

CAPITAL GROUP OF GRUPA KĘTY S.A.

**THE NOTES OF THE MANAGEMENT BOARD OF GRUPA KĘTY S.A. TO THE INTERIM
CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED ON 31
MARCH 2018**

CONTENTS

SUMMARY OF THE ISSUER'S MATERIAL ACCOMPLISHMENTS OR FAILURES IN THE REPORTING PERIOD AND THE SUMMARY OF RESPECTIVE KEY EVENTS	3
FACTORS WITH SIGNIFICANT IMPACT ON THE RESULTS OF THE PRESENT QUARTER	4
FACTORS LIKELY TO INFLUENCE THE RESULTS GENERATED BY THE ISSUER IN THE PERIOD OF AT LEAST ONE QUARTER (ACCORDING TO THE ISSUER)	5
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	5
ISSUE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES	6
THE MANAGEMENT BOARD'S POSITION ON PUBLISHED FORECASTS	6
SHAREHOLDERS HOLDING AT LEAST 5% OF TOTAL VOTES AT THE GENERAL MEETING OF SHAREHOLDERS AS AT THE DATE OF SUBMITTING THIS REPORT	6
SHARES HELD BY MEMBERS OF THE COMPANY'S MANAGEMENT BOARD AND SUPERVISORY BOARD AS AT THE PUBLICATION DATE OF THIS REPORT	6
MATERIAL PROCEEDINGS CURRENTLY IN PROGRESS IN THE COURT, ARBITRATION COURT OR PUBLIC ADMINISTRATION AUTHORITY	7
RELATED PARTY TRANSACTIONS	7
INFORMATION ON THE ISSUER'S OR ITS SUBSIDIARIES' SURETIES FOR LOANS OR CREDITS, OR OTHER GRANTED GUARANTEES	7
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	7

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

As expected, the first quarter brought about the continuation of good economic conditions both on the Polish market and European export markets. In terms of value, the biggest growths of export were recorded for the Dutch, Hungarian, Italian, Lithuanian, UK and Ukrainian markets. Ratios published by the Polish Central Statistical Office (GUS) concerning the growth of industrial production and retail sales confirm the signs of prosperity. All main production lines were utilised in 80-90%. Due to such good sales results, the Group generated 74.5 million PLN of consolidated operating profit, i.e. 7% more than in the corresponding quarter of 2017. The lower margin results from the change in the product portfolio (higher share in sales of products with lower per unit margin) and higher-than-expected growth rate for third-party services (19% against 12% increase in sales). The consolidated net profit amounted to 53.3 million PLN, i.e. 1.3 million PLN less than in the previous year. The reason for the lower result is the negative valuation of foreign currency loans (-1.4 million PLN) and an increase by 2 million PLN in the deferred tax on gross result (depreciation of the asset recognised in previous years). The fact that the Group recorded very good results in terms of cash flows is crucial. Despite the increase in working capital, cash flows from operating activities in the first quarter amounted to 60 million PLN. As regards the operating activity, the Group implemented the following tasks:

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

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

February 1 — the publication of consolidated forecasts for 2018 and of the recommendation of the Management Board regarding the payment of the dividend amounting to 80% of the consolidated net profit for 2017.

February 22 — companies from the Group, i.e. Alupol Packaging Kęty Sp. z o.o. and Alupol Films Sp. z o.o., signed a loan agreement with mBank S.A. amounting to 90 million PLN. The loan will be used to finance the investment programme of the said companies.

December 28 – the Supervisory Board of Grupa Kęty S.A. appointed, with effect from 28 March 2018, Mr Rafał Lechowicz as a Member of the Management Board of Grupa Kęty S.A.

March 28 — the Supervisory Board of Grupa Kęty S.A., at its meeting held on 28 March 2018, adopted the resolution on the appointment of the Management Board for the tenth term of office with the effect from the date of the General Meeting of Shareholders approving the financial statements and the Management Board's report for the financial year 2017 and discharging Members of the Management Board for due performance of their duties in 2017. The Management Board of the tenth term of office will comprise the existing members, i.e.: Mr Dariusz Mańko, President of the Board; Mr Adam Piela, Member of the Board; Mr Piotr Wysocki, Member of the Board; Mr Tomasz Grela, Member of the Board; and Mr Rafał Lechowicz, Member of the Board, appointed on 28 March 2018.

March 29 — the Management Board of Grupa Kęty S.A. convened for 24 April 2018 at 12.00 CET the Ordinary General Meeting of shareholders to be held in Warsaw at Polonia Palace Hotel, Al. Jerozolimskie 45 ('Grodno' Room).

FACTORS WITH SIGNIFICANT IMPACT ON THE RESULTS OF THE PRESENT QUARTER

Demand for the Company's products

All three segments of the Group recorded an increase in sales revenue. In the Extruded Products Segment (the EPS), revenue increased mainly due to higher sales volumes (+5%) as aluminium prices expressed in PLN remained at a level similar to last year's level. In the Flexible Packaging Segment (the FPS), revenue increased mainly due to the fast growth of the sales of BOPP films on the Polish market and high exports growth (by almost 30%). 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	296.4	+9%	165.4	130.9
Aluminium Systems Segment	264.6	+13%	158.9	105.7
Flexible Packaging Segment	178.4	+21%	100.3	78.1

Exchange rates

According to the Management Board's estimates, ca. 43% of sales were generated in PLN; ca. 52% in EUR; and ca. 5% in USD, GBP, UHR and DEK. As regards expenses, ca. 45% of costs are costs incurred in PLN, 20% are costs in USD, 30% are costs in EUR and ca. 5% are costs in other currencies (GBP, UHR and DEK). In the reporting period, Polish currency depreciated slightly against EUR by ca. 1%, from ca. 4.16 to 4.22 and appreciated against USD by ca. 2%, from 3.48 to 3.42. The appreciation of the Polish currency against EUR has negative impact on export profitability and the competitive position on the Polish market. In addition, the companies of the Group hold trade receivables and liabilities in foreign currencies. From this point of view, the fluctuations of EUR and USD against PLN and of USD against UHR (settlements between the companies of the Capital Group in Poland and in Ukraine are made in USD) are of key importance here.

Prices of basic raw materials

Aluminium, aluminium scrap, sheet aluminium and aluminium film are the basic raw materials in the Group, accounting for ca. 50% of the costs of materials. Thus, the Group is exposed to the risk of increased prices of this raw material, considering the fact that it cannot in any way influence the prices quoted at the London Metal Exchange (LME), which are the pricing base for aluminium supplies contracts concluded by the companies of the Group. In the period, aluminium prices fell from 2,250 to 2,050 USD per tonne. The changes of the prices of materials in a short period of time may affect the profitability of operations, particularly in the Extruded Products Segment and the Aluminium Systems Segment, as the prices are transferred upon customers with a certain delay (1 up to 1.5 months in the EPS and 3-6 months in the ASS). The transactions hedging the purchases of aluminium (futures), the result of which, in the case of decreases in the metal prices on global exchanges, is negative and, in an opposite situation (increases in the prices of metals), the transactions "generate" positive result, are a stabilising factor for the results.

Debt

At the end of the reporting period, the Group had 165.2 million PLN of long-term loans and 482.3 million PLN of short-term loans. Ca. 22% of the value of loans is held in foreign currencies (20% in EUR and 2% 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 1.4 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 in these notes and in the interim condensed consolidated financial statements for the first quarter of 2018.

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

Demand for the Company's products

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

Extruded Products Segment – an increase by ca. 10-12%

Aluminium Systems Segment – an increase by ca. 10%

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

Exchange rates

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

Prices of basic raw materials

The Management Board of Grupa Kęty S.A. expects that, due to the sanctions imposed on Rusal, aluminium prices may continue to grow and exceed 2,500 USD per tonne. The possible further 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 in the Extruded Products Segment, and 3-6-month delay in the Aluminium Systems Segment. A certain portion of items to which Segments are exposed are hedged systematically in the perspective of max. 12 months; the level of hedging is between 50% and 20% of items for a given month.

Debt

The Management Board estimates that the debt in the next three months will increase by ca. 50 million PLN due to the need to finance planned investment projects and due to the increase in working capital resulting from higher aluminium prices.

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

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

ISSUE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES

In the reporting period, the Company did not make any transactions on debt instruments and equity securities.

THE MANAGEMENT BOARD'S POSITION ON PUBLISHED FORECASTS

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

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

	No. of shares as at 31.03.2018	Interest in capital	No. of shares as at 31.12.2017	Interest in capital
Aviva OFE	1,750,000	18.38%	1,750,000	18.38%
Nationale-Nederlanden OFE	1,733,000	18.20%	1,733,000	18.20%
OFE PZU ŻŁOTA JESIEŃ	865,000	9.08%	865,000	9.08%
AEGON PTE	590,000	6.20%	590,000	6.20%
PTe Allianz Polska	498,000	5.23%	498,000	5.23%
Others	4,085,700	42.91%	4,085,700	42.91%
Total	9,521,700	100.00%	9,521,700	100.00%

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

According to the declarations made as at the last day of the reporting period, the Management Board of the Company held 224,297 ordinary bearer shares of Grupa Kęty S.A., including: President of the Management Board: 126,970 shares; a Member of the Management Board: 48,724 shares; a Member of the Management Board: 35,935 shares; a Member of the Management Board: 12,668 shares; a Member of the Management Board: 0 shares. In addition, on the basis of incentive programmes adopted at the General Meeting of Shareholders on 29 May 2012 and on 23 April 2015, members of the Management Board have:

- the right to acquire 15,247 series I bonds with the pre-emptive right to subscribe for series G ordinary bearer shares, including: the President of the Management Board – 15,247 bonds;
- the right to acquire 36,500 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, a Member of the Management Board – 10,500, a Member of the Management Board – 8,500, a Member of the Management Board – 8,500, under the programme conditions;
- the right to acquire 33,000 series K bonds with the pre-emptive right to subscribe for series H ordinary bearer shares, including: the President of the Management Board – 9,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; under the conditions laid down in the programme.
- the right to acquire 33,000 series L bonds with the pre-emptive right to subscribe for series H ordinary bearer shares, including: the President of the Management Board – 9,000; a Member of the Management

Board – 6,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; a Member of the Management Board – 6,000; under the conditions laid down in the programme.

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

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

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

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

RELATED PARTY TRANSACTIONS

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

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

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

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

On 6 April 2018, the United States government imposed sanctions regarding the cooperation of US entities with Rusal. As estimated by the Company's Management Board, this company is one of major suppliers of aluminium to Europe, so the possible financial problems of this company and the related withholding or reduction of supplies will probably be reflected in the prices of the material on the market. Grupa Kęty, in accordance with its policy of the diversification of the sources of supplies, has several suppliers of materials, including primary aluminium and aluminium ingots (a semi-finished product based on primary aluminium). For example, in the fourth quarter of 2017, deliveries from Rusal accounted for only 4% of the demand for

ingots and, in the first half of the year, for 7.5% of the demand for this semi-finished product. Since Grupa Kęty also has its own production capacity to manufacture ingots (covering ca. 50% of the demand for this semi-finished product), this year, we do not expect problems with the supplies of ingots. It should be noted that all primary aluminium is purchased from sources other than Rusal.

The process of contracting supplies for the second half of the year usually starts only in May, so today it is difficult to estimate the impact of the current situation on the market. Taking into account the existing situation, the Management Board of Grupa Kęty S.A. have made the decision to speed up negotiations regarding deliveries for the second half of the year and to broaden the scope of potential suppliers with entities from outside Europe.

Signatures of all Members of the Management Board

Dariusz Mańko
President of the Management Board

.....

Adam Piela
Member of the Management Board

.....

Piotr Wysocki
Member of the Management Board

.....

Rafał Lechowicz
Member of the Management Board

.....

Tomasz Grela
Member of the Management Board

.....

Kęty, 19 April 2018