

Strategy of Grupa Kęty S.A. Capital Group development for the years 2021–2025

The Management Board of Grupa Kęty S.A. (hereinafter referred to as the Company or the Issuer) hereby informs that on 16 December 2020 it adopted the Strategy of development of the Grupa Kęty S.A. Capital Group (hereinafter referred to as the Group or the Capital Group) for the years 2021–2025 (hereinafter referred to as the Strategy), which has been approved by the Company Supervisory Board. The Issuer presents below the main elements of the Strategy.

I. Strategy pillars for the years 2021–2025

The Strategy is based on four pillars, which comply with the Mission, Vision and Values of the Group. These include:

- growth of the Group revenue beyond the development of the markets in which it operates;
- high operating profitability;
- performance of development projects;
- environmental and social responsibility.

When working on the Strategy, the main market, environmental and regulatory trends affecting the particular Segments of the Capital Group were analysed, the pace of market development estimated and the optimal development scenario, in the opinion of the Company Management Board, for each of the Segments determined. The basic conclusion during the work was a confirmation that the Capital Group Segments operate on attractive and prospective markets, whereas the potential generated during the performance of Strategy 2015–2020 enables further organic development.

Taking into account the above, the Company Management Board assumed operating and financial results as well as, for the first time ever, parametrised and presented the commitment in the ESG (Environmental, Social and Corporate Governance) area in the form of sustainable development goals, which comprises the impact on the environment, safety and development of the Company employees, responsibility within the supply chain and engagement in local communities among the key elements of the Strategy performance.

The **Strategy of the Extruded Products Segment (EPS)** assumes systematic increase of share in the European market through:

- doubling the sales of processed products, i.e. components for the automotive and transport sectors;
- selective expansion on the target European markets (intensified sales and marketing activities);
- systematic increase of production capacity to the level of about 110,000 tons in 2025, which enables higher flexibility in customer service.

The estimated average annual pace of market development in the period 2021–2025 was determined at the level of ca. 2%, whereas the Segment plans to generate 4.8% increase by quantity and 6.3% increase by value.

One of the Segment priorities is the maintenance of high level of operating profitability with growing revenues, thanks to utilisation of its production capacity and a continuous efficiency improvement process. Assumed has been the generation of over 10% EBITDA growth per employee in the period of the Strategy performance.

About 43% of the whole capital expenditure budget of the Segment, amounting to PLN 504 million, will be spent on development projects. The rest of the budget will be spent on current maintenance of infrastructure and production potential.

Owing to high market share in Poland, the sales development of the **Aluminium Systems Segment (ASS)** within the Strategy horizon is based mainly on:

- intensified foreign sales, particularly on the British and American markets;
- extension of the offer for new products, e.g. internal or fire-resistant partition structures;
- investment in activities which extend the chain of the created value;
- extension of product offer as well as technical and sales support focusing on individual construction business.

The average annual market growth rate was estimated at the level of about 3% (by value). It is, however, the ambition of the Segment to generate roughly 6%, which includes over 9% on foreign markets and ca. 4% in Poland.

The Aluminium Systems Segment shall strive to maintain high operating profitability thanks to systematic improvement of operations effectiveness. EBITDA per employee will increase by 6% in the Strategy period.

Development projects will constitute a majority in the Segment budget. They will represent approximately 61% of the PLN 424 million allocated to projects in the Strategy period. Replacement projects will be worth PLN 166 million.

Owing to a series of changes in the market environment, the **Flexible Packaging Segment (FPS)** has based its Strategy on the existing production potential. Capital expenditures have been optimised to PLN 82 million in the Strategy period. That will ensure maintenance of flexibility as well as efficient utilisation of plant and machinery. Despite the above, sales goals, considering the adjustment of the base year (2020) resulting from one-off positive effect of the world's economy lockdown, are equally ambitious as in the other Segments. It has been assumed that the average annual sales growth will be 4.4% in the Strategy period compared to 2% market growth. Over 10% EBITDA growth per employee is assumed for the period of the Strategy performance.

The aforesaid one-off positive effect of the lockdown resulted from breaking the supply chains from Middle and Far East, mainly in the second and third quarters of 2020, which has brought about a significant limitation of plastic film imports from those directions, with simultaneous benefit to the European manufacturers, including FPS. In that period it was possible to generate outstanding results of operation. The effect was estimated as PLN 66 million of sales revenue, PLN 60 million of EBITDA, and PLN 51 million of net profit.

Apart from sales and financial objectives, the Capital Group Segments have determined a series of tasks and parameters within the ESG area, which are to be implemented and monitored in the Strategy period. These include:

- reduction of the carbon footprint by the Grupa Kęty S.A. Capital Group by 15%⁽¹⁾;
- increase to 75% of the share of aluminium scrap in the profiles made from the company own billets⁽²⁾;
- growth of the share of the manufactured films and laminates fit for recycling by 5%⁽²⁾;
- growth of the share of aluminium systems in certified, energy-saving, passive projects by 20%⁽²⁾;
- reduction of the Total Recordable Incident Rate (TRIR)⁽³⁾ to less than 1 in the area of occupational health and safety⁽²⁾;
- improvement of the status of an attractive employer measured by the reduced year over year staff rotation ratio by 5%;
- performance of 150 projects for local communities within the 'Together with the Group' voluntary actions and grants programme⁽²⁾;
- sharing the generated profit with shareholders in accordance with the dividend policy;
- covering 100% of suppliers with the provisions of the Suppliers Code of Conduct⁽²⁾.

(1) Base year 2016, scope 1+2 (direct and indirect emission).

(2) Base year 2020.

(3) Total Recordable Incident Rate is defined as the number of injuries per 100 workers at a respective employer during a one-year period.

II. Projected financial results in the Strategy period

The Company Management Board estimates that as a result of accomplishment of the operating tasks, the consolidated revenue will increase by PLN 1.2 billion by 2025, reaching the level of PLN 4.6 billion, EBITDA will grow by PLN 191 million, to PLN 787 million, and net profit will grow by PLN 104 million, reaching the level of PLN 470 million in 2025⁽²⁾.

The table below comprises the main financial objectives assumed for 2025.

Consolidated data (PLN million)	P2020 ⁽¹⁾	2020 ⁽²⁾	2025	Change (%) 2025 / 2020
Sales revenue including:	3,498	3,432	4,637	+35%
<i>EPS</i>	1,268	1,268	1,725	+36%
<i>ASS</i>	1,589	1,589	2,128	+34%
<i>FPS</i> ⁽²⁾	930	864	1,070	+24%
EBITDA ⁽³⁾	656	596	787	+32%
EBIT ⁽⁴⁾	510	450	598	+33%
Net profit	417	366	470	+28%

(1) Data compliant with the projection of 16 December 2020. Final data for 2020 will be presented in the consolidated annual financial statements for 2020.

(2) For comparability purposes data have been adjusted for one-off positive effect of the lockdown generated by the FPS in the period from March to October 2020, resulting from lower plastic film imports from Middle and Far East to Europe, in the amount estimated at PLN 66 million of sales revenue, PLN 60 million of EBITDA and EBIT, and PLN 51 million of net profit (calculated based on the effective tax rate for 2020).

- (3) EBITDA – operating profit plus depreciation and amortisation.
 (4) EBIT – operating profit.

The above financial results projection for 2025 has not been audited by a statutory auditor and has been prepared based on a series of assumptions, expectations and forecasts and is, therefore, subject to the risk of uncertainty and may change due to both external and internal factors. The Company is going to carry out regular reviews of the presented projections and introduce possible adjustments in justified cases.

Below presented are some selected assumptions, expectations and forecasts assumed in the financial projections for the Strategy period:

- during the Strategy period the business conditions will not change significantly, specifically as regards legal, tax and administrative regulations;
- no extraordinary one-off events will occur, which could not have been foreseen as at the date of this Strategy publication;
- the situation related to SARS-CoV-2 coronavirus spreading will not significantly affect the operating activities of the particular segments;
- the dividend paid out will comply with the policy assumed in this Strategy;
- capital expenditure will comply with the plan assumed in this Strategy;
- the Strategy does not include any major acquisition or divestment processes.
- Macroeconomic assumptions:
 - average annual GDP growth rate in Poland/in the Euro zone in the Strategy period: ca. 4.9%/6.0% in 2021, and ca. 3.7%/1.6% in the years 2022–2025;
 - annual inflation (Poland): 1.5% in 2021 and 2.1% in the years 2022–2025⁽¹⁾
 - Average aluminium price: 1,900 USD/ton;
 - USD/PLN mean exchange rate: 3.69;
 - EUR/PLN mean exchange rate: 4.35;
 - EUR/USD mean exchange rate: 1.18.

(1) Owing to the assumption of fixed raw materials prices and foreign exchange rates, revenue is presented at fixed prices, and the impact of inflation is limited to the selected items of operating costs (other than raw materials).

III. Debt level, investment plans and their financing

PLN million	Accumulated data for 2021–2025
Cash flow from operating activities	2,849
Cash flow from investing activities	-1,064
Dividends paid out	-1,719
	Balance as at the end of 2025
Net debt	640

The planned accumulated capital expenditure in the Strategy period will amount to PLN 1,064 million, out of which PLN 512 million will be allocated to development projects serving systematic improvement of processes as well as development of new technologies and products in accordance with the operating tasks assumed by the Capital Group Segments.

The capital expenditure plan will be financed from own cash flow from operating activities and from bank loans, whereas safe level of financial ratios shall be maintained during the Strategy period.

The planned level of net debt at the end of 2025 is estimated as PLN 640 million.

The financial ratios shall be kept at safe level, as follows:

- net debt to EBITDA x 0.8,
- net debt to equity 34%.

IV. Dividend policy

The Strategy assumes maintenance of stable dividend policy in the years 2021–2025, in accordance with which 60–100% of accumulated net profit generated in the preceding year shall be paid out to the shareholders.

In the Strategy it has been assumed that the average annual payout will amount to 85% of consolidated net profit generated in the preceding year.

Moreover, the assumption is that in the years 2021–2025 dividend of about PLN 1.7 billion will be paid out, which means a growth of about PLN 0.5 billion compared to the period of 2016–2020. In reference to one share, the amount is going to be about PLN 180, which will provide the shareholders with the average 7% return on shares.

When preparing the recommendation for the General Meeting with regard to the amount of dividend allocated to payout, the Company Management Board shall consider, among other things, the current and expected financial standing of the Capital Group, the amount of dividends to be received by the Company from its subsidiaries, and the value of the actual capital expenditure to be incurred in the year of the dividend payout.

V. Other major elements of the Strategy

The Strategy assumes organic development of the Grupa Kęty S.A. Capital Group Segments at the rate exceeding the estimated growth rates of the particular markets.

Safe financial ratios and the assumed high cash flow from operating activities in the Strategy period will enable to avail of the possible acquisition opportunities in the area related to be basic scope of the Capital Group activities, which is manufacturing of aluminium-based products and systems.

The Strategy of organic development of the Flexible Packaging Segment, with regard to the market and regulatory changes observed, does not cover for any projects extending the production capacity. The situation shall be monitored, which may result in an update of the Segment plans and launching of development projects, also with regard to acquisitions. At the same time, taking into account the observed processes of market consolidation in that area, and the strong position of the Segment, Grupa Kęty plans to carry out the process of estimation of the Segment market value by way of verification of the possible interest of the potential investors. Following that process, depending on its effects as well as the economic and financial situation, further decisions may be

made as regards recommendation for continuing the Segment strategy or update of the Capital Group Strategy, which includes divestment.

VI. 2021 Financial Results Projection

The table below comprises the projection of financial results for the year 2021, which is the first year of the implementation of the 2021–2025 Strategy presented above.

Consolidated data (PLN million)	P2020 ⁽¹⁾	2020 ⁽²⁾	2021	Change (%) 2021 / 2020
Sales revenue:	3,498	3,432	3,620	+6%
<i>EPS</i>	1,268	1,268	1,311	+3%
<i>ASS</i>	1,589	1,589	1,644	+3%
<i>FPS</i> ⁽²⁾	930	864	947	+10%
EBITDA ⁽³⁾	656	596	624	+5%
EBIT ⁽⁴⁾	510	450	474	+5%
Net profit	417	366	369	+1%

(1) Data compliant with the projection of 16 December 2020. Final data for 2020 will be presented in the consolidated annual financial statements for 2020.

(2) For comparability purposes data have been adjusted for one-off positive effect generated by the FPS during the pandemic (interrupted supplies from Middle and Far East to Europe) in the amount estimated at PLN 66 million of sales revenue, PLN 60 million of EBITDA and EBIT, PLN 51 million of net profit (calculated based on the effective tax rate for 2020).

(3) EBITDA – operating profit plus depreciation and amortisation.

(4) EBIT – operating profit.

Capital expenditure planned for 2021 shall amount to PLN 284 million.

Net debt at the end of 2021 will be PLN 780 million.

The financial ratios shall be kept at safe level, as follows:

- net debt to EBITDA x 1.2,
- net debt to equity 50%.

The above financial results projection for 2021, which is cohesive with the Strategy till the year 2025 presented above, has not been audited by a statutory auditor and has been prepared based on a series of assumptions, expectations and forecasts and is, therefore, subject to the risk of uncertainty and may change due to both external and internal factors.

The Strategy, including the projection of 2021 results shall be regularly reviewed by the Company Management Board and may change before the end of its implementation period.