Letter of the President of the Management Board

Dear Stakeholders,

The presentation of the financial results of Grupa Kęty S.A. and the Capital Group on the occasion of the annual report publication is a great pleasure to me, who has been holding the position of the President of the Company Management Board for 15 years. The business satisfaction originates from the fact that the published annual financial and operating figure, despite economic tensions throughout the world, commercial wars and economic slow-down, have been better and better every year.

It is the ninth year in a row for the Company to improve the consolidated annual financial results, with the levels of figures soaring every year. It could seem impossible... Yet, compared to the year 2018, the consolidated sales grew by 7%, up to PLN 3.2 billion. Also foreign sales increased for the same percentage and amounted to PLN 1.5 billion. Further, EBITDA amounted to PLN 523 million, which is a growth of 13%. Significant was the growth of the consolidated net profit, by as much as 10%, to PLN 295 million.

Record sales in 2019 by two business segments, i.e. Aluminium Systems and Flexible Packaging, as well as maintenance of the sales volume of extruded products confirm that the Capital Group manages well in the fast changing global economic environment,

and the particular companies of the Group are business smart, offer modern products, are diversified and are capable to react to the changing trends in their sectors.

These factors contributed to the current success of the ‘Strategy 2015-2020’ now coming to an end. On 5 February 2020 we announced ambitious objectives to be attained in 2020, the achievement of which within the 6 years of the Strategy, by 2020, would enable the generation of consolidated sales amounting to PLN 16.4 billion, EBITDA of PLN 2.7 billion, and PLN 1.6 billion of net profit. Capital expenditure in that period amounted to PLN 1.3 billion. A similar amount was also paid out to the shareholders as a dividend.

High demand for aluminium systems and flexible packaging in 2019 enable the increase of sales volume. As regards packaging, the improvement of results was partially brought about by the completion in September 2019 of the flag project at Alupol Films in Oświęcim, where the second twin line for polypropylene packaging production was launched. Thanks to the new project, the production capacity was doubled to about 80,000 tonnes of BOPP film a year. The spot-on project translated into a dynamic, 18% growth of sales in plastic films. The expenditure on plastics processing, i.e. the manufacturing of polypropylene and polyethylene films, including high-barrier ones, contributed to the strengthening of the Flexible Packaging Segment on the European Market and the record results, and thus became the key element of the FPS success strategy.

Similar successes were achieved by the Aluminium Systems Segment, which thanks to the investments made (commissioning of the second vertical paint shop line and the Research and Innovation Centre) was able to effectively continue its operations in Poland and on the markets of Western Europe and the USA. The sales growth rate and value of around PLN 1.5 billion make Aluprof a business segment of key importance for the further development of the Capital Group. The esteem for the professionalism and activity of Aluprof at each stage of business operation has been confirmed in the awards and honours granted to our company. One of the most prestigious ones was the inclusion of the Aluprof brand in the group of the strongest brands of Poland in 2019.

For the Extruded Products Segment the year 2019 was a period of fighting recession, which affected the aluminium sector in Europe and in the world. The largest international concerns have recorded in that period two-digit sales decreases as a direct result of the slowing down rate of growth on the market of extruded products in Europe and lower demand for aluminium profiles. Therefore, the Segment efforts concentrated on the protection of the market and sales volume maintenance. This was achieved, for example, by supporting the main export markets: German, Czech, Ukrainian and Italian, as well as attracting new customers and performance of projects related to the manufacturing of finished products for the automotive industry. In effect, the annual sales volume (77,000 tonnes) by the Segment was similar to that of the previous year, and the utilisation of production capacity was maintained at the maximum high level of 86%. On the background of the whole sector, the objectives attained by the EPS must be considered to be a success.

In 2019, the Management Board carried out the strategic options review process, which covered the assessment and analysis of the operations, market conditions, and competitive position, among other things. The conclusions from the review will serve as a basis for preparing the Development Strategy for the Years 2021–2025.

Dear Stakeholders,

In this Annual Report we present a statement of non-financial information, which, for the fifth time already, enriches this document demonstrating the social and environmental dimension of our business. For many years we have focused on the company economic development, its people and local communities, caring for the environmental aspects and ensuring environmental protection. As a large company of Poland-wide reach, we assume full liability for the operation in social and environmental issues, and due to these reasons we have tried to describe and present them in the most reliable and transparent manner.

For many years, within the created strategies, we have engaged in activities for the benefit of the employees, the environment and local communities. From the perspective of time, we assess the period as a good one. On the financial side, we spent approximately PLN 1.6 million on the activities of the 'Grupa Kęty for the Children of the Podbeskidzie Region' in the years 2015–2019 (including PLN 440,000 in 2019), and nearly 0.5 million on the development of the idea of educating through sport (including PLN 150,00 in 2019). Every year, over PLN 20 million spent by the KĘTY Capital Group companies qualify under the Corporate Social Responsibility, which include medical programmes for the employees, competence and language training courses, actions for the benefit of the environmental protection. On the social side, our engagement meant the participation of thousands of children and youths in sports, educational and ecological events for which the Capital Group was a partner. It was also a measurable support for many charges of the children's homes, for whom we have tried to facilitate their commencement of the difficult adult life.

At the end of this letter I need to refer to the current situation. For some weeks now we have been operating in a reality amended by the pandemic of the SARS-Cov-2 virus which causes the COVID-19 disease. Every day, the Management Board concentrates on ensuring the continuity of operations, bearing in mind the maximum protection of the employees. There is no doubt that the Capital Group will face challenges in the coming weeks with which – as I strongly believe – we will be able to cope as an experienced organisation and a team of people who understand each other.

Yours faithfully,

Dariusz Mańko

President of the Management Board