluminium prices at the London Metals Exchange. A certain portion of items are also hedged systematically in the perspective of 6-12 months; the level of hedging is between 50% and 20% of items for a given month. Having regard for continuous declines in the prices of metal, the levels of hedging are higher than the present quoted price (negative result on hedging transactions); however, it is positively reflected in the costs of the raw material, as, physically, the metal is purchased at lower prices. In the case of an increase in prices, the situation is reverse.

Debt

The Management Board estimates that the debt in the next three months will increase by ca. 150 million PLN due to the need to finance planned investment projects and due to the payment of the second part of the dividend.

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

On 1 September 2017, District Court in Bielsko-Biała, VIII Economic Division of the National Court Register, made an entry concerning the business combination of Aluprof S.A. and Metalplast Stolarka Sp. z o.o. The measures leading to the integration of these companies with the Aluminium Systems Segment had been carried out since the beginning of the year and aimed at increasing the Segment's efficiency, providing better customer service and optimising the product range. The combination of the entities will not affect the presentation of the Segment's results, as the companies' results have been reported jointly within the Aluminium Systems Segment since 30 June 2016.

ISSUE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES

In the reporting period, as part of the implementation of the options programme for the management personnel, eligible persons subscribed for 11,604 series G shares of the Company at 117.10 PLN per share. In addition, as a result of a call by eligible persons, the company repurchased from them 11,604 series H bonds giving their holders the pre-emptive right to subscribe for series G shares. The repurchase price was 0.01 PLN per bond.

THE MANAGEMENT BOARD'S POSITION ON PUBLISHED FORECASTS

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

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

	No. of shares as at 30.09.2017	Interest in capital	No. of shares as at 31.12.2016	Interest in capital
Nationale Nederlanden PTE (formerly ING PTE)	1,737,000	18.30%	1,732,000	18.27%
Aviva OFE Aviva BZ WBK	1,654,000	17.43%	1,649,000	17.40%
OFE PZU "Złota Jesień"	921,000	9.70%	870,000	9.18%
Aegon PTE SA	591,866	6.24%	-	-
PTE Allianz Polska	499,748	5.27%	498,000	5.25%
Others	4,086,366	43.06%	4,729,376	49.90%
TOTAL	9,489,980	100%	9,478,376	100%

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

According to the declarations made as at the last day of the reporting period, the Management Board of the Company held 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.

- the right to acquire 15,000 series M bonds with the pre-emptive right to subscribe for series H ordinary bearer shares, including: the President of the Management Board – 9,000 bonds, and the Member of the Management Board – 6,000 bonds, under the conditions laid down in the programme.

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

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

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

RELATED PARTY TRANSACTIONS

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

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

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

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

On 12 October 2017, the Supervisory Board of Grupa Kęty S.A. approved of the adjustment of the investment plan as part of Strategy 2020 proposed by the Management Board. The scope of the changes is as follows:

1. An increase in investment expenditure in the Extruded Products Segment by 35 million PLN for the construction of a new profile anodising line with environmental protection infrastructure. The project is to be implemented in 2018 and the start of production is scheduled in 2019.
2. An increase in investment expenditure in the Flexible Packaging Segment by 110 million PLN for the construction of the second BOPP film production line in the plant in Oświęcim (the area of the Special Economic Zone). The project will be implemented in the period from 2017 to 2019 as part of the company's zonal authorisation (current report dated 1 February 2016), the start of the production is scheduled in 2020, and the expected full capacity utilisation is planned in 2022 (180 million PLN of additional sales revenue assuming 100% capacity utilisation). In addition, in the project implementation period, i.e. from the fourth quarter of 2017 until the end of 2019, the

company will recognise ca. 20 million PLN of a tax asset due to the operations in a special economic zone, which will increase net profit.

3. Abandoning the project of the construction of new headquarters for the Aluminium Systems Segment, which will decrease the investment plan by 37 million PLN.

These changes will affect the basic financial objectives projected for 2020 as follows:

1. An increase in sales revenue by 100 million PLN up to 3,357 million PLN.
2. An increase in EBITDA by 8 million PLN up to 514 million PLN.
3. An increase in EBIT by 1 million PLN up to 360 million PLN. The Management Board assumes that the main project affecting the changes in the forecasts, i.e. the new BOPP production line, will offer only 40% capacity utilisation in 2020 and, hence, there is only a slight increase in operating profit.
4. A decrease in consolidated net profit by 2 million PLN to 263 million PLN due to a higher debt taking into account little impact on operating profit.

The said changes in basic financial parameters are stated based on the macroeconomic assumptions applied in the process of developing Strategy 2020. Investment projects will be financed entirely with additional borrowings, e.g. bank loans.

Except for the information included in the interim condensed consolidated financial statements for three quarters of 2017 and the information included in this document, there is no other information which, in the Issuer's opinion, is material for the assessment of its staff, financial situation, assets, financial result and changes thereof and information material for the assessment of the possibility of the payment of the Issuer's liabilities.

Signatures of all Members of the Management Board

Dariusz Mańko

President of the Management Board

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Adam Piela

Member of the Management Board

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Kęty, 19 October 2017