

Report of the Management Board of Grupa Kęty S.A. on the operations of the Company and
the Capital Group in 2019

25 March 2020 |

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1. LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

GRI 102-14

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 figures, 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

2. DESCRIPTION OF THE COMPANY AND THE GRUPA KĘTY S.A. CAPITAL GROUP

2.1. The Company and the Capital Group business profile

GRI 102-1; GRI 102-2; GRI 102-3; GRI 102-5

Grupa Kęty S.A. (the Company) may boast of over 65 years of experience in aluminium processing. From 1953 to 1992 it operated as a state-owned company under the name Zakłady Metali Lekkich 'Kęty' ['Kęty' Light Metals Plant]. In 1992 it was transformed into a sole-shareholder company of the State Treasury, and in 2001 it changed its name into Grupa Kęty S.A. The Company is registered at the address: 32-650 Kęty, ul. Kościuszki 111. Grupa Kęty S.A. is the parent company for the Capital Group (the Group, the KĘTY Capital Group, or Grupa KĘTY) composed of three business segments operating in the following areas:

- 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);
- production of flexible packaging (Flexible Packaging Segment, FPS).

GRI 102-4; GRI 102-7

The Capital Group consists of 24 companies, including 15 foreign subsidiaries. At the end of 2019, the Capital Group headcount was 5,196 people (growth by 1% y/y), including 1,368 employees at Grupa Kęty S.A. (reduction by 2% y/y).

Since 2000, the Group has spent over PLN 2.4 billion on plant and machinery, as well as new products and services. Thanks to the expenditures made, the Group companies joined the top of the cutting-edge manufacturing companies in Europe in their respective industries. The Capital Group operates on a global scale, providing its products and services to customers in over 50 countries.

2.2. Guiding values in our day-to-day work

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 within our operations we have made and will continue to make efforts to ensure the creation of a better society, retaining balance and protecting the environment.

We believe that the long-term success of Grupa KĘTY depends on its cooperation with a broadly-defined group of stakeholders. We place particular emphasis on activities beneficial to the Group employees and their families as well as local communities.

We operate in line with the adopted Code of Ethics and corporate governance principles, whereas partnership is the basic value we believe in. We are aware that we impact the environment in a direct and indirect way.

Therefore, we operate such as to reduce that influence to minimum. A detailed description of sustainable development measures is available in the chapter entitled 'NON-FINANCIAL INFORMATION STATEMENT'.

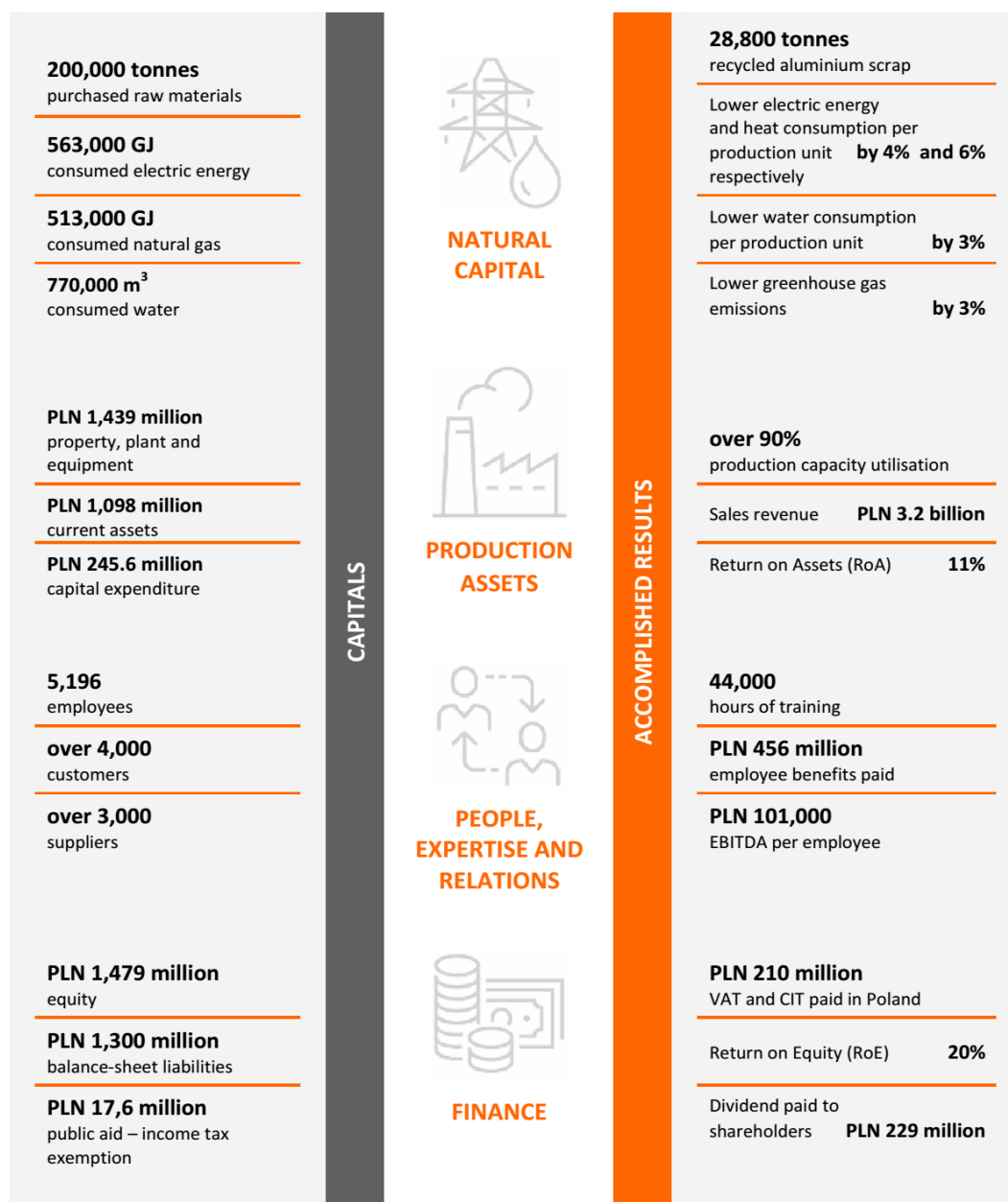
2.3. Business model

The Group implements the idea of sustainable development on the basis of a dialogue with its customers in creating customised products and solutions. A vast majority of products are unique and have been created in response to the need for specific packaging design and layout (at the Flexible Packaging Segment), shape and mechanical properties (at the Extruded Products Segment), or an architectural vision (at the Aluminium Systems Segment).

The Management Board is of the opinion that the possible climate change will not have a significant effect on the business model of the particular segments. The products offered by the Extruded Products and Aluminium Systems Segments, by way of their properties (weight, easiness of recycling) fit the current, environmental market trends. The Flexible Packaging Segment has been gradually modifying its product offer in response to the market expectations in that regard.



The companies of the KĘTY Capital Group use a series of capital resources, thanks to which they achieve high effects not only in the financial dimension but also the non-material one. The specification below presents the example of resources and the effects generated by the Group thanks to their utilisation.



2.4. The most important events in 2019

January 23	– Management Board decision on the commencement of the strategic options review process
February 6	– Publication of projections for the year 2019
April 3	– Management Board proposal for 2018 profit distribution and publication of financial statements for the year 2018
May 5	– Resignation from the function of a Member of the Company Management Board by Financial Director Adam Piela
May 30	– Annual General Meeting of the Company
June 5	– Completion of the strategic options review process
June 7	– resignation from the function of a Member of the Company Management Board by Rafał Lechowicz

- June 14 – Signing by the Aluprof S.A. subsidiary of credit agreement with ING Bank Śląski S.A. for the amount of PLN 80,000 The credit will be assigned to financing and re-financing of capital expenditures incurred starting from 1 January 2018.
- September 18 – Appointment of Rafał Warpechowski Member of the Company Management Board and Financial Director
- October 29 – Grupa Kęty S.A. and its subsidiaries sign of an annex to the credit agreement with Bank Pekao S.A. The annex extends the availability of the credit facility of PLN 300 million to 30 October 2020. The credit is intended for financing the current operations of the companies.

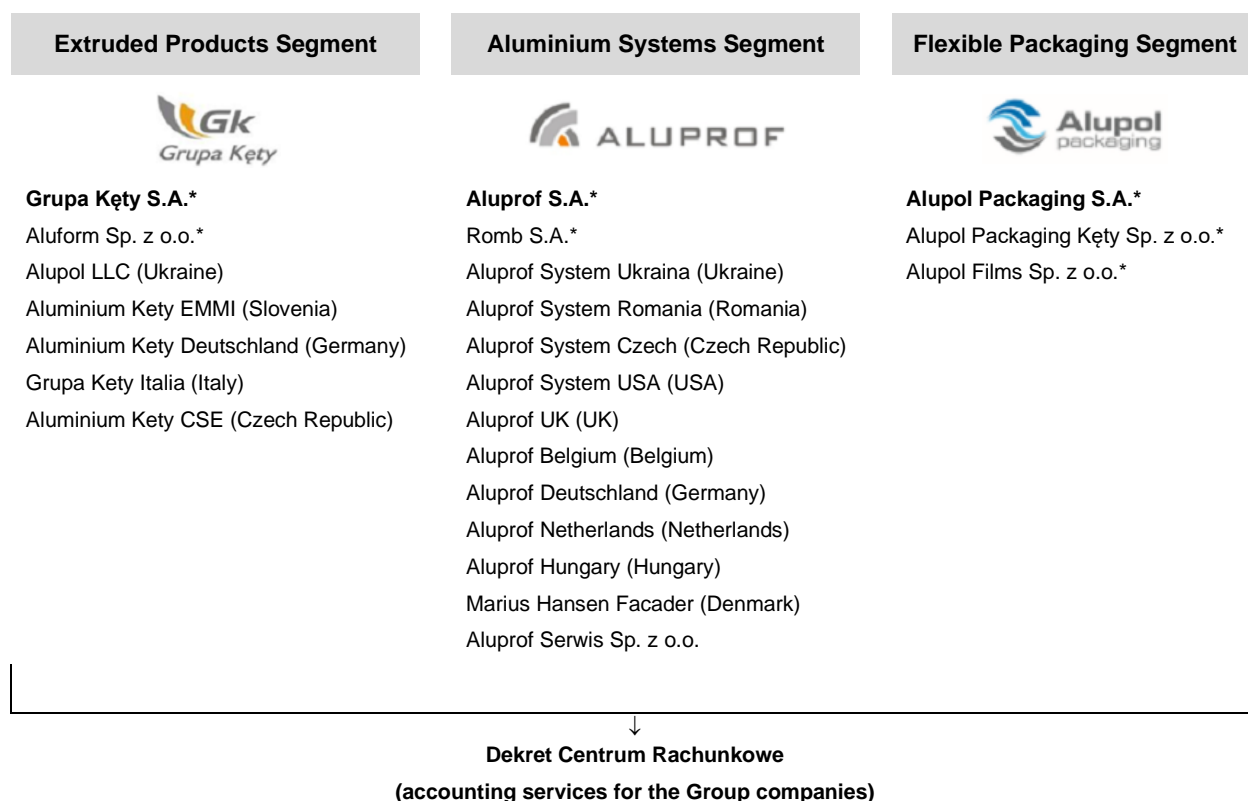
3. THE GROUP OPERATIONS

3.1. Management structure

GRI 102-10, GRI 102-45

The Kęty Capital Group consists of 24 companies and runs business in 3 business segments. The parent company of the Capital Group is Grupa Kęty S.A. Each segment has a leading company, the name of which is at the same time the main brand by which the products of the particular segment are recognised on the market. Each segment has in its structures the services necessary to carry out business in the area of both production and trade.

Some of the specialised functions have been concentrated in competence centres providing services to all the segments of the KĘTY Capital Group. These include in particular: bookkeeping, IT services, organisation of financing, supervision of the acquisition processes, supervision of the risk management policy, internal audit, and coordination of processes related to corporate social responsibility and sustainable development. In 2019 the Capital Group underwent significant changes. The current structure of the Capital Group has been presented in the chart below:



*Companies subject to non-financial reporting

The table below shows the assignment of the particular companies to the business segments. All companies of the Capital Group were subject to consolidation.

Company name	Registered office	Core business	Parent's name	Percentage in share capital 31.12.2019	Date of control take-over	Segment
Grupa Kęty S.A.	Kęty, Poland	Manufacture of products extruded from aluminium	N/A	N/A	N/A	EPS
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
Dekret Sp. z o.o.	Kęty, Poland	Accounting and bookkeeping services	Grupa Kęty S.A.	100.00 %	09/1999	Other
Aluprof Hungary	Dunakeszi, Hungary	Sales of aluminium systems	Aluprof 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	Schwanewede, 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 Belgium 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, Netherlands	Sales of aluminium systems	Aluprof S.A.	55.00%	4/2017	ASS
Aluminium Kety CSE s.r.o.	Ostrava, Czech Republic	Sales of products extruded from aluminium	Aluform Sp. z o.o.	100.00%	7/2017	EPS

Except for the above listed companies, Grupa Kęty S.A., through its subsidiary Aluprof System USA, Inc. holds 45.5% of shares in Aluprof USA, LLC, of the initial value of USD 100,100. Aluprof USA LLC is involved in the distribution of aluminium systems on the US market. Apart from the shares in the aforementioned associate, the Group has no other significant investments in securities, financial instruments, intangible assets and real property.

3.2. Business segments description

GRI 102-2; GRI 102-4; GRI 102-6; GRI 102-7; GRI 102-9; GRI 204-1,103-1,2,3 as regards 'Procurement Practices'

3.2.1 Supply chain characteristics

Primary aluminium, aluminium scrap and semi-finished products based on aluminium (sheet aluminium and aluminium tape as well as ingots made from aluminium and its alloys) are the basic raw materials used by the Group. 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. The list of basic raw materials is supplemented with accessories and semi-products for the production of aluminium systems: fittings, weather strips, glazing, etc. Due to the necessity of maintaining high quality of production, the purchasing policy of the

Group is based on cooperation with selected suppliers who guarantee the proper standards. At the same time, diversification of suppliers has been assumed in order to secure supplies and maintain their competitiveness. Being aware of its impact on the environment, the Company has been trying, in the first place, to use the services of local or national suppliers. Unfortunately, due to the nature of the industry, it is possible only to a limited extent (aluminium scrap, paints, lacquers, thinners, granulate for plastic film production, and some accessories for systems production). In 2019, approximately 33% of the purchases of raw materials and other materials were made at Polish suppliers, 61% of deliveries originated from other European countries and roughly 6% from the suppliers on other continents.

3.2.2 Extruded Products Segment

Grupa Kęty S.A. and the Extruded Products Segment built on its basis are considered to be one of Poland's largest manufacturers of extruded products with about 30% market share. The estimated share in the European market is ca. 3%, which places the Segment at the bottom of the top ten largest players list. The production potential of the companies of the Grupa Kęty includes 13 extrusion presses with the total production capacity of approximately 92 thousand tonnes, in three locations: Kęty, Tychy and Borodianka near Kiev (Ukraine), and two profile prefabrication plants in Kęty and Slovenska Bistrica (Slovenia). The main sectors supplied by the Segment are: construction and interior design, transport and automotive, electrical engineering, mechanical engineering, household equipment, with the basic foreign markets being: Germany, Italy, the Czech Republic, Austria, Hungary, the UK, and Slovenia.

In 2019 the Segment generated record sales in volume. As much as 76,000 tonnes of products were sold (growth by 2% y/y). As regards value, revenue amounted to PLN 1,251 million and were lower by 1% y/y, mainly due to the lower aluminium prices on the world's markets (average aluminium price in 2019, expressed in PLN was by 9% lower y/y). The exports reached PLN 575 million, which was a decrease of 1% y/y. The economic situation in Europe had been changing considerably in 2019. The first six months reflected 2–3% growth, whereas the last six months brought even 5–6% decreases on the European market.

3.2.3 Aluminium Systems Segment

Aluprof S.A. is counted among the leaders of the domestic market. It is estimated that as many as 7 out of 10 modern buildings being built in Poland incorporate façade systems supplied by Aluprof. Aluprof S.A. has 5 plants in Poland and 10 divisions in Europe and the USA. The activities of the Segment focus mainly on the export market, as well as more intensive communication with architects, investors and contractors. According to the Management Board estimations, the Segment has roughly 2–2.5% of share in the European market and counts among the top ten of aluminium system solutions suppliers for the construction business. The main foreign markets of the Segment are: Germany, the UK, the Czech Republic, Belgium, Hungary, Romania, the USA, Slovakia and the Netherlands.

In 2019, the consolidated revenue of the Segment reached PLN 1,463 million, which means they were higher by 13% y/y. The growth of sales both on the domestic and foreign markets was similar: 13% for domestic sales and about 14% for export sales. In 2019, foreign sales represented 38% of total sales revenue of the Segment. The double-digit sales growth rate was possible due to consistent efforts on the particular markets, a growing number of customers satisfied with the collaboration, gradual expansion of the product range both as regards architectural systems and roller-shutter systems, as well as offering finished products tailored to meet individual customer requirements on the respective markets.

3.2.4 Flexible Packaging Segment

The Flexible Packaging Segment is a leader on the flexible packaging market in Poland, with a share exceeding 20%, and significant manufacturer of packaging in Europe with market share of roughly 1.5%. The Segment is also a leading manufacturer of BOPP transparent, white, pearl, matte and metallised films on the domestic market. The Flexible Packaging Segment has a broad portfolio of recipients, with leading domestic manufacturers and several international food concerns, including: Nestlé, AB Foods, Unilever, Koninklijke Douwe Egberts, Orkla Foods, McCormick, Brüggem, Dr. Oetker, Perfetti van Melle, Aryzta, and Meier Verpackung. Most of the packaging is dedicated to the sector of food concentrates, however, sales to confectionery, fat, dairy, meat, bakery, pharmaceutical and chemical industries have been growing from year to year.

2019 was another record year with regard to the results of the Alupol Packaging Group companies. Thanks to about 10% growth y/y as regards sales volume, the Segment generated PLN 785 million sales revenue (about 11% growth y/y). The most visible was the growth of sales on foreign markets, with over 20% increase y/y compared to about 3% increase y/y on the domestic market. In the second half of 2019, the value of foreign sales was for the first time higher than the sales to domestic customers. The largest export markets of the Segment are: the Netherlands, Germany, Hungary, the Czech Republic, Ukraine, Switzerland, and the UK. The major issue as regards the market situation is adjustment of the Segment products to market requirements, namely limitation of the use of hardly recyclable multilayer laminates. The latest investments of the Segment in homogeneous plastic films perfectly fit the aforesaid market trends.

3.2.5 Financial results of the segments

Figures for 12 months ended on 31 December 2019 (PLN '000)

Operating segments	FPS	EPS	ASS	Other	Eliminations	Total
Statement of profit or loss						
Sales	785,347	1,251,184	1,462,668	17,132	(312,666)	3,203,665
- outside the Group	785,273	958,311	1,459,425	286	0	3,203,295
- to related parties	74	292,873	3,243	16,846	(312,666)	370
Write-downs of inventories	(163)	(330)	(218)	0	0	(711)
Write-downs of receivables	(158)	(447)	(2,513)	0	(4)	(3,122)
Write-downs of property, plant and equipment, and intangible assets	0	330	(113)	0	0	217
Operating profit (EBIT)	118,095	85,674	198,431	167,260	(184,573)	384,887
Depreciation	29,468	66,542	39,017	3,162	45	138,234
EBITDA	147,563	152,216	237,448	170,422	(184,528)	523,121
Interest income	159	259	604	104	0	1,126
Interest costs	(5,092)	(7,168)	(5,535)	(825)	0	(18,620)
Profit before tax	112,278	78,059	192,009	165,790	(184,439)	363,697
Income tax	(17,934)	(16,452)	(37,299)	3,049	374	(68,262)
profit	94,344	61,607	154,710	168,839	(184,065)	295,435
Balance sheet						
Total assets	980,751	976,295	886,072	363,449	(428,057)	2,778,510
Liabilities	355,181	457,064	464,374	116,523	(93,137)	1,300,005
Other data						
Expenditures on property, plant and equipment	96,258	83,603	69,320	1,996	0	251,177

Figures for 12 months ended on 31 December 2018 (PLN '000)

Operating segments	FPS	EPS	ASS	Other	Eliminations	Total
Statement of profit or loss						
Sales	706,509	1,269,817	1,292,120	15,477	(290,470)	2,993,453
- outside the Group	706,449	999,257	1,287,393	275	0	2,993,374
- to related parties	60	270,560	4,727	15,202	(290,470)	79
Write-downs of inventories	(77)	(517)	1,438	0	0	844
Write-downs of receivables	(133)	(512)	(1,674)	0	0	(2,319)
Write-downs of property, plant and equipment, and intangible assets	0	(604)	0	0	0	(604)
Operating profit (EBIT)	90,265	104,147	154,390	142,737	(153,872)	337,667
Depreciation	28,558	58,532	35,449	3,237	34	125,810
EBITDA	118,823	162,679	189,839	145,974	(153,838)	463,477
Interest income	124	222	297	124	0	767
Interest costs	(5,968)	(3,666)	(5,011)	(697)	0	(15,342)
Profit before tax	80,272	98,223	150,845	141,213	(153,872)	316,681
Income tax	956	(18,926)	(32,368)	2,518	(398)	(48,218)
profit	81,228	79,297	118,477	143,731	(154,270)	268,463
Balance sheet						
Total assets	946,936	1,072,456	873,212	308,696	(421,452)	2,779,848
Liabilities	396,233	550,398	468,354	52,035	(84,214)	1,382,806
Other data						
Capital expenditure on property, plant and equipment	17,795	163,149	69,629	4,431	(34)	254,970

The 'Eliminations' item covers the elimination of inter-segment transactions and consolidation adjustments. In the statement of profit or loss, it is mainly related to the sale of aluminium profiles by the EPS to the ASS. As regards assets and equity/liabilities, the eliminations refer mainly to inter-segment settlements on account of the aforesaid titles. All of the transactions are concluded on arm's length basis.

4. COMPANY GOVERNING BODIES

GENERAL MEETING

On 30 May 2019, the Annual General Meeting of Grupa KĘTY S.A. was held, during which the separate and consolidated financial statements of Grupa KĘTY S.A. for 2018 were approved and 2018 financial result was distributed, with PLN 229,090,728.00 allocated to dividend. In addition, the General Meeting granted the vote of approval to the members of the Supervisory and Management Board with regard to their performance of duties in the reporting year 2018.

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SUPERVISORY BOARD

The composition of the Supervisory Board in the reporting period was as follows:

Szczepan Strublewski	– Chairman of the Supervisory Board,
Paweł Niedziółka	– Deputy Chairman of the Supervisory Board,
Piotr Kaczmarek	– Member of the Supervisory Board,
Bartosz Kazimierczuk	– Member of the Supervisory Board,
Piotr Stępnia	– Member of the Supervisory Board,
Wojciech Włodarczyk	– Member of the Supervisory Board.

The Supervisory Board members are appointed by the General Meeting from among the candidates recommended by the shareholders. In the two preceding reporting years, there were no women in the Supervisory Board of Grupa Kęty S.A.

SUPERVISORY BOARD MEMBERS REMUNERATION POLICY

The Supervisory Board members perform their duties based on appointment by the General Meeting for the respective term and no agreement is signed with them.

The remuneration of the Supervisory Board members is determined based on a resolution of the General Meeting. It is a multiple of one-month average monthly remuneration in the sector of companies, announced by the President of the General Statistical Office [GUS] for the last month of the quarter preceding the remuneration payment:

- Chairman of the Supervisory Board: three times the average remuneration,
- Deputy Chairman of the Supervisory Board: two and a half times the average remuneration,
- other members of the Supervisory Board: two times the average remuneration.

The members of the Supervisory Board do not take part in the incentive plans based on the issue of the Company shares.

The table below contains the information on the remuneration of the Supervisory Board members in the reporting period, and the number of the Company shares held by them.

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	Number of Grupa Kęty S.A. shares held as at 31 December 2019	Remuneration in the period from 1 January to 31 December 2019
Szczepan Strublewski	0	PLN 185,656.50
Paweł Niedziółka	0	PLN 154,713.78
Piotr Kaczmarek	0	PLN 123,771.00
Bartosz Kazimierzczuk	0	PLN 123,771.00
Piotr Stępiak	0	PLN 123,771.00
Wojciech Włodarczyk	0	PLN 123,771.00

MANAGEMENT BOARD

The Company Management Board, headed by its President, manages the Company affairs and represents it vis-a-vis third parties. Two members of the Management Board acting jointly are authorised to make declarations of will and sign documents on behalf of the Company. Any matters related to the management of the Company's affairs, which are not reserved for the other governing bodies of the Company, are handled by the Management Board. The detailed methods of the Management Board operation are determined in the Management Board By-law, passed by the Management Board and approved by the Supervisory Board. The meetings of the Company Management Board 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 of the Management Board,
- Rafał Warpechowski – Member of the Management Board,
- Piotr Wysocki – Member of the Management Board,
- Tomasz Grela – Member of the Management Board.

In the last two reporting years there were no women in the Management Board. In 2019, two members of the Management Board – Adam Piela and Rafał Lechowicz – resigned for personal reasons. On 18 September, the Supervisory Board appointed Rafał Warpechowski Member of the Management Board of Grupa Kęty S.A. and Financial Director, effective of 1 October.

In accordance with the declarations made as at the last day of the reporting period, the persons managing the Company held 221,021 ordinary bearer shares of Grupa Kęty S.A., including: Dariusz Mańko 159,718 shares (growth by 17,500 shares y/y), Rafał Warpechowski 0 shares, Piotr Wysocki 44,435 shares, Tomasz Grela 16,868 shares (growth by 4,200 shares y/y). In addition, within the incentive plan adopted at the General Meeting on 23 April 2015, the Management Board members held:

- the right to acquire 10,500 K series bonds with the pre-emptive right to take up H series ordinary bearer shares, and in that number: Dariusz Mańko – 6,300 bonds, Piotr Wysocki – 4,200 bonds, in accordance with the terms and conditions of the plan;
- the right to acquire 9,450 L series bonds with the pre-emptive right to take up H series ordinary bearer shares, and in that number: Dariusz Mańko – 4,050 bonds, Piotr Wysocki – 2,700 bonds, and Tomasz Grela – 2,700 bonds, in accordance with the terms and conditions of the plan;
- the right to acquire 21,000 M series bonds with the pre-emptive right to take up H series ordinary bearer shares, and in that number: Dariusz Mańko – 9,000 bonds, Piotr Wysocki – 6,000 bonds, and Tomasz Grela – 6,000 bonds, in accordance with the terms and conditions of the plan.

MANAGEMENT BOARD MEMBERS REMUNERATION POLICY

BASIC OBJECTIVES OF THE ASSUMED REMUNERATION POLICY

- long-term creation of value of the Grupa Kęty S.A. Capital Group;
- attracting and keeping the best specialists;
- motivating them to achieve the best financial results;
- ensuring the transparency of the remuneration system and lack of discrimination.

EMPLOYMENT TERMS

The members of the Company Management Board are appointed to fulfil their functions with the Board based on the resolutions of the Supervisory Board of Grupa Kęty S.A. The Management Board members are employed by way of an employment contract conclusion or appointment to fulfil the function of a member of the Management Board through a resolution of the Supervisory Board.

Terms of employment based on an employment contract: full time, unlimited period, notice periods compliant with the Labour Code provisions, or 3 months if the notice is filed by the employee, and 6 months if the notice is filed by the employer.

No separate employment contract is concluded if a Management Board member is employed by way of a resolution of the Supervisory Board.

Employment through resolution of the Supervisory Board refers to the Management Board members responsible for the particular operating segments who are additionally employed based on contract at the respective segments.

REMUNERATION PRINCIPLES

The remuneration structure is created such as to enable effective competing on the market with regard to employment of high-competence team. The level of remuneration reflects the scope of liability and the possessed experience, whereas in the variable part – the financial results generated. The particular components of the remuneration are determined by the Company Supervisory Board and cover:

- fixed remuneration elements: basic monthly salary in reference to the function fulfilled within the Management Board,
- variable remuneration, as an incentive tool to attain objectives which enable long-term development and increase of the Group value for the shareholders.

The value of variable remuneration depends on the level of fixed remuneration and the growth rate of profit on operating activities plus depreciation and amortisation (EBITDA) as well as the net profit of the KĘTY Capital Group compared to the benchmark growing every year. Obtaining of an annual bonus depends on the achievement of the minimum level of the assumed EBITDA and net profit growth rate (80% growth compared to the benchmark for the respective year), plus generation by the Group of at least 10% EBITDA margin in the given year. The parameters may be corrected in the event a company is acquired whose EBITDA exceeds 10% of the Group profit in the given year. The value of annual bonus cannot exceed 2.5 times the annual basic salary.

In reference to the members of the Management Board in charge of the particular operating segments, the variable remuneration covers:

- annual bonus – calculated on the terms described above, with the basis being half of the total basic annual remuneration;
- annual premium – calculated in reference to EBITDA of the respective operating segments, providing that the net profit, working capital, and EBITDA growth rate parameters are fulfilled by the segment compared to the preceding year, as well as requirements related to the performance of disclosure duties and quality of the financial statements of the companies within the segment. The maximum value of that part of variable remuneration is limited to PLN 300,000.

ADDITIONAL BENEFITS FOR THE MANAGEMENT BOARD MEMBERS

- Group life insurance programme ‘P Plus’ – possibility to join on the conditions resulting from the agreement concluded by and between the Company and the insurer;
- Group life and health insurance programme ‘Opieka Medyczna S’ [medical care] and hospital insurance – possibility to join on the conditions resulting from the agreement concluded by and between the Company and the insurer, in accordance with the provisions of the Company Collective Bargaining Agreement;
- Group life insurance with ‘Pogodna Pszyszłość’ insurance capital fund – possibility to join on the conditions resulting from the agreement concluded by and between the Company and the financial institution, in accordance with the provisions of the Company Collective Bargaining Agreement;

- Employee Capital Plans – possibility to join on the conditions resulting from the agreement concluded by and between the Company and the financial institution.

COMPETITION BAN

The members of the Management Board sign non-competition agreements for the term of employment and afterwards for 12 or 15 months. The remuneration on account of the competition ban (monthly) equals to 25% of the average monthly salary received in the last year of the employment contract or 50% of basic salary. The competition ban post the employment term is terminated if the respective member of the Management Board takes up a position at another company of the Capital Group.

INCENTIVE PLANS

The Management Board members participate in incentive plans passed by the General Meeting of the Company in reference to shares. The detailed principles of each plan are regulated on case by case basis by way of a resolution of the Company General Meeting and the rules of the plan approved by resolution of the Supervisory Board.

Considering the parameters specified in the principle of the variable component payout (financial results growth) and the performance parameters of share-based plans (financial results growth and share price increase), the remuneration policy applied by the Company contributes, in the opinion of the Management Board, to the performance of business strategy and long-term objectives as well as the Company stability.

The Nomination and Remuneration Committee of the Supervisory Board analyses periodically the components of the remuneration granted and paid out to the Company Management Board members.

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The remuneration paid out to the Management Board members for the reporting period covered with this Report amounted to, respectively:

	Basic remuneration	Bonuses/ premiums*	Other components	Remuneration from other companies of the Capital Group
Dariusz Mańko	PLN 1,020,000	PLN 2,102,951	PLN 5,785	–
Rafał Warpechowski	PLN 153,000	–	PLN 1,146	–
Piotr Wysocki	PLN 600,000	PLN 850,176	PLN 6,912	PLN 12,000
Tomasz Grela	PLN 180,000	PLN 618,515	–	PLN 589,116
Adam Piela (from 1 January to 31 May)	PLN 255,000	PLN 1,261,770	PLN 2,580	–
Rafał Lechowicz (from 1 January to 7 June)	PLN 78,500	PLN 618,515	–	PLN 339,509

*The above figures refer to the payment of annual bonuses/premiums for the year 2018.

Moreover, within the 12 months of 2019, a provision was established at the Group level for the payment of the bonuses/premiums to the Management Board members for the year 2019, payable in 2020, in the amount of PLN 4,812,000.

In the reporting period, Grupa Kęty S.A. neither concluded any material transactions with related, supervising and managing persons nor granted loans, guarantees or security bonds to such persons and such persons' relatives. There are no agreements between Grupa Kęty S.A. and the managing persons which would provide for any compensation in the case of their resignation or dismissal from their positions for no important reason or where their dismissal would be related to the Issuer's merger by acquisition, except for the conditions included in the term of notice or non-competition agreements.

5. FINANCIAL STATEMENTS

5.1. Consolidated financial statements

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SELECTED FINANCIAL DATA

	PLN '000		EUR '000	
	2019	2018	2019	2018
Items of the statements of profit or loss, comprehensive income, and cash flows				
Net sales revenue	3,203,665	2,993,453	744,727	701,552
Profit (loss) on operating activities	384,887	337,667	89,471	79,136
Gross profit (loss)	363,697	316,681	84,545	74,218
Net profit (loss)	295,435	268,463	68,677	62,918
Net profit (loss) attributable to owners of the parent	294,894	268,233	68,551	62,864
Total net income (loss)	304,773	257,094	70,848	60,253
Total net income (loss) attributable to owners of the parent	304,232	256,864	70,722	60,199
Net cash flow from operating activities	562,827	293,285	130,835	68,735
Net cash flow from investing activities	-243,846	-228,709	-56,685	-53,601
Net cash flow from financing activities	-316,070	-42,808	-73,474	-10,033
Total net cash flows	2,911	21,768	677	5,102
Earnings (loss) per share (in PLN/EUR)	30.85	28.12	7.17	6.59
Diluted earnings (loss) per share (in PLN/EUR)	30.80	28.09	7.16	6.58
Balance sheet items	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Total assets	2,778,510	2,779,848	652,462	646,476
Liabilities and provisions for liabilities	1,300,005	1,382,806	305,273	321,583
Long-term liabilities	560,337	314,663	131,581	73,177
Short-term liabilities	739,668	1,068,143	173,692	248,405
Equity attributable to owners of the parent	1,477,173	1,396,251	346,876	324,710
Share capital	67,825	67,763	15,927	15,759
Number of shares	9,569,947	9,545,447	9,569,947	9,545,447
Book value per share (in PLN/EUR)	154.36	146.27	36.25	34.02
Diluted book value per share (in PLN/EUR)	154.18	145.95	36.21	33.94

The above financial figures for 2019 and 2018 were translated into EUR as follows:

- assets and liabilities – at the mean exchange rate of the National Bank of Poland (NBP) as at 31 December 2019 – 4.2585 PLN/EUR, and as at 31 December 2018 – 4.3000 PLN/EUR;
- the items of the statements of profit or loss, comprehensive income, and cash flows – at the exchange rate being the arithmetic mean of the exchange rates of the NBP for the last two days of each month of 2019 – 4.3018 PLN/EUR, and of 2018 – 4.2669 PLN/EUR.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2019	2018
Total operating revenue, including:	3,215,535	3,003,787
Revenue from contracts with customers	3,203,665	2,993,453
- including from sales to associates	370	79
Other operating revenue	11,870	10,334
Share in net profit of entities accounted for using the equity method	152	1,114
Change in the level of product inventories and work in progress	(27,086)	26,112
Cost of manufacturing of products for own needs	13,366	13,740
Total operating costs, including:	(2,817,080)	(2,707,086)
Depreciation	(138,234)	(125,810)
Consumption of materials, energy and value of goods and materials sold	(1,933,178)	(1,880,348)
Third-party services	(238,687)	(225,486)
Taxes and fees	(15,637)	(15,970)
Employee benefits	(456,338)	(426,025)
Revaluation of financial assets – IFRS 9	(3,122)	(2,318)
Other operating costs	(31,884)	(31,129)
Net profit on operating activities	384,887	337,667
Financial revenue	1,132	800
Finance costs	(22,322)	(21,786)
Profit before tax	363,697	316,681
Income tax	(68,262)	(48,218)
Net profit on continued operations	295,435	268,463
Attributable to non-controlling interests	541	230
Attributable to owners of the parent	294,894	268,233
Earnings per share attributable to owners of the parent (PLN)		
Basic	30.85	28.12
Diluted	30.80	28.09

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2019	2018
Net profit for the period	295,435	268,463
Other comprehensive income recognised in profit or loss	11,011	(10,497)
Cumulative translation adjustment for foreign companies	2,513	3,348
Valuation of cash flow hedging instruments	10,205	(15,765)
Result on cash flow hedging transactions	228	(1,077)
Income tax related to other comprehensive income recognised in the statement of profit or loss	(1,935)	2,997
Other comprehensive income recognised outside profit or loss	(1,673)	(872)
Actuarial gains/losses	(2,008)	(1,250)
Income tax related to other comprehensive income recognised outside profit or loss	335	378
Comprehensive income for the period	304,773	257,094
Comprehensive income attributable to:		
Non-controlling interests	541	230
Owners of the parent	304,232	256,864

CONSOLIDATED BALANCE SHEET

ASSETS	31.12.2019	31.12.2018
I. Non-current assets	1,680,333	1,574,739
Property, plant and equipment	1,438,981	1,337,054
Right-of-use assets	44,587	0
Intangible assets	37,244	39,657
Goodwill	19,867	19,889
Investment properties	3,315	3,493
Interests in associates	4,978	4,761
Other investments	0	11
Long-term receivables	5,930	6,801
Advance payments for the purchase of property, plant and equipment	10,329	38,409
Deferred tax assets	115,102	124,664
II. Current assets	1,098,177	1,205,109
Inventories	448,810	509,461
Income tax receivables	1,929	1,883
Trade and other receivables	537,151	571,136
Contractual assets	3,899	21,243
Short-term investments	90	99
Derivative financial instruments	2,706	606
Cash and cash equivalents	103,592	100,681
Total assets	2,778,510	2,779,848
EQUITY/LIABILITIES	31.12.2019	31.12.2018
I. Equity	1,478,505	1,397,042
Share capital	67,825	67,763
Share premium	38,018	33,900
Capital from share based payments	26,392	24,322
Result on cash flow hedging transactions	(303)	(531)
Capital from the revaluation of hedging instruments	905	(7,365)
Capital from the revaluation of property, plant and equipment	2,368	2,841
Retained earnings	1,369,869	1,305,735
Cumulative translation adjustment for foreign companies	(27,901)	(30,414)
Equity attributable to owners of the parent	1,477,173	1,396,251
Equity attributable to non-controlling interests	1,332	791
II. Long-term liabilities	560,337	314,663
Liabilities related to loans	437,360	220,782
Lease liabilities	21,419	0
Other liabilities	1,310	1,130
Provisions	721	499
Provisions for employee benefits	16,807	12,675
Deferred income	36,731	37,103
Deferred tax liability	45,989	42,474
III. Short-term liabilities	739,668	1,068, 143
Liabilities related to loans	369,583	654,274
Lease liabilities	4,015	0
Income tax payables	14,101	10,818
Trade payables and other liabilities	294,749	345,747
Contractual liabilities	13,037	10,738
Provisions and accruals	40,250	34,883
Derivative financial instruments	1,722	9,700
Deferred income	2,211	1,983
Total equity/liabilities	2,778,510	2,779,848

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>Cash flow from operating activities</i>	2019	2018
Profit before tax	363,697	316,682
Adjustments:	158,450	145,927
Share in net profit of entities accounted for using the equity method	(152)	(1,114)
Depreciation	138,234	125,810
Recognition/(reversal) of write-downs	1,712	456
Profit from net currency translation differences	144	3,901
Change in the valuation of investment properties	265	148
(Profit)/loss from sales of property, plant and equipment	(539)	(13)
Interest	18,169	17,030
Proceeds/(expenses) related to hedging instruments recognised in equity	229	(1,078)
Costs of share based payments	2,070	2,330
Other items (net)	(1,682)	(1,543)
Cash flow from operating activities before the change of working capital and tax payment	522,147	462,609
Change in inventories	60,651	(51,636)
Change in net receivables	52,200	(84,713)
Change in short-term liabilities, except for loans and leases	(26,986)	19,704
Change in provisions	7,713	1,910
Change in deferred income	(144)	2,555
Net cash generated from operating activities before tax payment	615,581	350,429
Tax paid	(52,754)	(57,142)
Net cash from operating activities	562,827	293,287
<i>Cash flow from investing activities</i>		
(+) Proceeds:	1,744	2,338
Sales of intangible assets, and property, plant and equipment	1,735	1,956
Paid loans	9	22
Proceeds from sale of real estate	0	360
(-) Expenses:	(245,590)	(231,047)
Acquisition of intangible assets, and property, plant and equipment	(245,590)	(231,047)
Net cash from investing activities	(243,846)	(228,709)
<i>Cash flow from financing activities</i>		
(+) Proceeds:	243,972	464,202
Net proceeds from the issue of shares	4,180	2,781
Proceeds from loans and credits	239,792	461,421
(-) Expenses:	(560,042)	(507,011)
Dividends to owners of the parent	(229,009)	(228,514)
Dividends to minority shareholders	(473)	(26)
Repayment of loans and borrowings	(306,433)	(260,345)
Payment of lease liabilities	(4,178)	(1,115)
Interest on borrowings	(19,937)	(17,011)
Interest on lease liabilities	(12)	0
Net cash from financing activities	(316,070)	(42,809)
Total net cash flows:	2,911	21,769
Cash and cash equivalents at the beginning of the period	100,681	78,912
Cash and cash equivalents at the end of the period	103,592	100,681

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Non-registered capital from the issue of shares	Capital from share based payments	Result on 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 for foreign companies	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Equity as at 01.01.2019	67,763	33,900	0	24,322	(531)	(7,365)	2,841	1,305,735	(30,414)	1,396,251	791	1,397,042
Comprehensive income for the period:	0	0	0	0	228	8,270	0	293,221	2,513	304,232	541	304,773
<i>Net profit for the period</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>294,894</i>	<i>0</i>	<i>294,894</i>	<i>541</i>	<i>295,435</i>
<i>Other comprehensive income</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>228</i>	<i>8,270</i>	<i>0</i>	<i>(1,673)</i>	<i>2,513</i>	<i>9,338</i>	<i>0</i>	<i>9,338</i>
Valuation of share based payments	0	0	0	2,070	0	0	0	0	0	2,070	0	2,070
Transfer due to depreciation	0	0	0	0	0	0	(473)	473	0	0	0	0
Payment of dividend	0	0	0	0	0	0	0	(229,560)	0	(229,560)	0	(229,560)
Issue of shares	62	4,118	0	0	0	0	0	0	0	4,180	0	4,180
Equity as at 31.12.2019	67,825	38,018	0	26,392	(303)	905	2,368	1,369,869	(27,901)	1,477,173	1,332	1,478,505

	Share capital	Share premium	Non-registered capital from the issue of shares	Capital from share based payments	Result on 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 for foreign companies	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Equity as at 01.01.2018	67,704	31,179	0	21,992	546	5,403	3,314	1,266,441	(33,762)	1,362,817	561	1,363,378
Comprehensive income for the period:	0	0	0	0	(1,077)	(12,768)	0	267,361	3,348	256,864	230	257,094
<i>Net profit for the period</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>268,233</i>	<i>0</i>	<i>268,233</i>	<i>230</i>	<i>268,463</i>
<i>Other comprehensive income</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>(1,077)</i>	<i>(12,768)</i>	<i>0</i>	<i>(872)</i>	<i>3,348</i>	<i>(11,369)</i>	<i>0</i>	<i>(11,369)</i>
Valuation of share based payments	0	0	0	2,330	0	0	0	0	0	2,330	0	2,330
Transfer due to depreciation	0	0	0	0	0	0	(473)	473	0	0	0	0
Payment of dividend	0	0	0	0	0	0	0	(228,540)	0	(228,540)	0	(228,540)
Issue of shares	59	2,721	0	0	0	0	0	0	0	2,780	0	2,780
Equity as at 31.12.2018	67,763	33,900	0	24,322	(531)	(7,365)	2,841	1,305,735	(30,414)	1,396,251	791	1,397,042

5.2. Separate financial statements of Grupa Kęty S.A.

SELECTED FINANCIAL DATA

	PLN '000		EUR '000	
From the statements of profit or loss, comprehensive income, and cash flows	2019	2018	2019	2018
Net sales revenue	1,122,610	1,127,244	260,963	264,183
Profit (loss) on operating activities	221,374	208,815	51,461	48,938
Gross profit (loss)	211,929	201,336	49,265	47,186
Net profit (loss)	205,027	191,439	47,661	44,866
Total net income (loss)	209,702	184,512	48,748	43,243
Net cash flow from operating activities	316,761	186,969	73,635	43,818
Net cash flow from investing activities	-71,631	-124,216	-16,651	-29,112
Net cash flow from financing activities	-254,340	-50,281	-59,124	-11,784
Total net cash flows	-9,210	12,472	-2,141	2,923
Earnings (loss) per share (in PLN/EUR)	21.45	20.07	4.99	4.70
Diluted earnings (loss) per share (in PLN/EUR)	21.41	20.05	4.98	4.70
Balance sheet items	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Total assets	1,170,449	1,223,056	274,850	284,432
Liabilities and provisions for liabilities	493,758	533,466	115,946	124,062
Long-term liabilities	272,654	158,326	64,026	36,820
Short-term liabilities	221,344	375,140	51,977	87,242
Equity	676,451	689,590	158,847	160,370
Share capital	67,825	67,763	15,927	15,759
Number of shares	9,569,947	9,545,447	9,569,947	9,545,447
Book value per share (in PLN/EUR)	70.68	72.24	16.60	16.80
Diluted book value per share (in PLN/EUR)	70.60	72.08	16.58	16.76

The above financial figures for 2019 and 2018 were translated into EUR as follows:

- assets and liabilities – at the mean exchange rate of the National Bank of Poland (NBP) as at 31 December 2019 – 4.2585 PLN/EUR, and as at 31 December 2018 – 4.3000 PLN/EUR;
- the items of the statements of profit or loss, comprehensive income, and cash flows – at the exchange rate being the arithmetic mean of the exchange rates of the NBP for the last two days of each month of 2019 – 4.3018 PLN/EUR, and of 2018 – 4.2669 PLN/EUR.

STATEMENT OF PROFIT OR LOSS

	2019	2018
Total operating revenue, including:	1,307,526	1,285,572
Sales revenue	1,122,610	1,127,244
Other operating revenue	2,442	5,451
Dividends	182,474	152,877
Change in the level of products and work in progress	(19,640)	8,015
Cost of manufacturing of products for own needs	5,995	5,559
Total operating costs, including:	(1,072,507)	(1,090,331)
Depreciation	(49,902)	(41,869)
Materials and energy and the value of trade goods and materials sold	(727,137)	(752,358)
Third-party services	(154,515)	(158,267)
Taxes and fees	(5,950)	(6,055)
Employee benefits	(131,347)	(126,340)
Revaluation of financial assets – IFRS 9	(447)	(460)
Other operating costs	(3,209)	(4,982)
Profit on operating activities	221,374	208,815
Financial revenue	185	194
Finance costs	(9,630)	(7,673)
Profit before tax	211,929	201,336
Income tax	(6,902)	(9,897)
Net profit on continued operations	205,027	191,439
Basic net earnings per share (PLN)	21.45	20.07
Diluted net earnings per share (PLN)	21.41	20.05

STATEMENT OF COMPREHENSIVE INCOME

	2019	2018
Net profit for the period	205,027	191,439
Other comprehensive income recognised in profit or loss, including:	4,696	(7,011)
Valuation of cash flow hedging instruments	5,515	(7,324)
Result on cash flow hedging transactions	229	(1,078)
Income tax related to other comprehensive income	(1,048)	1,391
Other comprehensive income recognised outside profit or loss, including:	(21)	84
Actuarial gains (losses)	(26)	104
Income tax related to actuarial gains (losses)	5	(20)
Comprehensive income for the period	209,702	184,512

BALANCE SHEET

	ASSETS	31.12.2019	31.12.2018
I. Non-current assets		888,214	877,508
Property, plant and equipment		498,562	486,547
Intangible assets		6,993	6,497
Right-of-use assets		11,888	0
Shares and interests		369,440	369,107
Advance payments for property, plant and equipment		1,331	15,357
II. Current assets		282,235	345,548
Inventories		96,212	134,887
Income tax receivables		1,498	0
Trade and other receivables		176,324	194,457
Derivative financial instruments		1,554	347
Cash and cash equivalents		6,647	15,857
Total assets		1,170,449	1,223,056
	EQUITY/LIABILITIES		
I. Equity		676,451	689,590
Share capital		67,825	67,763
Share premium		38,018	33,900
Capital from the revaluation of property, plant and equipment		2,369	2,842
Capital from share based payments		26,392	24,322
Capital from the revaluation of hedging instruments		1,259	(3,208)
Result on cash flow hedging transactions		(303)	(532)
Retained earnings		540,891	564,503
II. Long-term liabilities		272,654	158,326
Liabilities related to loans		213,525	105,829
Lease liabilities		3,579	0
Provisions		107	0
Provisions for employee benefits		1,947	1,691
Subsidies		28,258	29,246
Deferred tax liability		25,238	21,560
III. Short-term liabilities		221,344	375,140
Liabilities related to loans		123,269	252,107
Lease liabilities		177	0
Income tax payables		0	2,356
Trade payables and other liabilities		81,079	98,445
Contractual liabilities		705	1,203
Provisions and accruals		14,960	15,702
Derivative financial instruments		134	4,307
Subsidies		1,020	1,020
Total equity/liabilities		1,170,449	1,223,056

STATEMENT OF CASH FLOWS

	2019	2018
Cash flow from operating activities		
Profit before tax	211,929	201,336
Adjustments:	59,903	47,657
Depreciation	49,902	41,869
Recognition of write-downs of interests	47	45
Recognition of write-downs of property, plant and equipment	206	83
Net (profit) loss from currency translation differences	303	1,654
(Profit)/loss from sales of property, plant and equipment	(105)	109
Interest	7,631	3,819
Proceeds from the liquidation of a subsidiary	736	0
Realised result on transactions hedging the price of aluminium recognised in equity	229	(1,078)
Costs of share based payments	954	1,156
Cash flow from operating activities before the change of working capital and tax payment	271,832	248,993
Change in inventories	38,675	(18,186)
Change in net receivables	18,137	(20,853)
Change in short-term liabilities, except for loans	(2,369)	(12,987)
Change in provisions	(405)	1,075
Change in subsidies	(988)	(1,020)
Net cash generated from operating activities before tax payment	324,882	197,022
Tax (paid)/refunded	(8,121)	(10,053)
Net cash from operating activities	316,761	186,969
Cash flow from investing activities		
(+) Proceeds:	216	386
Sales of intangible assets, and property, plant and equipment	216	386
(-) Expenses:	(71,847)	(124,602)
Acquisition of intangible assets, and property, plant and equipment	(71,847)	(124,602)
Net cash from investing activities	(71,631)	(124,216)
Cash flow from financing activities		
(+) Proceeds:	113,535	214,062
Net proceeds from the issue of shares	4,180	2,781
Proceeds from loans and credits	109,355	211,281
(-) Expenses:	(367,875)	(264,343)
Dividends	(229,009)	(228,521)
Repayment of loans	(130,406)	(30,484)
Interest on loans	(8,283)	(5,338)
Payment of lease liabilities	(177)	0
Net cash from financing activities	(254,340)	(50,281)
Total net cash flows:	(9,210)	12,472
Cash and cash equivalents at the beginning of the period	15,857	3,385
Cash and cash equivalents at the end of the period	6,647	15,857

STATEMENT OF CHANGES IN EQUITY

Present year								
	Share capital	Share premium	Capital from the revaluation of property, plant and equipment	Capital from share based payments	Capital from the revaluation of hedging instruments	Result on cash flow hedging transactions	Retained earnings	Total equity
Equity as at 1 January 2019	67,763	33,900	2,842	24,322	(3,208)	(532)	564,503	689,590
Comprehensive income for the period:	0	0	0	0	4,467	229	205,006	209,702
<i>Net profit for the period</i>	0	0	0	0	0	0	205,027	205,027
<i>Other comprehensive income</i>	0	0	0	0	4,467	229	(21)	4,675
Valuation of share based payments	0	0	0	2,070	0	0	0	2,070
Transfer due to depreciation	0	0	(473)	0	0	0	473	0
Issue of shares	62	4,118	0	0	0	0	0	4,180
Payment of dividend	0	0	0	0	0	0	(229,091)	(229,091)
Equity as at 31 December 2019	67,825	38,018	2,369	26,392	1,259	(303)	540,891	676,451
Previous year								
	Share capital	Share premium	Capital from the revaluation of property, plant and equipment	Capital from share based payments	Capital from the revaluation of hedging instruments	Result on cash flow hedging transactions	Retained earnings	Total equity
Equity as at 1 January 2018	67,704	31,179	3,314	21,992	2,725	546	601,029	728,489
Comprehensive income for the period:	0	0	0	0	(5,933)	(1,078)	191,523	184,512
<i>Net profit for the period</i>	0	0	0	0	0	0	191,439	191,439
<i>Other comprehensive income</i>	0	0	0	0	(5,933)	(1,078)	84	(6,927)
Valuation of share based payments	0	0	0	2,330	0	0	0	2,330
Transfer due to depreciation	0	0	(472)	0	0	0	472	0
Issue of shares	59	2,721	0	0	0	0	0	2,780
Payment of dividend	0	0	0	0	0	0	(228,521)	(228,521)
Equity as at 31 December 2018	67,763	33,900	2,842	24,322	(3,208)	(532)	564,503	689,590

GRI 201-1; GRI 103-1,2,3 as regards 'Economic Performance'

5.3. Management Board comments on the financial statements

The basic objective of the 'Strategy 2020' is to ensure steady increase in shareholder value. One of the main conditions for achieving that goal is sustainable development resulting in systematic growth of generated profits and cash. The Management Board is of the opinion that in 2019 the objectives were fully attained. The companies of the KEŹY Capital Group recorded a number of achievements in the market, product, finance and non-finance (ESG) areas. Sales revenue grew to PLN 3.2 billion (+7% y/y), out of which 47% sales were made to our customers on international markets. Thanks to high utilisation of production capacity (nearly 90%), approximately 14% growth in the profit on operating activities was achieved (PLN 384.9 million), despite the maintained growing trend in labour, third-party services and energy costs. Taking into account the result on financing activities, which is mostly affected by the Group debt service costs and tax charges, the consolidated

net profit attributable to owners of the parent amounted to PLN 294.9 million, representing 10% growth compared to the previous year value.

In the opinion of the Management Board, the consolidated balance sheet presents a safe structure of equity/liabilities. As soon as the programme of investment in development had been financed (capex reached PLN 246 million) and dividend out of 2018 profit had been paid (PLN 229 million) net financial leverage (net debt to equity) amounted to 47% as at 31 December 2019. The net debt of the KĘTY Capital Group dropped in 2019 by 10%, to the level of PLN 703 million, and in effect the net debt to EBITDA ratio reached the safe value of 1.3.

The major companies of the Capital Group are production enterprises which continuously invest in their development. Therefore, property, plant and equipment represent a significant item of assets. As at the balance-sheet date they accounted for 52% of total assets (growth by 4 p.p. y/y). The value of current assets as at the balance-sheet date was PLN 1.1 billion and represented 40% of total assets (drop by 2 p.p. y/y, mainly due to lower raw materials prices and as an effect of the value of inventories).

One of the key parameters to assess the effectiveness of operations are cash flows, thanks to which the Group companies may continue their development. In 2019, PLN 562.8 billion cash was generated on operating activities (growth by nearly 100% y/y), partly thanks to the reduced demand for net working capital. In accordance with the assumptions made, the Group development is financed mainly from internal sources (cash from operating activities) and interest-bearing debt.

The Management Board positively assesses the generated financial results in all material respects. The levels of consolidated profit on operating activities and net profit in 2019 were record-high in the history of the KĘTY Capital Group. The current potential of the Capital Group and the planned programme of investments in its further development, assuming that the projections for 2020 performance made in 2019 are confirmed, would enable to reach or even exceed the targets in the last year of the 'Strategy 2020' implementation. (See also item 13.10 – Post-balance-sheet events)

5.4. Loans, leases and contingent liabilities

LOANS TERM STRUCTURE (PLN '000)

Maturity date	31.12.2019	31.12.2018
Short-term	369,583	654,274
From 1 to 2 years	411,325	68,372
From 2 to 5 years	22,955	152,410
More than 5 years	3,080	0
Total	806,943	875,056

LONG-TERM LOANS (PLN '000)

Lender	Loan currency	Security	31.12.2019	31.12.2018
Bank PKO BP	PLN	First capped mortgage on real properties of Grupa Kęty S.A. and Aluform sp. z o.o., up to the amount of 312 million, along with the assignment of rights under the property insurance policies. Joint and several liability of Grupa KĘTY S.A. and Aluform Sp. z o.o., plus blank promissory notes of Grupa KĘTY S.A. and Aluform Sp. z o.o. and promissory note declaration.	135,025	105,829
BNP PARIBAS Bank Polska SA	PLN/EUR	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 220 million), Alupol Packaging S.A. (up to PLN 38.5 million), Aluprof S.A. (up to PLN 66 million), ROMB S.A. (up to PLN 22 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 49.5 million), Alupol Films Sp. z o.o. (up to PLN 60.5 million), plus blank promissory notes and promissory note declarations of the aforementioned companies.	92,832	0
BNP PARIBAS Bank Polska SA	PLN	Civil law security bond up to the amount of PLN 120 million, contractual mortgage up to PLN 120 million, entered on the first position on the property owned by Alupol Films sp. z o.o.	69,506	57,399

BNP PARIBAS Bank Polska SA	EUR	Joint and several liability of the following companies: Alupol Films Sp. z o.o. and Alupol Packaging Kęty Sp. z o.o., up to the amount of PLN 132 million.	14,971	0
mBank	EUR	Contractual mortgage, registered pledge for the total value of the property and fixed assets owned by Alupol Packaging Kęty sp. o.o., up to the amount of PLN 108 million.	46,065	0
Bank PEKAO	PLN	Blank promissory note and promissory note declaration, mortgage on real properties up to the amount of PLN 85 million, registered pledge on property, plant and equipment, along with the assignment of rights under the security assets insurance policy.	28,333	56,667
BNP PARIBAS Bank Polska SA	PLN	Joint mortgage up to PLN 48 million, along with the assignment of rights under the insurance policy; joint and several liability of the Capital Group companies.	99	0
ING Bank Polska	PLN	Contractual mortgage up to PLN 96 million, plus declaration on submission to enforcement.	15,529	0
mBank	PLN	Contractual mortgage, registered pledge for the total value of the property and fixed assets owned by Alupol Packaging Kęty sp. o.o., up to the amount of PLN 108 million.	35,000	0
Leases*	EUR/PLN	Leases	0	887
TOTAL			437,360	220,782

SHORT-TERM LOANS (PLN '000)

Lender	Loan currency	Security	31.12.2019	31.12.2018
Bank PKO BP	PLN	First capped mortgage on real properties of Grupa Kęty S.A. and Aluform sp. z o.o., up to the amount of 312 million, along with the assignment of rights under the property insurance policies. Joint and several liability of Grupa KĘTY S.A. and Aluform Sp. z o.o., plus blank promissory notes of Grupa KĘTY S.A. and Aluform Sp. z o.o. and promissory note declaration.	46,490	20,117
BNP PARIBAS Bank Polska SA	PLN, EUR	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 220 million), Alupol Packaging S.A. (up to PLN 38.5 million), Aluprof S.A. (up to PLN 66 million), ROMB S.A. (up to PLN 22 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 49.5 million), Alupol Films Sp. z o.o. (up to PLN 60.5 million), plus blank promissory notes and promissory note declarations of the aforementioned companies.	8,612	240,712
ING Bank Polska	EUR, PLN	Joint and several liability of Grupa KĘTY S.A. and Aluprof S.A.	50,593	43,922
Bank PeKaO S.A.	PLN, EUR, USD	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 330 million), Alupol Packaging S.A. (up to PLN 66 million), Aluprof S.A. (up to PLN 176 million), Aluform Sp. z o.o. (up to PLN 32.5 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 66 million), Alupol Films Sp. z o.o. (up to PLN 66 million), and Aluminium Kęty EMMI d.o.o. (up to PLN 55 million), plus blank promissory notes and promissory note declarations of the aforementioned companies.	208,954	259,650
Bank Societe Generale	EUR, PLN	Civil law security bond.	23,545	25,833
Bank PKO BP	PLN	Joint and several liability of the following companies: Grupa KĘTY S.A. (up to PLN 80 million), Alupol Packaging S.A. (up to PLN 25 million), Aluprof S.A. (up to PLN 60 million), Alupol Packaging Kęty Sp. z o.o. (up to PLN 30 million), ROMB S.A. (up to PLN 15 million), plus blank promissory notes and promissory note declarations.	3,231	33,409
BNP PARIBAS Bank Polska SA	PLN	Short-term part of long-term loans – the same collaterals as in the case of the respective long-term loans.	23,163	22,763
mBank	EUR	Joint and several liability of the following companies: Alupol Films sp. z o.o. and Alupol Packaging Kęty sp. z o.o., up to the amount of PLN 12 million.	4,995	105
BNP PARIBAS Bank Polska SA	PLN	Joint mortgage up to PLN 48 million on the real properties of Aluprof S.A., along with the assignment of rights under the property insurance policy; joint and several liability of Aluprof S.A. and Grupa Kęty S.A., declaration on submission to enforcement.	0	7,202
Leases*	EUR/PLN	Leases	0	561
TOTAL			369,583	654,274

*As at 1 January 2019 lease payables were shifted to lease liabilities.

In 2019 and in 2018, the Group complied with all credit/loan covenants. All the Group loans bear interest at variable rates determined on arm's length basis in reference to WIBOR/EURIBOR/LIBOR plus the bank margin. Standard agreements on working capital loans listed above are concluded for a period of one year with maturity dates falling in the second half of the next subsequent year. Each year, before the end of a given period, the Group negotiates agreements/annexes with banks for the subsequent 12-month periods to roll over the loans.

Title	31.12.2019	31.12.2018
Bank performance bonds for construction contracts, as provided by the ASS	14,383	25,097
Insurance performance bonds for construction contracts, as provided by the ASS	2,175	50,960
Subsidies in the period of conditions fulfilment	5,401	0
Total	21,959	76,057

*Construction-related guarantees refer to the proper performance of construction service contracts, and their validity dates depend on the terms and conditions of the particular contracts.

Apart from the aforementioned liabilities, there are no other contingent liabilities.

6. ANNUAL PROJECTIONS AND DEVELOPMENT STRATEGY

The strategy currently being implemented was published by the Company in 2015 and covered the period ending in 2020. In 2017, in relation to a significant progress in its execution, the Management Board of the Company increased the targets of the 'Strategy 2020'. The assumptions for the 2020 annual projection, disclosed in February 2020, should they be achieved, mean that the Capital Group will attain or even exceed all of the objectives of the strategy for the years 2015–2020.

Consolidated data (PLN million)	2019	2020P (Projection)	Change (%)	2020 (Strategy assumptions)	2020P/2020S
Sales revenue	3,205	3,314	+3%	3,357	99%
EBITDA profit/loss*	523	535	+2%	514	104%
EBIT profit/loss*	385	389	+1%	360	107%
Net profit/loss	295	294	0%	263	112%

**EBITDA – operating profit plus depreciation and amortisation

**EBIT – operating profit

MAIN ASSUMPTIONS FOR THE 2020 PROJECTION disclosed on 5 February 2020

1. Despite the assumed slow-down in the domestic economic growth to approx. 3.5%, the Management Board assumes ambitious goals and wants to generate higher sales and operating profit results than in the record year 2019. The Management Board assumes that the capital expenditure on the state-of-the-art engineering lines and systematic development of the product offer will enable the company to maintain its strong position on the domestic market and further significant growth in export sales. Major macroeconomic assumptions:

- average aluminium price: USD 1,850 per tonne,
- average USD/PLN exchange rate: 3.70,
- average EUR/PLN exchange rate: 4.25,
- average EUR/USD exchange rate: 1.15.

2. Sales compared to 2019

Growth of sales will be generated by way of the assumed higher quantitative sales in all three segments (approx. 5% for the Extruded Products Segment and Aluminium Systems Segment, respectively, and over 20% for the Flexible Packaging Segment). The aluminium price in PLN, following the assumptions, will be lower by roughly 2%, so it will have a negative impact on the value of revenue. Sales revenue in the particular segments will be as follows:

the Extruded Products Segment – PLN 1,231 million (-2%),
the Aluminium Systems Segment – PLN 1,511 million (+3%),
the Flexible Packaging Segment – PLN 864 million (+10%).

3. Operating costs will grow by 4% compared to 2019 and reach PLN 2,939 million, of which:

– depreciation: PLN 146 million (+5%),
– costs of materials: PLN 1,905 million (+3%),
– costs of energy: PLN 97 million (+18%),
– costs of employee benefits: PLN 495 million (+9%),
– costs of third party services: PLN 248 million (+3%).

4. All segments are going to generate higher EBITDA compared to 2019 results, of which:

the Extruded Products Segment – PLN 153 million (+1%),
the Aluminium Systems Segment – PLN 245 million (+3%),
the Flexible Packaging Segment – PLN 155 million (+5%).

5. The negative balance on financing activities will reach about PLN 27 million, including interest on loans of approx. PLN 23 million, whereas the assumed negative result on foreign exchange gains and losses will amount to PLN 4 million.

6. The 2020 projection covers for the payment of dividend amounting to 85% of the consolidated net profit for the year 2019, which complies with the dividend policy binding at the company.

7. The consolidated cash flow from operating activities will amount to PLN 440 million.

8. Capital expenditure was assumed at the level of PLN 213 million, including roughly PLN 40 million on projects postponed from 2019.

9. The projected net debt level at the end of 2020 is going to be PLN 748 million, which means that the net debt/EBITDA ratio will reach 1.4.

10. The business conditions will not change significantly, specifically as regards legal, tax and administrative regulations.

11. No extraordinary one-off events will occur, which could not have been foreseen as at the date of this projection publication. (See also item 13.10 – Post-balance-sheet events)

7. INVESTMENT AND R&D PROJECTS

7.1. Investment projects

For the Grupa Kęty S.A. Capital Group, investment projects have been drivers of technical and technological development and thus have become an asset in the form of competitive advantage. Between 2000 and 2018, the Capital Group spent approximately PLN 2.2 billion on capital investments. In line with its development strategy, in 2019–2020 the Company plans to spend ca. PLN 460 million on investment projects, which means that within 20-year span approximately PLN 2.7 billion will have been invested. Capital expenditure of the Grupa Kęty S.A. Capital Group on the purchase of property, plant and equipment, and intangible assets in the period of 12 months of 2019 and of 2018 was as follows:

(PLN million)	2019	2018
Total expenditure:	245.6	231.0
including Grupa Kęty S.A.	71.8	124.6

The largest investment projects in 2019 included:

EXTRUDED PRODUCTS SEGMENT

A speciality 36 MN indirect press for hard alloys extrusion, i.e. mainly 7XXX and 2XXX series alloys. Thanks to the technical solutions applied in the press, it will extrude the longest billets at Grupa Kęty with the length of 1,800 mm. The press is to be used mainly to extrude high-quality rods with a significantly reduced coarse-crystalline edge and model structure. The press was commissioned in Q.2, 2019.

FLEXIBLE PACKAGING SEGMENT

The main investment project of the Segment is the extension of the BOPP film production plant for another hall and the second production line. As a result, the production capacity will be doubled, which will contribute to output increase to roughly 60,000 tonnes a year. The line commenced production in Q.4, 2019.

ALUMINIUM SYSTEMS SEGMENT

The investment projects of the Segment focus mainly on the development of products and streamlining of the customer service process. In 2019, one of such projects was the completion of the Research and Innovation Centre with the floor area of about 10,000 m². The project value is approximately PLN 50 million, including ca. PLN 7 million financed from a subsidy. The Centre will employ as many as 60 people, including the personnel of the research and development department.

In 2020, in compliance with the assumed projection, the Capital Group plans to spend PLN 213 million on the project.

7.2. Research and development projects

The Capital Group strategy in the area of its products and services consists in offering high quality products, which are often designed for individual orders and tailored to customers' needs. Therefore, the priority is to invest in people and state-of-the-art technology, which translates into attracting a growing customer base both in Poland and abroad. The R&D activities, innovation and the continuous improvement of the machinery are factors which drive the success of the organisation and the development of its core business segments, based on a dialogue with the existing and potential customers.

The Research and Development Centre within the Extruded Products Segment carries out R&D projects aimed at introducing new technologies in production, in order to extend the product offer and improve the quality of products in response to the advanced customer requirements.

The research projects include for example

- the Crash Management Systems Project (systems to manage the consequences of car crashes), which is aimed at obtaining certificates from the established automotive manufacturers for the production of profiles by the EPS in the technology developed by the R&D Centre [CBR]. Cooperation has been established with the manufacturers of Crash Management Systems, i.e. passive safety systems forming part of car body structure. At the moment the CBR with its automotive partners engages in several projects aimed at developing a series of solutions for new car models in premium class, which will enter serial production in the coming years. The task of the CBR is to select the adequate aluminium alloys and extrusion parameters, and to carry out a detailed control of the extruded profiles by way of carrying a series of tests.

- The CBR is also to prepare a technology of manufacturing extruded products on the new 36 MN indirect press and manufacture products from the new EN-AW 2219 alloy. The project enables production of rods of much larger diameters than before and extension of the product offer for the innovative sectors of industry.

Works continue on obtaining certificates/production permits or higher material classes in reference to automotive segment profiles. The work covers both development of new alloys and selection of the appropriate engineering parameters at each stage of the production process.

An important part of the CBR operation is internal staff training in the research capacity of the CBR in the context of automotive customers specifications an assessment of the possibility of carrying out tests to manufacture new product assortments. The CBR opens an opportunity for the future engineers to gain professional practice and first live experience in industry.

Responding to the market expectations, the Aluminium Systems Segment developed and prepared for implementation of new products intended for system sales dedicated to civil engineering. Moreover, the selected existing solutions have been developed and modernised.

Special attention needs to be paid to a new product group, curtain window systems. There had been developed and implemented several types of the system, which were first applied on the USA market, in New York. Owing to the prefabrication of complete segments, the solutions ensure high accuracy and repeatability of characteristics, and, in consequence, high assembly speed in civil engineering structures. Moreover, the systems ensure high thermal performance, mainly due to the assembly method, which guarantees proper window operation and stability even in significant relative displacement of the building structure. The systems were successfully tested in the USA, fulfilling high building requirements and American standards.

To react to the high requirements of further structures located in the USA and other foreign markets, systems of curtain windows and walls have been developed to transfer wind load on a very high, unprecedented level.

Two new systems of curtain walls with openable windows ensuring compensation of the building structure movement have been designed and implemented. The systems were tested and applied in a high-rise building in Poland.

As regards façade solutions, worth mentioning is the new overlapping structural system and modernisation of the mullion and transom curtain wall systems in order to improve functionality and extend the scope of glazing, in response to the high requirements of the thermal standard.

In 2019 further intensive development work was carried out in the area of fire-rated windows, doors and walls, mainly in EI30 and EI60 class, with the simultaneous maintenance of high thermal performance. A series of classifications and documents were obtained to permit the use of the group of products in many European countries, in accordance with the harmonised EN standards and additional local regulations. Owing to a great diversity and frequent changes in domestic requirements, the research and development work on fire-rated systems will continue in the subsequent years.

The engineering advancement and extension of the Flexible Packaging Segment portfolio with new and innovative products improves the Segment position among the major European manufacturers of packaging. That is possible owing to a long-term process of organic development and, consequently, increasing the production capacity, production costs optimisation and implementation of new technical solutions. Current cooperation with our customers contributes to the performance of many projects aimed at developing thinner, more homogeneous laminates, with less printing than applied so far. The activities are aimed at a reduction of the quantity of plastics entered on the market and, on the other hand, easier packaging recycling. In accordance with the packaging market trends, in 2019 Alupol Packaging developed innovative PPBTM polypropylene films manufactured by way of extrusion and blow-moulding. Laminates based on the PPBTM and BOPP (Biaxially Oriented Polypropylene) films manufactured at Alupol Films are characterised with homogeneous structure and are, thus, easy to recycle. They also reflect very good mechanical properties, much better than BOPP/BOPP laminates, and ensure achievement of optimal parameters to guarantee food safety. Therefore, they may be used in packing many types of food, e.g. instant foods, seasoning, coffee, fresh meat, cold cuts, bread, etc. The laminates comply, at the same time, with the guidelines of the European strategy for closed-circuit plastics.

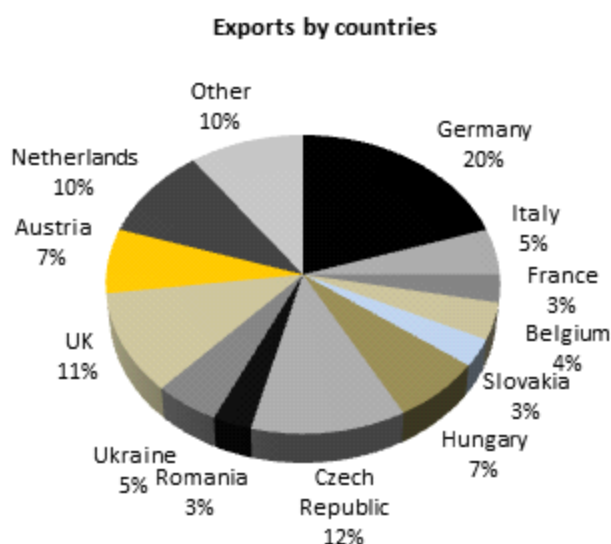
8. FACTORS IMPORTANT FOR THE CAPITAL GROUP DEVELOPMENT

8.1. External factors

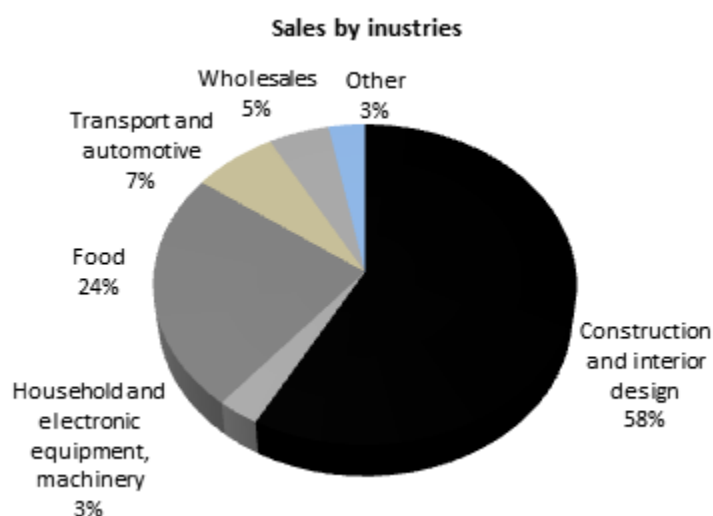
GRI 102-15; GRI 102-4; GRI 102-6

MARKET ECONOMIC CONDITIONS

The Group companies are exposed to trends fluctuations occurring both in the Polish economy, which is the recipient of roughly 53% of the sales, and in the economies of other European countries, which receive about 45% of the Group total sales. The remaining 2% are the products sold on other markets, including the USA. Particularly important for sales development is the situation on the German, Czech, Hungarian, British, Dutch, Italian, Ukrainian and Austrian markets, which receive 77% of export sales and, to a lesser extent that on the Slovakian, Belgian, French and Romanian markets. Sales analysis by industries shows a high concentration of the Group sales in the construction industry (approximately 58% consolidated sales by value), which means that all of the factors affecting the economic situation in that industry (availability of loans, level of investments) on the domestic market and major export markets have a significant effect on the sales generated by the Group.



Source: Company own materials.



Source: Company own materials.

RAW MATERIALS AVAILABILITY

The basic raw materials used by Grupa KĘTY include 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). In aggregate, they account for ca. 45% of all raw 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 jointly represent 25% of all purchased raw and other materials. The list of basic materials is supplemented with accessories for the production of aluminium systems, with 13% share. In order to maintain high production quality, the purchasing policy is based on cooperation with selected suppliers who guarantee an adequate level of deliveries and with simultaneous diversification ensuring competitiveness, as well as the application of ethical standards binding at the Group.

CUSTOMS POLICY

Since May 2007, the customs duties on aluminium imported from the former USSR states – the main source of the raw material for the Company – has been reduced from 6% to 3%. The continuation of such activities, including further reduction in the coming years, may positively affect the Company financial results. In turn, the return to previous rates will negatively affect the financial results.

The customs policy of the specific countries in relation to the products offered by the KĘTY Capital Group or its customers may affect sales indirectly.

EXCHANGE RATES

According to estimates, in the period covered with this report, approximately 45% of the Capital Group sales were generated in PLN, whereas 50% was sales denominated in EUR, 2% in USD and the remaining 3% in GBP, UHR, DEK and CZK. As regards costs, ca. 50% of expenses were incurred in PLN, 40% in EUR, 9% in USD, and about 1% in other currencies (GBP, UHR, CZK and DEK). Consequently, changes in the PLN exchange rates to EUR and USD affect the results generated. This refers both to the profitability of exports and competitiveness on the domestic market compared to imported products. The companies of the KĘTY Capital Group take measures to mitigate FX risk by entering into currency forward transactions or maintaining a part of their debt in foreign currencies.

COMPETITION

Since the 1990s, a steady increase in competition has been observed due to the attractiveness of the Polish market and the vicinity of the markets of Central and Eastern Europe. Companies take measures aimed at the expansion of their production capacities or their product offer. As estimated by the Management Board, the main competitors in the particular business areas are as follows:

Extruded Products Segment	Sapa, Yawal oraz Final (Yawal group), Eurometal, Cortizo, Kaye Aluminium, Extral Aluminium, Aliplast, Albatros
Aluminium Systems Segment	Sapa Building System, Schuco, Ponzio, Yawal, Aliplast, Blyweert, Heroal, Alukon, Reynaers,
Flexible Packaging Segment	Amtor, Constantia Packaging, Mondi Packaging, Amerplast, Fuji Seal Polska, Schur Flexibles Poland, Wipak, Flexpol, Poligal

Source: Company own materials.

The companies of the KĘTY Capital Group perform investment programmes and extend their scale of operations in accordance with the assumed strategy, also availing of external finance. It means that even if cash is generated from operating activities the restrictions in access to third-party finance in the form of bank loans may have a significant impact on further development opportunities and dividend paid out by Grupa Kęty. The interest rates related to external debt affect the value of finance costs and, thus, the generated net results.

POLITICAL AND ECONOMIC SITUATION IN UKRAINE

The KĘTY Capital Group has two companies in Ukraine: 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, which exceeds the usual economic risk. The Management Board analyses the standing of the companies on an ongoing basis. Any possible future write-downs related to the deteriorating economic situation or escalation of military actions in Ukraine may affect the results in the years to come.

NECESSITY TO ADJUST THE POLISH ECONOMY TO THE ASSUMPTIONS OF THE EU POLICY REGARDING CLIMATE CHANGE

On 28 November 2018, the European Commission presented a long-term strategic vision of a well prospering, modern, competitive and climate neutral economy by the year 2050. Therefore, Poland as one of the member states should implement actions to follow the vision. The actions may be related to some additional investments at the Group, or incurring additional costs.

CHANGES IN LAW

The Capital Group is obliged to abide by a large and continuously growing number of legal regulations, including personal data protection, environmental protection, waste management, corruption prevention, money laundering prevention, and many others, which results in higher costs related to the monitoring of the areas and higher risk of sanctions in the event of possible breaches.

8.2. Internal factors

GRI 102-15

INVESTMENTS IN THE DEVELOPMENT OF TECHNOLOGIES AND THE SALES NETWORK

The operation of the Group on a highly competitive market calls for constant meeting of the requirements imposed by the competitors and the customers. The KĘTY Capital Group invests in the development of technologies, introduction of new products, potential increase, as well as distribution and sales network expansion. The gradually implemented strategic plan, assuming development in all key areas, guarantees the maintenance of high competitive level.

STAFF QUALIFICATIONS AND HEADCOUNT STRUCTURE

Business success depends on the effective work of the whole team, including management staff and their ability to retain and motivate highly qualified employees. The loss of services provided by such qualified and experienced people may bring a significant adverse impact on the operation of the Capital Group. Therefore, the Group has been continuously adjusting the personnel policy to market changes in order to attract and maintain adequate staff.

OPERATING EFFECTIVENESS

High operating profitability, translating into stable and high cash flows on operating activities, guarantees ongoing development of the Capital Group. Continuous improvement of production and sales processes as well as cost effectiveness contribute to high efficiency of operations and the achieved economic results.

9. NON-FINANCIAL INFORMATION STATEMENT

9.1. About the Report

GRI 102,26, GRI 102-10, GRI 102-46, GRI 102-47, GRI 103-1, GRI 102-48, GRI 102-49, GRI 102-50, GRI 102-51, GRI 102-52, GRI 102-53, GRI 102 54, GRI 102-55

This statement has been prepared already for the fifth time. In preparing it, the Company was inspired by the GRI STANDARDS guidelines. The previous such disclosure was published in March 2019. The organisation discloses the same scope of data (quantity, indicators) and the reporting area is the same. The reporting area is marked on the organisational chart of the Grupa Kęty S.A. Capital Group (organisational structure on page 9)* These entities are presented in detail in the report as they generate most of the sales revenue of the Grupa Kęty S.A. Capital Group.

The Company reports such information on annual basis, hence, the information contained herein refers to the calendar year 2019. The disclosed information refers to the aforementioned segments, except when the text refers to activities carried out across the Grupa Kęty S.A. Capital Group. The reporting scope is also presented in the GRI Table. The Company has not made any adjustments of the information presented in the previous report.

When preparing the report, the Company applied selected indicators proposed in the GRI STANDARDS. The report was drawn up in collaboration with the internal project team, which featured many employees responsible for the particular aspects discussed in the report, including HR, environmental protection, investor relations, CSR, sales, production, procurement, etc.

Mr Zbigniew Paruch, Chief PR Specialist, is the person supervising the process of the report preparation and the contact person for the report. The dedicated project team, who prepared this report in cooperation with the Management Board of Grupa Kęty S.A., identified the material aspects for the organisation that are presented herein. They were selected mainly on the basis of the CSR Policy, which is the primary document and the Company's philosophy in the area of corporate social responsibility. It has been determining our activities in this area for a long time now. In the report, we focused on those aspects, trying to present them in a credible, transparent, balanced, comparable, accurate and timely manner. When presenting them, we tried to observe the GRI principles:

- stakeholder inclusiveness,
- materiality,
- sustainability context,
- completeness.

The Sustainable Development and Social Responsibility Steering Committee plays an important role in the process of determining the philosophy of activities and areas of commitment. At its meetings, the Committee takes important decisions concerning the operational management of the entire Group in accordance with the vision, mission and values, which are paramount for us. The report was audited by an independent auditor selected by the Company Supervisory Board. The audit covered financial figures only.

This report presents the following material aspects:

- Labour Practices and Decent Work, and specifically: Employment; Occupational Health and Safety; Diversity and Equal Opportunity; Training and Education; Labour Practices Grievance Mechanisms (within the organisation);
- Human Rights, and specifically: Non-discrimination; Human Rights Grievance Mechanisms (within the organisation);
- Impact on the Society, and specifically: Local Communities, Public Policy (within and outside the organisation);
- Environmental indicators, and specifically: Materials; Water; Emissions; Effluents and Waste; Compliance (within the organisation);
- Ethics (within the organisation).

* The disclosed information refers to Polish companies only.

9.2. Corporate Social Responsibility

GRI 102-12; GRI 102-13; GRI 102-14; GRI 102-26

Year 2019 represents not only historically record-high financial results of the KĘTY Capital Group but also the period of intensive activity in the area of social engagement.

We were active in our work for the employees, the environment and local communities. With hindsight, the operations may be definitely assessed as positive. Within the last 5 years we spent over PLN 1.6 million on the activities of the 'Grupa Kęty for the Children of the Podbeskidzie Region' Foundation (including PLN 440,000 in 2019), and nearly 500,000 on the idea of educating through sport (including PLN 150,000 in 2019). Every year, over PLN 20 million spent by the Capital Group companies qualify under the Corporate Social Responsibility, which include, for example, medical programmes for the employees, competence and language training courses, actions for the benefit of environmental protection. Nevertheless, we prefer to measure our activity with the number of children and youths who participated in all sports events, the charges of the children's homes who thanks to the 'Grupa Kęty for the Children of the Podbeskidzie Region' Foundation have

had better start in their adult life, or thousands of participants of the educational and ecological campaigns to which the Capital Group has been a partner. This is a real value for us.

We have consequently performed tasks comprised in our Corporate Social Responsibility Policy, we have respected and developed within our processes 10 Global Compact principles, to which we are a signatory. We have carefully observed the market and reacted to the changing formal and legal environment, adjusting our organisation on a current basis to the changing reality, and disclosing our non-financial statement for several years. This empowers us to optimistically look forward to the coming years and carefully prepare a new strategy. It poses even greater challenges to us. The worrying climate change symptoms, lack of respect for human rights or other world trends oblige us to even greater carefulness when preparing our processes, risk analyses, as well as our participation in economy, environment and society. Our mission ‘For the future...’, which originated over 8 years ago, is still up-to-date and requires our engagement in caring for the well-being of future generations, effective use of the natural capital we manage and the human capital which is the most important asset of our organisation. We want to run a cohesive and balanced business.

The issues related to sustainable development are regulated on a systematic basis by the Sustainable Development and Corporate Social Responsibility Steering Committee. The Grupa Kęty S.A. Capital Group has been consequently performing the development directions set out by the CSR Policy. The members of the Committee (the Management Board of Grupa Kęty S.A., Business Segments Managers, and the CSR Director) guarantee conscious policy and strategy in the area of sustainable development. The decisions made have been compatible with the set-out directions and care for the future of further generations. In 2019, the Committee made a decision to engage the company, its employees and their families in the ‘A Book Supports the Hero’ campaign, which promotes the second life of products. Such simple, friendly projects build the environmental awareness and sustainable development among all stakeholders.

The ‘OrangeBook’ strategic processes management system implemented at the Grupa Kęty S.A. Capital Group is a platform for the management and control of all areas. Such documents as The Code of Ethics and the policies in the areas of HR, corporate social responsibility, environmental protection and respect for human rights form integral parts of the ‘OrangeBook’.

Our lodestar and inspiration to create business are international standards, instructions and guidelines.

At the same time, the KĘTY Capital Group supports 17 Sustainable Development Goals, declaring a special emphasis on Goal 8 – Decent Work and Economic Growth, and in the non-financial data disclosure it avails of the international GRI STANDARDS.

We are signatories to



We apply the guidelines of



The Company is listed on



9.3. Stakeholders

GRI 102-40; GRI 102-42; GRI 102-43; GRI 102-44

Each organisation with aware approach to management is focused on broad dialogue and feedback from the stakeholders as regards its actions, investments made, or products marketed. Our organisation focuses on main stakeholders: employees, customers, suppliers, shareholders or supervisory authorities, namely the groups which have the greatest impact on the creation of the business value of the organisation. The table below presents the individual groups of stakeholders and the method of communicating with them:

Stakeholders map of Grupa Kęty S.A.	Communication method	Frequency (minimum)	Key topics raised by stakeholders	Reference to a given topic in the Management Board report
Employees	Intranet, <i>Aluway Express</i> Newsletter Periodical meetings with managers Team-building meetings	On an ongoing basis	Safety at work Payroll policy Additional processes and supporting programmes	Chapter: The Company and its employees Chapter: Community involvement
Customers	Face-to-face meetings Newsletters Telephone calls Trade fairs	On an ongoing basis	Quality of products and services Product innovation R&D activities Production safety	Chapter: Investment projects and R&D activities Chapter: Risk management
Shareholders and potential shareholders	Face-to-face meetings General Meetings Stock exchange disclosures Website: www.grupakety.com	Annually or more frequently, as needed by the particular groups of stakeholders	Dividend policy Corporate governance Development strategy Company current activities	Chapter: Grupa Kęty S.A. on the capital market Chapter: Development strategy Chapter: Corporate governance
Suppliers	Face-to-face meetings Telephone calls Trade fairs	On an ongoing basis	Transparent terms of cooperation	Not discussed in the report
Supervisory Board	Face-to-face meetings Stock exchange disclosures	On a quarterly basis	Risk management Corporate governance Development strategy Company current activities	Chapter: Risk management Chapter: Development strategy Chapter: Corporate governance
Polish Financial Supervision Authority	Announcements Face-to-face meetings	On an ongoing basis	Compliance with legal regulations	Chapter: Corporate governance
Warsaw Stock Exchange	Announcements Face-to-face meetings	On an ongoing basis	Compliance with legal regulations Corporate governance principles	Chapter: Corporate governance
Local authorities	Face-to-face meetings	Once in 6 months	Supporting local initiatives Development of the local labour market	Chapter: Community involvement Chapter: The Company and its employees
Local communities	Participation in local sports and social events Face-to-face meetings, e.g. with the educators from children's homes	Annually or more frequently, as needed by the particular groups of stakeholders	Supporting local initiatives Support for children from children's homes Sports development	Chapter: Community involvement
Issuers organisations	Participation in the works of the Polish Association of Listed Companies	On an ongoing basis	Corporate governance principles	Chapter: Corporate governance
Business organisations	Membership of and engagement in selected business organisations	On an ongoing basis	Engagement in joint projects	Not discussed in the report
Mass media	Press conferences Face-to-face meetings	On an ongoing basis	Company current activities Company strategy	Chapter: Development strategy
Competitors	Trade fairs Industry meetings	On an ongoing basis	Market conditions Business environment Business issues	Not discussed in the report
In-house trade unions	Face-to-face meetings	Once in 6 months or more frequently, as needed by the stakeholders	Working conditions Company current activities Company strategy	Chapter: The Company and its employees Chapter: Development strategy

The nature of the Grupa Kęty S.A. Capital Group described in the business model emphasises the importance of a broadly understood dialogue in the strategic and operating activities. The dialogue is simply the day-to-day life of the organisation – everyday work, business and team-building meetings, telephone calls. Our business plans, the development plans of our organisation and our impact on local societies and environment are confronted with the stakeholder's expectations. Stakeholders set out the development directions of our organisation, in the first place. This happens by changes in legal requirements, the needs of new employee generations, or challenges posed by the care for climate issues. Processes are adjusted to the challenges the business faces in the

21st century. We strive for introducing climate-friendly solutions, caring for the business culture and strongly emphasising human rights in the contemporary world.

The Grupa Kęty S.A. Capital Group maintains high standards of communication. For years now, the Company has been perceived by market participants as a recognised brand and a credible partner. The Company social activities are reported on external portals such as www.grupakety.com/odpowiedzialny_biznes; www.dzicipodbeskidzia.pl and on the Facebook page of the ‘Grupa Kęty for the Children of the Podbeskidzie Region’ Foundation. New information channels were prepared in response to the stakeholders’ needs: a Facebook account, a LinkedIn account and a dedicated Youtube channel. Meetings, the Intranet, newsletter and notice boards are used in current contacts with the employees.

The KĘTY Capital Group creates the future of the region, actively supporting the local environment, jointly with other companies and the local community. Each year, the reporting process is consulted on an ongoing basis with the selected groups of stakeholders (including employees and representatives of local communities).

9.4. Professionalism and Ethics

GRI 102-16, GRI 102-17, GRI 103-2, GRI 103-1,2,3 as regards ‘Labour Practices Grievance Mechanisms’ and ‘Human Rights Grievance Mechanisms’, GRI 205-2, GRI 415-1, GC Principles 1, 2, 3, 5, 7, 8, 10

The supreme document of the company regulating the ethical aspects and comprising a presentation of moral standards followed by our organisation and our employees is the Code of Ethics accompanied by detailed subject-matter policies, including: Anti-bribery Policy, Conflict of Interest Prevention Policy, Dignity at Work Policy, and Diversity Policy.

Significant emphasis is also put on the environmental issues. ‘We assume full responsibility for the influence of our actions on the environment. We abide by the ecological limitations imposed by legal regulations. We concentrate on searching for solutions, which eliminate the negative impact at its source. We invest in research and development as well as searching environmentally-friendly technologies’, this is one of the clauses of our Code of Ethics.

All the documents make up a platform of guidelines and standards of operation as well as superior values at the Grupa Kęty S.A. Capital Group. In accordance with the assumed plan, about which we have informed the stakeholders in the report for 2018, the year 2019 was busy with training in anti-bribery policy. The training courses were carried out at the respective business segments and were attended by over 130 members of the management staff. The organisation has also strengthened its information disclosure to the employees, who do not avail of the IT resources of the Group in their daily work, where the aforesaid documents are published. This happened through installing noticeboards with the most important clauses of the Code of Ethics and the information about the possibilities and channels for reporting the Code breaches at the production halls.

The provisions of the Code of Ethics reflect a method for reporting breaches and a possibility to share any doubts regarding ethical behaviour – messages may be submitted through a number of channels: directly to the Business Ethics Ombudsman, in the form of a letter, or e-mail sent to a special e-mail address – all these channels are listed in the Code of Ethics. The Company does not operate any separate helplines or hotlines.

The ethical processes monitoring structure remained virtually unchanged as compared to 2018. In 2019, Business Ethics Committees operated within the business segments (appointed by Grupa Kęty S.A., Aluprof S.A., Alupol Packaging S.A.), as well as the Business Ethics Ombudsman at the Capital Group level. The bodies were composed of 15 people. Caring for the development of ethical processes and competencies of the engaged persons, the organisation prepared a special training for the Business Ethics Committees. The work of Business Ethics Ombudsman at the GRUPA KĘTY S.A. Capital Group as well as participation in the work of the Business Ethics Committees are functions performed free of charge for the sake of the employees.

In 2019 the Business Ethics Ombudsman and Committees received two reports on the Code of Ethics violations with regard to the Dignity at Work Policy. The first of them was withdrawn by the reporting person before the formal commencement of the explanatory proceedings, whereas the other one went through the verification process by the respective segment’s Ethics Commission and no breach of the Code of Ethics was confirmed in effect.

The Ombudsman did not receive any reports on violation of human rights or anti-bribery policy in 2019.

The Code of Ethics also clearly defines and governs the organisation's approach to the participation in public life, namely: 'We maintain transparent relations with local government officials and representatives of the political stage, free from corruption and improper pressures'.

In 2019, the Company did not make any donations to political parties.

9.5. The Company and its employees

GRI 103-1,2,3 as regards 'Employment'

HR POLICY

The personnel policy of the Grupa Kęty S.A. Capital Group determines standards related to human resources management. It forms basis for designing and implementing HR processes, ensuring compliance with the mission and values of the company.

Specific models create the identity and organisational structure, as well as set out limits for the activities of managers on each level of management, affecting both the quality and conditions of work.

The generated results depend on the abilities of the employees and the capacity of the company to attract staff with adequate qualifications. Therefore, HR specialists at the Capital Group companies pay a lot of attention to the employee development processes and adaptation of new people to the work.

The binding conduct procedures emphasise the principles of tolerance and ensuring equal chances in each area of the company operation. This means, among other things, granting remuneration based on specific criteria (in consideration of the education, experience, the effects of work), common access to benefits, training courses, absence of discrimination due to any reasons (including gender, age, disability, race, religion, nationality, political views, trade union affiliation, ethnic origin, denomination, sexual orientation, form of employment, i.e. for limited, unlimited time, or full time, part time).

It is important for the company to build the organisation based on mutual respect, dialogue and trust. Various systems have been implemented at the respective companies to enable passing information from the employer to the employees. There are also systems which facilitate reporting comments by the employees.

Apart from the basic forms of communication, such as e-mail or information boards, there are also suggestion systems. The subjects reported by the employees contribute to improving safety, streamlining and increasing the effectiveness of work, improving the defined standards and better utilisation of the employees' knowledge and skills. Moreover, employee representatives are appointed to present the comments collected from the employees in meetings with the managers. The trade unions operating at the companies forward their comments and proposals directly to the respective Management Boards.

Within the management-by-objectives system, short- and long-term planning processes are defined. The system provides tools for assigning tasks in relationship to the Company strategy and the needs of its organisational units, which are formulated based on the SMART concept. Moreover, the system supports managerial staff during the process of monitoring the achievement and settlement of objectives. Periodical assessment refers to employee performance, and, based on the prepared summaries, individual development programmes are designed and incentive systems modified.

The Company staff remuneration is based on the results of job positions evaluation. In 2007 the method of job positions evaluation was developed, within which all positions were evaluated and subsequently a table of job positions and payroll was prepared, in consideration of the company strategy and the situation on the labour market. Every year we carry out a payroll scale review based on market reports in that regard. Individual remuneration is granted adequately to the scope of duties, responsibility, skills and the results achieved.

Additionally, the company offers benefits in the form of pension schemes, health-care programmes and benefits granted within the social fund.

DIVERSITY POLICY – ENSURING EQUAL OPPORTUNITIES

The companies of the Grupa Kęty S.A. Capital Group have a long tradition and employ people who are in service for long years, sometimes bound with the company since the beginning of their professional career. Such capital of knowledge and skills within the organisation represents a measurable value, whereas such employment structure contributes to an exceptional organisational culture.

Managing teams, within which there are more differences between the co-workers than common elements, requires strong focus on relationship management. The role of the people responsible for human resources is mainly to ensure working conditions which support development and give the employees the feeling of safety, understood not only in physical context but also as mental comfort.

System solutions are needed and in that regard the Diversity Policy may be enumerated. One of the assumptions of the Policy is to transform diversity into business development, because the individual traits of the employees contribute to creative solutions. The basic element is to prevent any forms of employees or contractors discrimination because of their gender, age, disability, health, race, nationality, ethnic origin, religion, denomination, atheism, political views, trade union affiliation, sexual orientation, gender identity, family status, lifestyle, the form, scope and basis of employment, other types of cooperation or other discriminatory grounds.

In practice, Ethics Committees have been operating at the companies with the aim to clarify the reported cases of the Code of Ethics violation.

The companies fulfil their tasks related to propagating tolerance, preventing discrimination, as well as adjustment of workplaces and conditions of work to the particular needs of the employees. This is performed by way of training provision, introducing flexible forms of work, but also through payroll review, granting awards or benefits, and assessment of the criteria forming basis for granting the same.

Also analysed have been positions on the level of the companies management boards and senior management (directors), so as to determine the powers of the individual persons holding these positions, taking into account their age and gender.

	executives, including Management Board	by gender		by age group			by length of service at the Group		
		Women	Men	up to 40 years	41–50 years	over 50 years	up to 10 years	11–20 years	over 20 years
EPS	15	2	13	2	13	0	2	9	4
FPS	11	0	11	3	7	1	2	6	3
ASS	20	3	17	3	10	7	8	7	5

The average remuneration of women as compared to the average remuneration of men in the majority of occupational groups is lower by ca. 15% on average, which results from the specifics of the sector.

		2018	2019
EPS	executive officer	No women in that position	No women in that position
EPS	director	84%	86%
EPS	manager	67%	79%
EPS	specialist	81%	82%
EPS	foreman	No women in that position	No women in that position
EPS	production area, worker	83%	84%
FPS	executive officer	No women in that position	No women in that position
FPS	director	No women in that position	No women in that position
FPS	manager	102%	101%
FPS	specialist	96%	99%
FPS	foreman	No women in that position	No women in that position
FPS	production area, worker	93%	89%
ASS	executive officer	82%	95%
ASS	director	No women in that position	No women in that position
ASS	manager	82%	96%
ASS	specialist	89%	87%
ASS	foreman	78%	79%
ASS	production area, worker	82%	83%

There have not been prepared at the Grupa Kęty S.A. any programmes to ensure equal share of women and men in the management and supervisory boards. The Management Board members have been elected by the Supervisory Board, whereas the members of the Supervisory Board have been elected by the General Meeting from among the candidates proposed by the company shareholders.

To the best knowledge of the Company Management Board, the appointment of the Management and Supervisory Board Members has been based on their subject-matter knowledge, competencies and experience, and has not been discriminating in any manner with regard to gender or age.

In 2019 there were two cases of the Code of Ethics violation reported at the Capital Group, particularly with regard to dignity at work. Both cases referred to the Aluminium Systems Segment, and have been described in Chapter 9.3 'Professionalism and Ethics'.

GRI 102-8

At the end of December 2019, the headcount (based on employment contracts) at the business segments, i.e. the Extruded Products Segment, the Aluminium Systems Segment and the Flexible Packaging Segment, was 4,853 people. It represented 10% growth compared to 2018.

In December 2019, 28% of all employees were women. 78% of employees worked under employment contracts for an unlimited period of time. Headcount by gender, age, type of position or employment contract is presented in the following tables.

Headcount by type of position

2018		women	men	trial period contracts	permanent contracts	limited period contracts	mandate contracts	other civil-law contracts	temporary employees
EPS	management staff	6	28	0	0	34	0	0	0
EPS	administrative staff	107	171	4	22	252	2	0	0
EPS	blue-collar workers	240	945	51	223	911	1	0	0
EPS	total	353	1,144	55	245	1,197	3	0	0
FPS	management staff	8	29	0	2	35	0	0	0
FPS	administrative staff	52	69	5	23	93	0	0	0
FPS	blue-collar workers	71	568	26	99	514	0	0	0
FPS	total	131	666	31	124	642	0	0	0
ASS	management staff	13	51	0	3	55	2	2	2
ASS	administrative staff	278	304	19	146	423	53	0	0
ASS	blue-collar workers	368	1,074	81	404	957	134	0	105
ASS	total	659	1,429	100	553	1,435	189	2	105

2019		women	men	trial period contracts	permanent contracts	limited period contracts	mandate contracts	other civil-law contracts	temporary employees
EPS	management staff	8	35	0	0	43	0	0	0
EPS	administrative staff	138	209	0	32	315	2	0	2
EPS	blue-collar workers	384	1,079	1	201	1,261	0	0	4
EPS	total	530	1,323	1	233	1,619	2	0	6
FPS	management staff	7	28	0	0	35	1	0	0
FPS	administrative staff	51	82	2	24	107	0	0	0
FPS	blue-collar workers	80	576	18	118	520	0	0	
FPS	total	138	686	20	142	662	1	0	0

ASS	management staff	11	51	0	1	61	0	4	0
ASS	administrative staff	292	316	17	139	452	1	0	0
ASS	blue-collar workers	404	1,102	50	451	1,005	1	0	96
ASS	total	707	1,469	67	591	1,518	2	4	96

Headcount by gender

		2018					2019				
	employees by gender	trial period contracts	permanent contracts	limited period contracts	mandate contracts	other civil-law contracts	trial period contracts	permanent contracts	limited period contracts	mandate contracts	other civil-law contracts
EPS	women	15	79	259	1	0	0	89	442	1	0
EPS	men	40	166	938	2	0	1	144	1,177	1	0
EPS	total	55	245	1,197	3	0	1	233	1,619	2	0
FPS	women	9	24	98	0	0	2	34	102	0	0
FPS	men	22	100	544	0	0	18	108	560	0	0
FPS	total	31	124	642	0	0	20	142	662	0	0
ASS	women	41	214	404	37	1	23	246	438	1	1
ASS	men	59	339	1,031	152	1	44	345	1,080	1	3
ASS	total	100	553	1,435	189	2	67	591	1,518	2	4

Headcount by age

		2018				2019			
	age group	men	women	blue-collar workers	white-collar staff	men	women	blue-collar workers	white-collar staff
EPS	up to 30 years	246	53	266	33	239	78	276	41
EPS	30–50 years	668	223	670	221	793	331	847	277
EPS	over 50 years	230	77	249	58	291	121	340	72
EPS	Total	1,144	353	1,185	312	1,323	530	1,463	390
FPS	up to 30 years	147	19	136	30	158	21	147	32
FPS	30–50 years	441	82	409	114	445	89	410	124
FPS	over 50 years	78	30	94	14	83	28	99	12
FPS	Total	666	131	639	158	686	138	656	168
ASS	up to 30 years	430	177	449	158	417	185	448	154
ASS	30–50 years	738	405	722	421	776	435	763	448
ASS	over 50 years	261	77	271	67	276	87	295	68
ASS	Total	1,429	659	1,442	646	1,469	707	1,506	670

In 2019, 59% of employees were aged between 30 and 50. In 2018, the level was 58%. The headcount in other age groups was similar as in the previous year, namely: 23% of employees aged up to 30 (24% previously) and 18% employees aged above 50 (17% previously). Women represented 28% of employees, including 19% among managerial staff. Of all employees there were 75% blue-collar workers.

GRI 401531-1

In 2019, 647 new employees were hired at the EPS, the FPS and the ASS, and 33% of them were women. 47% of the new workforce were people aged 30 or younger, and 1% – people aged 60+. In the same period, 781 employees left the company (17% of women). Among the latter group 38% were aged up to 30, and 5% were aged above 60.

New employees by gender and age

	gender	2018						2019					
		total	up to 30 years	31-40 years	41-50 years	51-60 years	over 60 years	total	up to 30 years	31-40 years	41-50 years	51-60 years	over 60 years
EPS	W	69	19	32	16	2	0	33	10	13	9	1	0
EPS	M	120	54	31	28	7	0	51	23	17	8	2	1
EPS	total	189	73	63	44	9	0	84	33	30	17	3	1
FPS	W	33	6	20	6	1	0	25	7	12	6	0	0
FPS	M	108	47	46	12	3	0	110	59	36	14	1	0
FPS	total	141	53	66	18	4	0	135	66	48	20	1	0
ASS	W	208	89	59	49	7	4	153	68	40	34	11	0
ASS	M	314	184	55	43	26	6	275	137	57	51	22	8
ASS	total	522	273	114	92	33	10	428	205	97	85	33	8

Leaving employees by gender

	gender	2018						2019					
		total	up to 30 years	31-40 years	41-50 years	51-60 years	over 60 years	total	up to 30 years	31-40 years	41-50 years	51-60 years	over 60 years
EPS	W	27	2	5	1	7	12	48	14	14	7	9	4
EPS	M	83	36	23	8	3	13	109	45	30	14	7	13
EPS	total	110	38	28	9	10	25	157	59	44	21	16	17
FPS	W	27	7	11	0	7	2	18	2	7	4	5	0
FPS	M	102	50	39	8	3	2	89	39	37	10	0	3
FPS	total	129	57	50	8	10	4	107	41	44	14	5	3
ASS	W	122	43	40	26	9	4	142	43	50	30	17	2
ASS	M	258	119	57	42	17	23	375	150	103	67	40	15
ASS	total	380	162	97	68	26	27	517	193	153	97	57	17

GRI 401-2

All of the Capital Group companies offer pension schemes to their employees within the so called third pillar. The 'Pogodna Przyszłość' scheme covers all employees with at least one year of service at the Company. In 2019 that referred to 45% of headcount, including 84% at the EPS and 78% at the FPS. At the ASS it was only 5% due to the fact that a few years ago the programme was closed.

	2018		2019	
	Number of insured employees	% of insured employees	Number of insured employees	% of insured employees
EPS	1,284	86%	1,559	84%
FPS	599	75%	646	78%
ASS	109	5%	98	5%

In the second half of 2019, the companies launched a new pension plan, based on the Act on Employee Capital Plans (PPK) passed by the Parliament on 4 October 2018 and binding since 1 January 2019. The payments to the PPK account come from the employer, the employee, and the state. As many as 36% of the EPS employees accessed the plan, 37% at the FPS, and 33% at the ASS.

	2018			2019		
	number entitled	number accessed	% share	number entitled	number accessed	% share
EPS	-----	-----	-----	1,293	666	36%
FPS	-----	-----	-----	824	306	37%
ASS	-----	-----	-----	1,956	638	33%

GRI 102-41

At the Grupa Kęty S.A. Extruded Products Segment a Company Collective Bargaining Agreement has been signed, which applies to 100% employees of the company, i.e. 33% of the workforce of all the companies subject to non-financial disclosure. The Agreement is a form of cooperation between the employer and trade unions, which represent the employees' interests.

Pursuant to the Trade Unions Act, the employer informs trade unions about any matters falling within their powers, in accordance with the deadlines laid down in the Act.

Amendments to work regulations, remuneration regulations or the employee benefits fund enter into force in accordance with Polish law, i.e. after 2 weeks of employees notification, for example by displaying announcements on notice boards.

GRI 404-1, GRI 103-1,2,3 as regards 'Training and Education'

DEVELOPMENT OF THE ORGANISATION'S INTELLECTUAL POTENTIAL

An essential element of the company development is learning and experience gaining by the employees. That contributes not only to work quality and effectiveness improvement but also enables extension of responsibility and, in consequence, individual development and promotion.

The KEŃTY Capital Group companies define development objectives, and the employees are encouraged to learn and extend their knowledge. Training is organised in various forms: external and internal training courses, either in traditional lecture or workshop form, or by way of e-learning. The subjects cover engineering issues as well as soft skills.

In order to achieve progress, feedback regarding the results obtained is needed. Employees receive such feedback within their daily duties, whereas once a year, during the assessment meetings, the superior and the employee sum up the results and a thorough analysis accompanies that process. On that basis, we develop plans for another year.

Numbers of trained employees by gender

	gender	2018			2019		
		training participants	training hours	training hours per employee	training participants	training hours	training hours per employee
EPS	women	165	1,815	5.1	520	3,127	5.9
EPS	men	814	12,335	10.8	930	10,983	8.3
EPS	total	979	14,150	9.5	1,450	14,110	7.6
FPS	women	125	2,462	18.8	124	1,908	13.8
FPS	men	633	6,915	10.4	617	9,066	13.2
FPS	total	758	9,377	11.8	741	10,974	13.3
ASS	women	277	2,044	1.0	378	5,230	7.4
ASS	men	880	6,133	2.9	878	13,747	9.4
ASS	total	1,157	8,177	3.9	1,256	18,977	16.8

GRI 403-9, GRI 103-1,2,3 as regards 'Occupational Health and Safety'

OCCUPATIONAL HEALTH AND SAFETY

Safety at work is an issue which cannot be compromised. Workstations are subject to current analysis with regard to the potential risk, and the employees are periodically trained in occupational health and safety.

At the KEŃTY Capital Group companies the 'Safe Work' programme has been implemented. It concentrates not only on the actions required by law, but mainly on raising the awareness of how the behaviour of one person affects the safety of other co-workers. There are provided additional training courses in OHS and fire safety, in reference to the specifics of operation of the respective company. Suggestions systems are also used to implement the programme objectives. The systems, being an additional source of information about the potential risks at work, encourage the employees to share their knowledge and enable them to suggest improvements. Thanks to the reporting system, the results of the undertaken measures and potential risks may be analysed on a current basis.

The companies have appointed teams of OHS specialists responsible for monitoring the work environment. In addition, the managers of the particular organisational units appoint teams under their leadership composed of the Corporate OHS Officer, Employee Representative, Shift Foreman and other specialists, as appropriate, who:

- identify hazards that the employees and contract workers as well as visitors and other people in the workplace may face in a particular job or in a given area of the Company;
- indicate the sources of hazards and the possible effects of such hazards;

- estimate the occupational risk;
- suggest preventative measures aimed at reducing or eradicating occupational risks.

As a result of such measures, the occupational risk for a given job is assessed. All of the Company employees are subject to the activities of teams responsible for safety at work.

Despite various preventive measures, the Group did not manage to eliminate the entire risk of accidents at work. In 2019 the total of 72 employees were injured at the reported segments (23 more than in the preceding year). Approximately 20% of accidents affected women and 80% – men.

Accidents at work – persons injured by age groups

	Age	2018	2019
EPS	up to 30 years	2	6
EPS	30–50 years	4	19
EPS	over 50 years	3	7
FPS	up to 30 years	2	1
FPS	30–50 years	0	4
FPS	over 50 years	0	1
ASS	up to 30 years	16	8
ASS	30–50 years	16	16
ASS	over 50 years	6	10

Accidents at work – persons injured by gender

	Gender	2018	2019
EPS	women	2	9
EPS	men	7	23
FPS	women	0	2
FPS	men	2	4
ASS	women	8	3
ASS	men	30	31

No occupational diseases were reported by the segments in 2019. An occupational disease is one entered in the list of occupational diseases if, as a result of the working conditions evaluation, it may be indisputably confirmed or assumed with high probability that the disease was caused by factors harmful to human health occurring in the work environment or in relation to the way work is performed, i.e. ‘occupational exposure’.

GRI 403-5

Number of OHS training hours

		Number of training hours for employment contract staff	Training availability for non-employees, providing that their work/workplace is controlled by the organisation	of which training free-of-charge for the employee	of which training within working hours	of which the number of mandatory training hours (also imposed by the employer)
EPS	Compulsory training courses	6,517.5	Yes	6,517.5	6,517.5	6,517.5
EPS	Additional training courses	996	Yes	996	996	0
EPS	total	7,513.5	-----	7,513.5	-----	-----
FPS	Compulsory training courses	4,548	No	4,548	4,548	4,548
FPS	Additional training courses	0	No	0	0	0
FPS	total	4,548	-----	4,548		4,548
ASS	Compulsory training courses	7,490	No	7,490	7,490	7,490
ASS	Additional training courses	1,184	No	1,184	1,184	1,184
ASS	total	8,674	-----	8,674	8,674	8,674

9.6. Community involvement

GRI 413-1, GRI 103-1,2,3 as regards 'Local Communities'

'We declare that within the Company operations we have made and will continue to make efforts to ensure the creation of a better society, retaining balance and protecting the environment.' This is an excerpt from the Corporate Social Responsibility Policy of the KĘTY Capital Group, which has been setting out the direction of our community involvement. The Corporate Social Responsibility Policy, respecting, promoting and developing the 10 Principles of the UN Global Compact, to which we are a signatory, as well as other CSR standards and processes determine the framework and horizons of our actions.

We have always concentrated on a balanced policy focusing around environmental protection. The changing environment and the worrying symptoms of the climate change mobilise us even more to intensify work in that area. Our social approach to the environmental protection issue is presented in more detail the 'Group for the World' chapter.

Other activities of the organisation are closely related to the designated directions of commitment and they are the consequence of the ongoing dialogue with local communities. As a capital group we have engaged in various local projects focusing around the locations of our production plants, places where our employees live. From the level of the Capital Group, we may indicate three most important areas in which the company uses its efforts and resources, namely:

- social and voluntary programmes;
- the activities of the 'Grupa Kęty for the Children of the Podbeskidzie Region' Foundation;
- the idea of educating through sport.

SOCIAL AND VOLUNTARY PROGRAMMES

Voluntary work is an important element of the corporate culture of the Grupa Kęty S.A. Capital Group. It integrates the employees around valuable initiatives and encourages them to undertake joint charitable activities. For many years now, the organisation has run the 'Together with the GROUP' programme – a combination of engagement and voluntary work of our employees with financial support of the company which brings wonderful results to the local community. The 2019 programme edition was strictly connected to one of the CSR Policy elements – health and safety of the employees. The edition was carried out under the motto 'We Care for Health', with the following effect:

- 32 local projects focusing around the 'caring for health' value;
- the KĘTY Capital Group engagement of PLN 38,000;
- nearly 2,000 direct beneficiaries.

'GRUPA KĘTY FOR THE CHILDREN OF THE PODBESKIDZIE REGION' FOUNDATION

A response of the organisation to the problems of children and youths threatened with social exclusion, defined in the region. The Foundation's objective is to cooperate with and to take care of children from children's homes and special educational establishments, for example by implementation of the 'To ensure a better start' action, namely helping the children to get education, expertise and qualifications, which, in consequence, will give them a better start in their independent adult lives. The idea behind the activities of the Foundation is to gradually abandon state-run children's homes and propagate the concept of foster families. Within the Foundation:

- we support nearly 300 children from 9 children's homes actively cooperating with the Foundation,
- we operate in 5 Districts: Bielsko, Oświęcim, Pszczyna, Cieszyn and Żywiec;
- we spent PLN 440,000 on the statutory activities in 2019;
- we have 3 transitional-living flats.
- More information at: www.dziecipodbeskidzia.pl.

THE IDEA OF EDUCATING THROUGH SPORT

Sports means discipline, fair play, principles, and consequence – all values we care for in business. Sports also means a perfect tool for cooperation and employee engagement. For many years now, the Grupa Kęty Capital Group has been investing in and developing 'the idea of educating through sport'. By way of engaging the organisation in various sports events in the region, we cope with the challenge of the 21st century, namely encouraging young people to actively spend their leisure time. Caring for the health of the future generations, the Group has officially adopted the following objectives in its Corporate Social Responsibility Policy:

We take an active approach to sport – apart from the local communities the events were actively attended by the employees of the GRUPA KĘTY S.A. Capital Group and their families as well as the children under the charge of the ‘Grupa Kęty for the Children of the Podbeskidzie Region’ Foundation.

9.7. The Group for the World

ENVIRONMENTAL ASPECTS MANAGEMENT

The 21st century poses a great challenge to everyone with regard to environmental protection, natural resources or impact on the changing climate. The challenges refer to all, however, the broadly understood business or production companies have a measurable influence on the issues. The KĘTY Capital Group is aware that it impacts the environment in a direct and indirect way, therefore, it operates such as to reduce that influence to minimum.

Since 2015, in the non-financial data disclosure, we have consequently presented 12 environmental indicators under the GRI standard. The process of defining the reporting areas comprised the prioritisation of environmental aspects identified within the framework of the management system based on the ISO 14001:2015 standard implemented at the Group companies. That register covers all elements of the activities of the companies, including goods and services which can interact with the environment. The analysis of the importance of a given aspect to stakeholders and of its environmental impact was the basis for priority assignment. As a result, the following GRI indicators were selected: 103-2, 103-3, 301-1, 301-2, 302-1, 303-2, 303-3, 305-1, 305-7, 306-1, 306-2, 307-1, as they best refer to the activities of the Group and its impact on the environment. These indicators are associated with the environmental areas and components that the particular companies of the Group can influence to a great extent, i.e. air, water, effluents, waste, materials, fuel and energy consumption, or compliance with the legal regulations.

Responding to the trends and regulations regarding climate neutrality, Grupa KĘTY strives to limit the impact on the environment by creating low emission industry, within an active response to climate change and an effective use of resources.

When analysing the environmental impact of the companies, we pay particular attention to air emissions of gases and dust, especially of carbon dioxide, as air emissions are sources of direct environmental impact. Total greenhouse gas emissions are low due to the nature of the in-house processes and the thermal efficiency of devices. The KĘTY Capital Group companies are not subject to the EU Emissions Trading System. The greenhouse gas emitted by the systems at the EPS, the ASS and the FPS is CO₂. The emitted carbon dioxide originates from the combustion of natural gas in boilers, radiators, thermal oxidisers, heaters and industrial furnaces.

We analyse the risks which may originate at our organisation in relation to these issues, and we have separated a natural capital. These are new challenges and experiences, but we treat them as a priority and approach them as a potential.

Our mission ‘For the future...’, which originated over 8 years ago, is very up-to-date and requires our engagement in caring for the well-being of future generations, effective use of the natural capital we manage, and the human capital which is an extraordinary asset of our organisation. We want to run a cohesive and balanced business.

PRECAUTIONARY PRINCIPLE

GRI 102-11

The KĘTY Capital Group is committed to ensure and maintain a high level of safety of its processes. The Group companies strive to minimise the environmental risks. It is achieved by monitoring material environmental aspects under the ISO14001:2015 standard and by proper maintenance of infrastructure based on predictive and preventive measures as well as the programme of internal audits. The KĘTY Capital Group companies constantly monitor and assess environmental risks, taking measures referred to in the operational control procedures for processes which are material. In addition, they take preventative measures or measures aimed at eliminating the potential hazards.

Number of implemented preventive environmental measures

Segment	Specification	Unit	2018	2019
EPS	Number of controlled environmental aspects	pcs	88	97
EPS	Number of preventive environmental measures	pcs	48	45
FPS	Number of controlled environmental aspects	pcs	193	172
FPS	Number of preventive environmental measures	pcs	48	38
ASS	Number of controlled environmental aspects	pcs	117	141
ASS	Number of preventive environmental measures	pcs	11	4

ENVIRONMENTAL IMPACT

GRI 305-1, GRI 103-1,2,3 as regards 'Emissions'

Direct greenhouse gas emissions

The companies of the Capital Group strive to limit the impact on the environment by creating low emission industry, within an active response to climate change and effective use of resources. When analysing the environmental impact of the Capital Group companies, we pay particular attention to air emissions of gases and dust, especially of carbon dioxide, as air emissions are sources of direct environmental impact. Total greenhouse gas emissions are low due to the nature of in-house processes and thermal efficiency of devices. The Capital Group companies are not subject to the EU Emissions Trading System. The greenhouse gas emitted by the systems at the EPS, the ASS and the FPS is carbon dioxide. The emitted carbon dioxide originates from the combustion of natural gas in boilers, radiators, thermal oxidisers, heaters and industrial furnaces.

Segment	EMISSION TYPE	Unit	2018	2019
EPS	Greenhouse gas emissions	Mg p.a.	16,835	16,060
FPS	Greenhouse gas emissions	Mg p.a.	6,196	5,486
ASS	Greenhouse gas emissions	Mg p.a.	4,306	4,343

GRI 305-7

As part of their environmental impact audits, the Group companies periodically measure emissions from the systems. The measurements taken as part of the monitoring process prove compliance with the standards specified in permits and licences. The total emissions level is well below the allowed limits. Apart from carbon dioxide, the EPS emits sulphur dioxide, nitrogen oxides, carbon monoxide, dust and small amounts of inorganic compounds to air. The source of emission is the process of natural gas combustion and chemical treatment of aluminium elements. The main pollutants emitted by the ASS include sulphur dioxide, nitrogen oxides, carbon monoxide, dust, sulphuric acid, hydrogen chloride, fluorine, inorganic acids and aliphatic hydrocarbons. The sources of gases and dust emission include the process of natural gas combustion as well as the processes of chemical treatment and machining of metals. Apart from the above, the FPS companies emit volatile organic compounds (VOC) and ozone to air. The sources of emission include the process of packaging printing and lamination as well as natural gas combustion in boilers and thermal oxidisers used in VOCs emission reduction.

NO_x, SO_x and other significant air emissions by compound type and weight

Segment	EMISSION TYPE	Unit	2018	2019
EPS	Total dust	Mg p.a.	1.76	1.63
EPS	SO ₂	Mg p.a.	1.94	1.69
EPS	NO ₂	Mg p.a.	12.60	14.47
EPS	CO	Mg p.a.	6.68	7.05
EPS	Fluorine	Mg p.a.	0.12	0.14
EPS	Chlorine	Mg p.a.	0.00	0.00
EPS	Inorganic acids	Mg p.a.	2.88	1.41
EPS	Metal hydroxides	Mg p.a.	1.99	1.75
FPS	Total dust	Mg p.a.	0.00	0.00
FPS	SO ₂	Mg p.a.	0.00	0.07
FPS	NO ₂	Mg p.a.	5.40	4.77
FPS	CO	Mg p.a.	0.80	0.67
FPS	VOCs	Mg p.a.	89.30	85.82
FPS	Ozone	Mg p.a.	3.60	5.15
ASS	Total dust	Mg p.a.	3.11	2.76
ASS	SO ₂	Mg p.a.	0.16	0.17

ASS	NO ₂	Mg p.a.	10.72	10.00
ASS	CO	Mg p.a.	0.81	0.84
ASS	Inorganic acids	Mg p.a.	15.07	12.85
ASS	Halogens	Mg p.a.	2.05	1.80
ASS	Hydrogen chloride,	Mg p.a.	5.92	5.16
ASS	Aliphatic hydrocarbons	Mg p.a.	1.16	1.30
ASS	Aromatic hydrocarbons	Mg p.a.	0.06	0.08
ASS	Methyl chloride	Mg p.a.	1.02	2.60
ASS	Methyl ethyl ketone	Mg p.a.	0.60	0.66
ASS	Acetone	Mg p.a.	0.34	0.51

In the calculation of the particular types of pollutants emission indicators were used, as determined on the basis of the actual emission measurements in relation to the actual production volume. As regards gas combustion sources, emission indicators prepared for the National Centre for Emissions Management (KOBiZE) were used.

GRI 301-1, GRI 103-1,2,3 as regards 'Materials'

Materials consumption

Below reported is the total weight of basic materials used in the production processes. In each area of our operations, we focus on the effective consumption of raw materials and compliance with the binding standards. We take actions aimed at cooperation with those suppliers who are guided by the sustainable development idea. As regards our products, we apply a product life cycle approach, focusing on the search for new ecological applications. In that area, we conduct our own research and collaborate with scientific centres and institutions. Due to the specific nature of the Group production segments, the list of raw and other materials consumed is very diverse.

The major raw materials used by the EPS include aluminium, alloy components, and aluminium scrap. From them, the Segment manufactures aluminium ingots, which are the input material for the profiles extrusion process. The remelting process uses aluminium scrap originating from the plant and purchased from the market. The materials supplied to the plant are checked for contaminants. In this year's report the total quantity of scrap used has been presented, which means the scrap purchased from the market as well as the scrap from own production.

The characteristic materials used in the ASS production processes include: aluminium, steel, zinc alloy, chemical products for the treatment of aluminium and zinc electroplating of components, glass, separators, plastic pellets and powder coatings. These materials are used by the plants to manufacture window and door systems, façade systems, roller shutter profiles and boxes, roller-shutters, gates and accessories for PVC, wood and aluminium joinery.

The main raw materials used by the FPS include: granulated plastic (PP, PE, PA, EVOH, etc.), aluminium foils, paper, plastic films (OPP, PET, PE, PVC, PA, EVOH, etc.), paints, lacquers, adhesives and solvents. These materials are used to manufacture multi-layer plastic films, including high-barrier films, single- and multi-layer flexible laminates, including printed or coated ones. Prior to their purchase raw materials are approved for compliance with the requirements of the Food Law.

Raw materials are checked in compliance with the requirements of the ISO 9001 and ISO 14001 standards, to ensure safety of the manufacturing processes and to reduce emissions to the minimum. The Group companies have their own facilities and systems to conduct tests and checks.

Materials consumption by type and weight

Segment	Specification	Unit	2018	2019
EPS	Aluminium	Mg	17,417	13,765
EPS	Alloy components	Mg	616	467
EPS	Master alloys	Mg	898	938
EPS	Aluminium scrap	Mg	29,541	28,775
EPS	Aluminium ingots (import)	Mg	57,189	63,011
FPS	Paints, lacquers, adhesives	Mg	7,921	7,617
FPS	Aluminium foil	Mg	3,988	4,288
FPS	PP, PET, PVC films	Mg	4,479	4,410
FPS	Plastic granulates	Mg	46,053	51,080
FPS	Paper	Mg	9,743	10,138

ASS	Aluminium profiles	Mg	31,228	32,260
ASS	Powder coatings	Mg	953	1,014
ASS	Plastic granulates	Mg	1,412	1,335
ASS	Chemical substances	Mg	1,154	1,316
ASS	Glass	Mg	1,107	848
ASS	Steel	Mg	2,213	2,243
ASS	Zinc alloys	Mg	287	196
ASS	Separators	Mg	1,760	1,865

GRI 301-2

The EPS has in place an aluminium recovery process. There is a high share of secondary raw materials in the final production. The EPS recycles aluminium waste produced at the Capital Group facilities and also obtains and processes waste from the market. The waste is applied as a component material in the production of new elements extruded from aluminium and aluminium alloys. The plant selectively collects the particular grades of alloys and, as a result, it does not apply in the remelting process any fluxing agents that are harmful to the environment. The Company acquires both post-consumer aluminium waste (originating from end users) and pre-consumer aluminium waste (waste from manufacturing processes). This process is subject to strict requirements regarding the quality of the purchased scrap. As a result, there is no contaminated aluminium in the remelting process and no hazardous substances which could pose a risk to the environment are emitted to air. Thanks to aluminium recycling, the quantity of energy consumed is significantly reduced compared to the production of aluminium from bauxite ores, which also refers to air and water pollution. In 2019, engaging in sustainable development and transformation towards closed-circuit economy, we implemented a series of actions aimed at the utilisation in our system solutions of aluminium with the highest possible content of recycled material. We have streamlined the turnover of aluminium scrap in the press shops operating within the Capital Group and we have collected additional raw material from our customers. We have implemented selective scrap collection for the respective grades. Moreover, we have optimised the process of metal melting and refining. This has contributed to higher share of materials from recycling in the profiles produced with own ingots, to the level exceeding 70%. We have concentrated, first of all, on engineering scrap (PRE-consumer). In the coming years, we plan to modernise the melting and casting line in order to increase the share of POST-consumer scrap.

Segment	Specification	Unit	2018	2019
EPS	POST-consumer aluminium scrap recycling	%	4.3	2.7
EPS	PRE-consumer aluminium scrap recycling	%	19.6	23.5
EPS	Own aluminium scrap recycling	%	41.7	47.2
EPS	Recycled materials used in the process	%	65.6	73.4

GRI 302-1; GRI 103 – 1,2,3 as regards ‘Energy’

Energy efficiency

At the Grupa Kęty S.A. Capital Group, energy efficiency of production systems is a priority. In order to ensure energy efficiency, the Company has implemented a special system of technical and organisational solutions in accordance with the ISO 14001 and ISO 50001 standards. The business units of the Company must report their actual energy consumption, and – when planned volumes are exceeded – the situation cause analysis is carried out. Consumption monitoring involves measurements at utilities supply and distribution points. The readings form basis for the costs allocation to the particular sources of their origin. Utilities consumption is measured using a dedicated computer system which ensures real-time control of all utilities processing devices. Data concerning their operation are transmitted to the central management point, which ensures immediate response to or correction of any deviations. In addition, as part of the ISO 14001:2015 system, the Group has implemented the utilities saving programme and performs energy efficiency audits. Electricity is used, for example, to power production and auxiliary devices and also to illuminate halls and rooms. The energy from the combustion of natural gas is used mainly in heat treatment processes, e.g. in aluminium remelting, extrusion and drawing, anodising and powder coating processes, and to heat rooms. Moreover, we support ‘Green Building’ by developing the so called ‘green products data sheets’ for the purposes of LEED and BREEAM certification. The data sheets for the EPS profiles and the ASS systems comprise information essential for the LEED and BREEAM certification processes.

The actions implemented have contributed to higher effectiveness in using the sources of energy. As regards the EPS, a major decrease in electric energy consumption per production unit results from the liquidation of an obsolete press line for extruding aluminium profiles and its replacement with a new, energy-efficient one furnished with a gas furnace for heat treatment. Moreover, in many buildings old type lights have been replaced with LED ones.

At the ASS, lower natural gas consumption resulted from many actions, specifically replacement of window and door joinery in the plant building, modernisation of the plant boiler room (replacement of boilers with condensing ones). At the same time electric energy consumption has been limited through light replacement, installation of movement sensors in production halls, and replacement of compressors, among other things.

Also at the FPS many actions have been implemented, which brought about higher energy efficiency. Apart from the aforesaid actions, catalytic afterburners have been modernised, air-conditioning operation at the halls has been optimised, obsolete compressors have been replaced with ones of higher efficiency. Lower gas consumption was achieved, for example, by way of modernisation of afterburners and air handling units, as well as optimisation of gas heaters. A spectacular effect was achieved as regards heat consumption. Over 8% decrease was possible thanks to the implemented monitoring system and switch-offs at the exit from the rooms (lower temperature during employee absence), plus optimised operation of air handling units.

Energy consumption by main energy sources

Segment	Specification	Unit	2018	2019
EPS	Electricity	GJ	296,843	279,481
EPS	Natural gas	GJ	314,824	322,611
EPS	Electricity consumption per production unit	GJ/Mg	2.42	2.31
EPS	Gas consumption per production unit	GJ/Mg	2.57	2.67
EPS	Heat	GJ	50,470	47,152
EPS	Heat per production unit	GJ/Mg	0.50	0.47
FPS	Electricity	GJ	199,480	209,640
FPS	Natural gas	GJ	125,822	109,838
FPS	Electricity consumption per production unit	GJ/Mg	3.11	2.98
FPS	Gas consumption per production unit	GJ/Mg	1.96	1.56
FPS	Heat	GJ	31,089	20,303
FPS	Heat per production unit	GJ/Mg	0.48	0.29
ASS	Electricity	GJ	67,383	73,981
ASS	Natural gas	GJ	83,029	80,269
ASS	Electricity consumption per production unit	GJ/Mg	1.54	1.51
ASS	Gas consumption per production unit	GJ/Mg	1.90	1.64
ASS	Heat	GJ	19,030	17,528
ASS	Heat per production unit	GJ/Mg	0.43	0.36

GRI 303-1, GRI 103 – 1,2,3 as regards 'Water'

Water consumption

At the Group, only Grupa KĘTY S.A. withdraws water from its own water intakes, i.e. from a well and from ground drainage at the plant. The well is a source of drinking water for the plant and for the employee amenities. In addition, the water is used for fire safety purposes. Water for the production processes originates mainly from ground drainage at the plant. Water resources are used pursuant to the permit required under the Water Law and the integrated permit. Analyses of the impact of water withdrawal on the environment confirm that the respective activities do not significantly affect the availability of water resources or functioning of protected areas. The quantity of water withdrawn is kept well below the prescribed limits. The ASS and the FPS do not have their own water intakes. Water is purchased from third-party suppliers on the basis of appropriate agreements. Water at the ASS is used for employee amenities and for production purposes in the process of chemical treatment of aluminium profiles prior to powder coating. At the FPS, due to the nature of its production process, water is used mainly for employee amenities and fire safety purposes. Only at Alupol Films, first reported in 2017, water is also used at the chemical treatment of printing cylinders line and in the BOPP film production system.

Segment	WATER SOURCE	Unit	2018	2019
EPS	Own – ground water	m ³	249,869	257,747
EPS	Own – ground drainage	m ³	378,892	360,078
EPS	Municipal system	m ³	6,016	6,273

FPS	Municipal system	m ³	22,500	29,100
ASS	Municipal system	m ³	107,205	116,816

GRI 303-3

With regard to the nature of production, water reuse refers to the EPS and the FPS. The aim is to increase to the maximum the percentage of recycled water in the total volume of water used in production processes and, thus, to reduce the use of the environment. The effect is achieved by applying closed-circuit cooling within the thermal processes related to aluminium melting and processing. A closed-circuit system allows for substantial savings in terms of water consumption. Only for the purpose of maintaining the proper quality of products, some of the water is discharged periodically and supplemented with fresh water.

Volume of water recycled and reused

Segment	Closed-circuit system	Unit	2018	2019
EPS	Quantity of water in a closed-circuit system	m ³ thousands	3,078	3,294
FPS	Quantity of water in a closed-circuit system	m ³ thousands	12,099	12,617

GRI 306-1, GRI 103-1,2,3 as regards 'Effluents and Waste'

Among all the Group companies, only Grupa Kęty S.A. (EPS) discharges treated industrial effluent directly to the environment. After in-house treatment, wastewater is discharged to the Soła River. Wastewater from the chemical treatment of aluminium elements is first neutralised in pre-treatment systems designed specifically for that purpose. The Company possesses permits required under the Water Law and limits are fully observed. Impact reduction was possible due to the installation of separate neutralisation stations within those systems in which wastewater is produced, installation of meters at wastewater discharge points and application of a number of technical and organisational solutions that ensure the appropriate quality of produced wastewater, such as a multi-stage washing process, microprocessor-based control of reagents dosing, bath recovery equipment, mutual neutralisation of acidic and alkaline wastewater or reuse of leachate in the neutralisation process. Reduced quantity of neutralised wastewater from the aluminium treatment being discharged was possible thanks to the implementation of in-house utilisation of some of the post-etching bath water.

At the ASS, wastewater is discharged directly to the environment by ROMB S.A. Wastewater from the electroplating shop and from the processes of steel and aluminium elements cleaning is discharged, after treatment, to the Głomia River. At ALUPROF S.A. plants in Bielsko-Biała and Opole, industrial effluent is discharged to the sewage systems of third-party companies, after pre-treatment at in-house neutralisation stations. At the Golezów plant, industrial effluent it is discharged to a retention basin and afterwards collected by a specialised company with a proper licence. The companies hold permits required under the Water Law and ensure an adequate level of purity. Wastewater quality is monitored and the limits provided for in the permits are adhered to. Plants have signed wastewater collection agreements with specialised companies.

The FPS companies discharge wastewater to the sewage systems of specialised companies. Industrial effluent from the electroplating processes, after treatment at the in-house neutralisation station, is discharged to the sewage system on the basis of agreements and water permits possessed.

Segment	Specification	Unit	2017	2018
EPS	To public sewage system	m ³ thousands p.a.	29	26
EPS	To surface waters	m ³ thousands p.a.	679	749
	including:			
EPS	effluent from the chemical treatment of aluminium	m ³ thousands p.a.	517	477
FPS	To public sewage system	m ³ thousands p.a.	23	29
ASS	To public sewage system	m ³ thousands p.a.	68	77
ASS	including effluent from the chemical treatment	m ³ thousands p.a.	48	58
ASS	To surface waters	m ³ thousands p.a.	38	35
ASS	including effluent from the chemical treatment	m ³ thousands p.a.	29	26

Waste management

Waste produced by the Capital Group is managed in accordance with the EU and Polish regulations, ensuring safety for the environment. Waste is collected selectively. Waste storage areas are separated from the ground, and waste is kept in special hermetic containers. The Company keeps quantitative and qualitative waste records. An advanced computer system is used to monitor waste management. Waste which is not managed in-house is handed over to companies with the required licences. Waste management processes are monitored within the implemented environmental management system, in accordance with the ISO 14001 standard.

Aluminium scrap and melting loss are typical waste produced by the EPS. Aluminium waste is a valuable material for the production of aluminium profiles. For that reason, the Group recycles it and, as a result, aluminium scrap is transformed into direct input material. The Company manages 100% of aluminium waste produced at the plant, and also collects and processes waste from the market. The main waste produced by the ASS includes waste from aluminium processing, sludge from sewage treatment plants and waste coating powders. Characteristic waste produced during the packaging manufacturing at the FPS includes waste in the form of multi-material laminates, paper, plastics, waste paints, lacquers and adhesives.

Produced waste and waste management

Segment	Specification	Unit	2018	2019
EPS	Produced hazardous waste	Mg	4,619	3,768
EPS	Produced non-hazardous waste	Mg	33,455	33,162
EPS	Total produced waste	Mg	38,074	36,931
EPS	Waste produced per production unit	Mg/Mg	0.31	0.31
EPS	Waste recovered	Mg	38,057	36,910
EPS	Neutralised waste	Mg	16	21
FPS	Produced hazardous waste	Mg	2,061	1,820
FPS	Produced non-hazardous waste	Mg	7,983	8,375
FPS	Total produced waste	Mg	10,044	10,195
FPS	Waste produced per production unit	Mg/Mg	0.59	0.54
FPS	Waste recovered	Mg	9,897	9,960
FPS	Neutralised waste	Mg	148	152
ASS	Produced hazardous waste	Mg	527	832
ASS	Produced non-hazardous waste	Mg	3,924	3,943
ASS	Total produced waste	Mg	4,452	4,775
ASS	Waste produced per production unit	Mg/Mg	0.10	0.10
ASS	Waste recovered	Mg	4,093	4,207
ASS	Neutralised waste	Mg	359	568

GRI 307-1, GRI 103-1,2,3 as regards 'Environmental Compliance'

Environmental compliance

The Group companies comply with all applicable laws and regulations. The results of audits performed in 2019 by the Environmental Protection Inspectorate and by independent auditors from accredited supervision units as part of the ISO 14001 system confirmed the compliance.

The environment quality measurements and analyses carried out by the companies are an additional confirmation of compliance with the standards. For the emission of pollutants to the environment, the plants pay regularly and timely any charges required by law and file reports to the respective offices. In 2019, none of the companies paid any fines for non-compliance with the environmental laws and regulations.

We have been constantly improving the management of environmental protection, thus achieving growingly better results. The key companies of the production segments possess certified Integrated Management Systems, including environmental systems in accordance with the ISO 14001 standard. Moreover, there is an efficient integrated system based on the ISO 9001 and OHSAS 18001 standards. In accordance with the requirements, the companies calculate and timely pay the fees on account of the use of the environment.

Segment	Specification	Unit	2018	2019
EPS	Air emissions charges	PLN	27,217	26,657
EPS	Water withdrawal charges	PLN	166,414	146,555
EPS	Wastewater charges	PLN	172,250	47,857
EPS	Total environmental charges	PLN	365,881	221,069
FPS	Air emissions charges	PLN	125,896	120,899
ASS	Air emissions charges	PLN	52,486	47,874
ASS	Wastewater charges	PLN	1,927	2,012
ASS	Total environmental charges	PLN	54,413	49,886

GRI 103-2

Environmental protection spending

The KĘTY Capital Group companies keep complete records of environmental protection costs. ‘Green accounting’ is a model of allocating environmental costs within corporate accounting, which enables the assessment of the costs structure and changes over time. The sources of data for the financial evaluation of environmental activities are as follows: expenditure on eco-investment projects, costs of the maintenance and operation of protection devices, costs of waste disposal and emission purification, legally required environmental charges. The accounting is a tool facilitating the decision-making process in the area of environmental activities, investment projects and organisational measures. The investment priority is to regularly upgrade the machinery and improve the environmental management system, which goes beyond the legal requirements. Moreover, measures have been implemented to reduce the quantity of water withdrawn and wastewater discharged. As a result of the ‘employee suggestions’ programme, the Group has implemented a number of projects to improve the utilities consumption efficiency or reduce emissions. Within the environment management system, there is functioning the ‘Environmental Programme’, which is a schedule of ecological actions for the respective year.

A major growth of the costs of waste management is a result of tightening and extending the legal regulations, which translated into higher prices of waste disposal services. The influence is particularly visible at the EPS and the ASS owing to large quantities of waste generated in the form of post-neutralisation sediment, which requires disposal.

Segment	Specification	Unit	2018	2019
EPS	Total environmental costs	PLN	7,295,166	7,277,992
EPS	Protection of ambient air and climate	PLN	876,700	956,975
EPS	Wastewater management	PLN	3,588,222	3,354,239
EPS	Waste management	PLN	901,209	1,430,671
EPS	Protection of soil as well as surface and underground water	PLN	1,679,183	1,493,043
EPS	Other environmental costs	PLN	249,852	43,064
FPS	Total environmental costs	PLN	2,936,290	2,954,165
FPS	Protection of ambient air and climate	PLN	1,086,240	969,624
FPS	Wastewater management	PLN	332,135	351,037
FPS	Waste management	PLN	1,187,262	1,386,016
FPS	Protection of soil as well as surface and underground water	PLN	9,949	3,033
FPS	Other environmental costs	PLN	282,854	151,813
ASS	Total environmental costs	PLN	3,736,811	3,081,698
ASS	Protection of ambient air and climate	PLN	191,973	364,493
ASS	Wastewater management	PLN	2,541,032	989,596
ASS	Waste management	PLN	708,927	1,547,577
ASS	Protection of soil as well as surface and underground water	PLN	12,652	16,636
ASS	Other environmental costs	PLN	281,526	163,397

Environmental impact grievances

In 2019, one complaint of a resident was recorded in relation to the noise impact of the Aluprof S.A. plant in Opole (ASS). The plant introduced corrective actions in order to eliminate the negative impact. None of the other Capital Group companies received any complaints in relation to the use of the environment. Environmental audit authorities did not have any reservations either, which confirms that the companies impact is under control. The open information policy implemented by the Company, including the publication of annual environmental reports, helped to increase the stakeholders' awareness of the nature and extent of the Company impact on the environment.

9.8. GRI indicators table

INDICATOR AND ITS DESCRIPTION	PAGE NUMBER IN THE MANAGEMENT BOARD REPORT	GLOBAL COMPACT PRINCIPLES	PN-ISO 26000 KEY AREAS	SIN
STRATEGY AND ANALYSIS				
102-14 CEO or equivalent senior position statement on the relevance of sustainability to the organisation and the organisation's strategy	4-5; 36-37			
102-15 Description of key impacts, risks, and opportunities	32-35; 60-61			G.3.1; G.3.2
ORGANISATIONAL PROFILE				
102-1 Name of the organisation	6			
102-2 Primary brands, products, and services	6; 10-12			
102-3 Location of the organisation's headquarters	6			
102-4 Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	6; 10-12; 32-33			
102-5 The nature of ownership and legal form	6, 62			
102-6 Markets served, including geographic breakdown, sectors served, and types of customers and beneficiaries	6; 10-12; 32-33			
102-7 Scale of the organisation	6; 9-12; 17-27			
102-8 Total number of employees and workforce by employment type, employment contract type, region, and gender	42-43	Principle 1		S.2.1
102-41 Percentage of total employees covered by collective bargaining agreements	44			
102-9 Description of the organisation's supply/value chain	10-11			
102-10 Any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	9; 35-36; 62			
102-11 Report whether and how the precautionary approach or principle is addressed by the organisation	48	Principle 8		
102-12 Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	36-37			G.2.2
102-13 Memberships of associations (such as industry associations) and/or national or international advocacy organisations	36-37			
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
102-45 The organisational structure of the organisation, including main departments, subsidiaries, related parties and joint ventures, indicating which of them are not covered by the report	9-10			
102-46 Process for defining the report content and the aspect boundaries. The implementation of the reporting principles for defining the report content	35-36			
102-47 All the material aspects identified in the process for defining the report content	35-36			
103-1 Aspect boundary within the organisation for each material aspect	35-36			
103-1 Aspect boundary outside the organisation for each material aspect	35-36			
102-48 Effect of any restatements of information provided in previous reports, and the reasons for such restatements	35-36			
102-49 Significant changes from previous reporting periods in the scope and aspect boundaries	35-36			
STAKEHOLDER ENGAGEMENT				

102-40 A list of stakeholder groups engaged by the organisation	37-38			
102-42 Basis for identification and selection of stakeholders with whom to engage	37-38			
102-43 Organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	37-38			
102-44 Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded, including through its reporting, indicating the stakeholder groups that raised each of the key topics and concerns	37-38			
REPORT PROFILE				
102-50 Reporting period	35-36			
102-51 Date of most recent previous report	35-36			
102-52 Reporting cycle	35-36			
102-53 Contact point	35-36			
102-54	35-36			
a) Reporting option the organisation has chosen	35-36			
b) Table indicating the place of standard information in the report	56-59			
c) Reference to the external assurance report, if the report has been externally assured	35-36			
102-55 Organisation's policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, the scope and basis of any external assurance provided and the relationship between the organisation and the assurance providers	35-36			
GOVERNANCE				
102-18 Governance structure of the organisation, including committees of the highest governance body, indicating any committees responsible for decision-making on economic, environmental and social impacts	67-78			
102-19 The process of delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	67-69			
102-26 The highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	36-37; 66-69		Governance	
102-35 The remuneration policies for the highest governance body and senior executives	14-16			
ETHICS AND INTEGRITY				
102-16 Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	39	Principles 1, 2, 3, 5, 7, 8, 10	Fair operating practices Labour practices Human rights	G.4.1; G.4.5; G.4.6; S.3.4;
102-17 The internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines	39			G.4.1; G.4.5; G.4.6; S.3.4;
102-17 The internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	39			G.4.1; G.4.5; G.4.6; S.3.4; S.10.2
ECONOMIC INDICATORS				
Economic performance				
201-1 Direct economic value generated and distributed	26-27			
103-1,2,3 Management approach to the economic performance aspect	26-27			
Procurement practices				
204-1 Proportion of spending on local suppliers at significant locations of operation	10-11			
103-1,2,3 Management approach to the procurement practices aspect	10-11			
ENVIRONMENTAL INDICATORS				
Materials				
301-1 Materials used by weight or volume	50-51			E.1.1

301-2 Percentage of materials used that are recycled input materials	50-51		Environment/ Sustainable use of resources	E.1.1
103-1,2,3 Management approach to the materials aspect	50			
Energy				
302-1 Energy consumption within the organisation, by primary energy sources	51-52			E.2.1
103-1,2,3 Management approach to the energy aspect	51			
Water				
303-1 Total water withdrawal by source	52			E.3.1
303-3 Percentage and total volume of water recycled and reused	52-53		Environment/ Sustainable use of resources	E.3.2
103-1,2,3 Management approach to the water aspect	52			
Emissions				
305-1 Direct greenhouse gas emissions by weight	48-49			E.5.1
305-7 NO _x , SO _x and other significant air emissions by compound type and weight	49			E.5.2
103-1,2,3 Management approach to the emissions aspect	48-49		Environment/ Pollution prevention	
Effluents and waste				
306-1 Total effluent discharge by quality and destination	53			
306-2 Total weight of waste by type and disposal method	53-54			E.6.2
103-1,2,3 Management approach to the effluents and waste aspect	53-54			
Environmental compliance				
307-1 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	54			E.7.4
103-1,2,3 Management approach to the environmental compliance aspect	54			
Overall				
103-2 Total environmental protection expenditures and investments by type	55			
Environmental grievance mechanisms				
103-2 Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	55			E.7.3
SOCIAL INDICATORS				
Labour practices and decent work				
Employment				S.2.2; S.2.3
401-1 Total number and rates of new employee hires and employee turnover by age group, gender, and region	43		Labour practices/ Employment and employment relationships	S.2.15
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	44			
103-1,2,3 Management approach to the employment aspect	39-40	Principle 1		
Labour – Management relations				
402-1 Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	44		Labour practices/ Social dialogue	
Occupational health and safety				
403-9 Rate of injuries	45-46			
403-5 Rate of employee training in OHS	46			
103-1,2,3 Management approach to the OHS aspect	45-46		Labour practices/ Health and safety at work	
Training and education				
404-1 Average hours of training per year per employee by employee category	44-45			
103-1,2,3 Management approach to the training and education aspect	44-45		Labour practices/ Human development and training in the	S.6.2

			workplace	
Diversity and equal opportunity				
405-1 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	13-14; 40-41			S.2.9
103-1,2,3 Management approach to the diversity and equal opportunity aspect	40-41	Principles 1, 6	Human rights/ Discrimination and vulnerable groups	
Equal remuneration for women and men				
405-2 Ratio of basic salary and remuneration of women to men by employee category	40-41	Principles 1, 6		
Labour practices grievance mechanisms				
103-2 Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	39	Principles 2, 6		
103-1,2,3 Management approach to the labour practices grievance mechanisms aspect	39	Principles 2, 6		
Human Rights				
Non-discrimination				
406-1 Total number of incidents of discrimination and corrective actions taken	41-42	Principles 1, 6		
103-1,2,3 Management approach to the non-discrimination aspect	40-41	Principles 1, 6	Human rights/ Discrimination and vulnerable groups Human rights/ Due diligence Human rights/ Fundamental principles and rights at work	
Human rights grievance mechanisms				
103-2 Number of grievances about human rights violation filed, addressed, and resolved through formal grievance mechanisms	39	Principles 2, 6		
103-1,2,3 Management approach to the human rights grievance mechanisms aspect	39	Principles 2, 6		
Impact on the society				
Local communities				
413-1 Percentage of operations with implemented local community engagement, impact assessments, and development programmes	46-47	Principles 1, 8		
103-1,2,3 Management approach to the local communities aspect.	46-47	Principles 1, 8	Community involvement and development/ Community involvement/ Education and culture/ Employment creation and skills development	
Anti-Corruption				
205-2 Communication and training on anti-corruption policies and procedures within the organisation	39	Principle 10		
Public policy				
415-1 Total monetary value of financial and in-kind political contributions made by the organisation by country and recipient/beneficiary	39	Principle 10		

10. RISK MANAGEMENT

Basic risks and their impact as well as the measures used to mitigate the particular risks are presented in the table below:

GRI 102-15

Risk	Description	Potential impact	Risk-mitigating measures
Currency risk	The Group companies export products and services and purchase imported materials. In addition, the prices of some sales and purchases made in Poland are tied to foreign exchange rates.	A decline in exchange rates applicable to currencies in which export is made results in lower profitability. An increase in exchange rates of the export currencies results in higher costs of materials.	- 'natural hedge' measures - forward and futures contracts - debt currency structure management
Risk related to rapid changes in the prices of basic materials	Aluminium is the most important material of the Capital Group. Other crucial materials include raw materials for the Flexible Packaging Segment, such as BOPP and PE granulate or plastics.	An increase in the prices of key materials results in lower return on sales of those products for which fixed prices have been established.	- 'natural hedge' measures (pricing formulas) - forward and futures contracts - contracts based on fixed delivery prices
Extraordinary events risk (fire, flood, terrorism, epidemic, military actions, etc.)	The assets and the employees of the company are exposed to a series of events of unforeseeable nature, which are either related to the carried out operations (e.g. fire), or are not related with it at all (e.g. acts of terrorism, acts of war, epidemic).	Loss of property/assets Loss of profit Declining sales	- transfer of a portion of risk to the insurer - diversification of the locations of production plants - investments in fire-fighting systems - training courses in fire safety
Liquidity risk	Liquidity risk may result from the loss of creditworthiness and the associated withdrawal of funding by certain banks, rapid growth in the demand for working capital, for example due to a soar of materials prices, deterioration of the term structure of receivables, etc.	Problems with supplies of basic materials or their higher cost. Higher costs of finance resulting from the need to acquire new sources	- diversification of the sources of funding in terms of entities and products and maintaining liquidity buffers in the event of sudden increases in material prices - transfer of a portion of the trade credit risk to the insurer
Interest rate risk	All major Group companies take advantage of both working capital and investment capital finance. All loan agreements are based on variable rates, therefore, a significant increase in interest rates will adversely affect the costs of finance.	Higher costs of finance	- applying interest rate risk mitigation procedures depending on the level of debt of a particular company
Risk of economic downturn on the main markets	Approximately 58% of consolidated sales are made to the construction industry, which means that a significant economic downturn in that business will adversely affect the Group performance.	Lower sales and thereby lower margins resulting from low level of production capacity utilisation	- geographical diversification (exports growth) - product diversification – sales growth in industries not related to construction (automotive, food)
Risk of losing key employees	The success of the organisation depends on its employees. Therefore, the ability to retain skilled employees on key positions in all corporate areas is important for both current activities and growth prospects.	Higher costs resulting from lower work efficiency of new employees. Additional costs of recruiting and training new employees	- periodic assessment and evaluation of the respective positions and suitable remuneration policy - HR policy, including resource planning, development and training policy, competence management system
Reputational risk and the risk of claims related to the quality of the manufactured products	The Group operates in market segments characterised with high requirements regarding the quality and safety of products, including automotive and construction industries.	Loss of a portion of sales Costs of product withdrawal/recall Fines and compensations due to death or health deterioration, or production downtimes at the customers	- product quality assurance procedures - insurance procedures, including product liability insurance, product withdrawal/recall insurance - verification of insurance policies of key suppliers
Non-compliance risk	The legal environment of the Company related to the Company business and operation on the capital market is subject to major changes, which brings about a risk of the possible failure to apply legal changes in the operations of the Company.	Legal sanctions, including fines Damaged reputation	- internal procedures, including internal control and internal audit

<p>Risk of water deficit for production purposes</p>	<p>The risk of insufficient quantity of water to run business may result from lowering of the level of ground water as a result of drought, as well as rationing of water resources.</p>	<p>Lack of access to sufficient quantities of water may result in the loss of production capacity (loss of orders), increased costs of machinery and plant operation or their damage. This may also result in higher costs related to the necessity of adjusting the labour organisation.</p>	<ul style="list-style-type: none"> - testing of water intake capacity and the quality of the water - formal supervision procedure over water management - supervision and monitoring of the areas of water intake - setting out of protective zones around water intakes - adjustment of the technology as well as machinery and plant to low energy and water consumption - amendment of agreements with utilities suppliers
<p>Risk of direct and indirect emission of greenhouse gases and legal changes related to emission levels</p>	<p>The operation of the Kęty Capital Group companies is related to a significant demand for electric energy and energy-intensive products. The necessity to change the source of energy used in the process of aluminium melting and heat treatment (natural gas) may result in higher costs of purchase owing to the use of mainly purchased heat originating from fossil fuels.</p>	<p>Inclusion in the European Emissions Trading System (EU ETS) may result in the costs of adjusting systems or purchasing CO₂ emission allowances on the market (lower production profitability). Administrative decisions limiting the scope of production. Reputation risk</p>	<ul style="list-style-type: none"> - control of emissions and optimisation of natural gas burning processes - implemented formal procedures of supervision of the greenhouse gases emission aspects - supervision and monitoring of the Capital Group emission sources - periodical tests of emission to air
<p>Risk of emission to water, soil and air of any pollutants originating from the infrastructure, production and warehouse processes, or hazardous waste management.</p>	<p>In the production process of the Group companies there are used hazardous substances and mixtures, which generates the risk of uncontrolled spill.</p>	<p>Administrative penalties. Order to stop the production process. Reputation risk</p>	<ul style="list-style-type: none"> - supervision of the legal requirements regarding failure prevention, or hazardous substances management - training in EHS and fire-safety in accordance with the schedule - supervision of infrastructure, particularly as regards the maintenance of systems efficiency: utilities, including air conditioning; machines and plant using hazardous substances - correct identification of environmental aspects and the principles of operational control. Current identification and assessment of the conditions of applying and approving for use of hazardous substances and mixtures - preparing of workstations, machines, equipment and infrastructure in a manner which limits the possibility of a failure to the maximum - maintaining equipment and employees in permanent readiness to react to emergency situations - determination and implementation of the principles of acting in crisis situations

Details concerning risk management are presented in note 37 to the consolidated financial statements of the Grupa Kęty S.A. Capital Group for 2019.

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

GRI 102-5, GRI 102-10

SHARES AND SHAREHOLDERS

The Company shares have been quoted on Warsaw Stock Exchange since 16 January 1996. At present, the shares are quoted as part of the mWIG40 index. As at 31 December 2019, there were the total of 9,569,947 shares of Grupa Kęty S.A. issued, of the nominal value of PLN 2.50 each. The list of shareholders with more than 5% of shares as at 31 December 2019 and 31 December 2018 is as follows:

	Number of shares as at 31.12.2019	Percentage of capital	Number of shares as at 31.12.2018	Percentage of capital
Nationale Nederlanden OFE	1,829,832	19.12%	1,836,002	19.23%
OFE AVIVA Santander	1,735,302	18.13%	1,762,985	18.47%
OFE PZU ZŁOTA JESIEŃ	943,654	9.86%	946,571	9.92%
AEGON PTE	694,474	7.26%	688,823	7.22%
MetLife OFE	534,584	5.58%	509,873	5.34%
PTE Allianz Polska	489,576	5.12%	491,227	5.15%
Others	3,342,525	34.93%	3,309,966	34.68%
Total	9,569,947	100.00%	9,545,447	100.00%

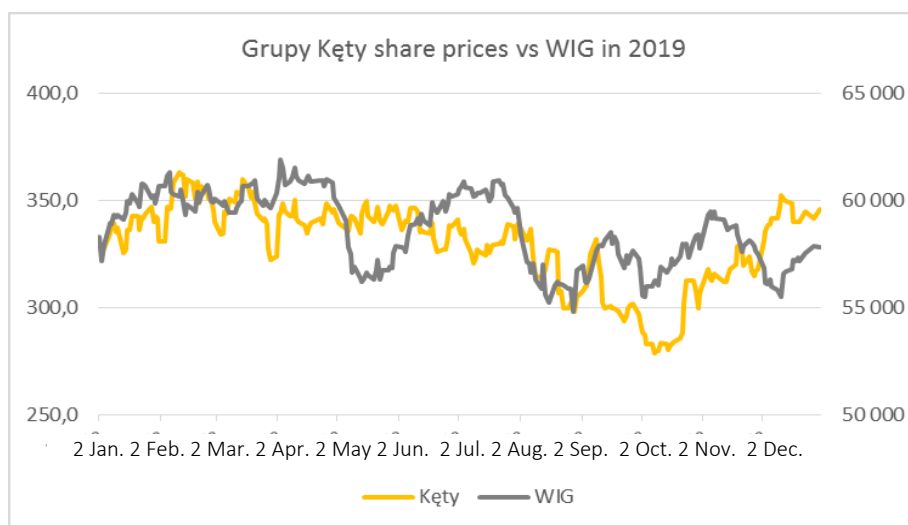
After the balance-sheet date, there were no material changes in the structure of shareholders with more than 5% of shares represented at the Company General Meeting. Furthermore, the Management Board did not have any information about any agreement, including any agreement concluded after the balance-sheet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

On 13 March, the Management Board of the Central Securities Depository of Poland made a decision on conditional registration of 10,500 G series shares and 1,350 H series shares, for which the persons entitled to acquire them within the incentive plan run by the Company subscribed in January 2020. The registration condition is the shares admission to trading on the regulated market of the Warsaw Stock Exchange.

SHARE QUOTATIONS AT THE WARSAW STOCK EXCHANGE

In 2019 (on the basis of closing prices):

- the average share price amounted to PLN 330 (drop by 8% as compared to the previous year);
- the lowest price amounted to PLN 279 (on 8 October) and the highest price equalled PLN 363.50 (on 11 February);
- the price change throughout the year (between 31 December 2018 and 31 December 2019) equalled +5%;
- in the same period, the WIG and mWIG40 index remained at the level similar to that of the end of 2018;
- the average turnover per session amounted to PLN 0.6 million as compared to PLN 1.4 million in 2018.



COMMUNICATION WITH THE CAPITAL MARKET PARTICIPANTS

The information policy of Grupa Kęty S.A. is based on open relations with the existing and potential shareholders with due observance of the fundamental principles governing equal access to information. The Company communicates through:

- a) current and interim reports,
- b) face-to-face individual and group meetings,
- c) electronic tools (corporate website, profiles in social media, online broadcasts of corporate events).

As part of current reporting, the Company announces annual financial projections for a given year and objectives of long-term strategies. In addition, it is the only company which discloses preliminary results forecasts for a given quarter one month prior to the publication of the official quarterly statements. Information about the Company and its prospects is also available in reports and recommendations published by leading brokerage houses. The list of analysts who regularly publish reports about the Company is available on the corporate website at: <http://www.grupakety.com/pl/36,analitcy.html>.

DIVIDEND POLICY

Since 2001, the Company has paid dividend on a regular basis. Until 2014, it had been at the level of approximately 40% of consolidated net profit. In the strategy for the years 2015–2020 announced in 2015, the Management Board of Grupa Kęty S.A. declared that the dividend payment ratio would be raised 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 the ‘Strategy 2020’. The Management Board has assumed that the payment of dividend during the implementation period of the ‘Strategy 2020’ will amount to the average of 80% of Grupa Kęty S.A. consolidated net profit. When determining the recommended dividend, the Management Board will take into account, among other things:

- the Capital Group net debt to consolidated EBITDA ratio calculated as at the last balance-sheet date of the previous financial year with the maximum level of 2.0;
- time shifts applicable to the dividends receivable from the subsidiaries, which affect the maximum level of the recommended dividend;
- the value of potential and feasible acquisitions;
- the value of actual capital expenditure to be incurred in the year of dividend payment.

12. CORPORATE GOVERNANCE STATEMENT

1) A collection of corporate governance principles and scope of their application

In 2019, Grupa Kęty S.A. complied with a collection of corporate governance principles annexed to the Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Board dated 13 October 2015 – the ‘Best Practice for GPW Listed Companies 2016’ (hereinafter referred to as the ‘Best Practice’).

The collection of corporate governance principles is available on the Warsaw Stock Exchange Website at: <https://www.gpw.pl/dobre-praktyki>, and on the Website of Grupa Kęty S.A. at: www.grupakety.com/pl/11,lad-korporacyjny.html.

The information on Grupa Kęty S.A. compliance with the recommendation and principles provided for in the ‘Best Practice 2016’ is available on the Website of Grupa Kęty S.A. at: www.grupakety.com/pl/11,lad-korporacyjny.html.

In 2019, Grupa Kęty S.A. complied with all of the principles and recommendations provided for in the ‘Best Practice’ collection, except for Recommendation IV.R.2, which has not been fully complied with:

Recommendation IV.R.2: *If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:*

- 1) *live broadcast of the general meeting;*
- 2) *real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;*
- 3) *exercise of the right to vote during a general meeting either in person or through a plenipotentiary.*

Grupa Kęty S.A. provides live broadcasts of its general meetings in accordance with clause 1 of the recommendation and displays the respective recordings on the Company Website at: www.grupakety.com/pl/77.transmisje.html.

At the same time, clauses 2 and 3 of the recommendation have not been fulfilled due to the shareholding structure, the absence of any shareholder notifications regarding their expectations as to conducting the general meetings with the use of electronic communications means, and no possibility to provide technical infrastructure necessary for the general meetings to proceed efficiently using electronic communication means and to ensure proper security of electronic communications during the general meetings of Grupa Kęty S.A.

In the event of a change in the actual or legal circumstances or the expectations of shareholders in that regard, the Company does not exclude the possibility of full compliance with the recommendation.

2) Major shareholders

The shares of Grupa Kęty S.A. have been quoted on Warsaw Stock Exchange since 16 January 1996. As at 31 December 2019, there were the total of 9,569,947 shares of Grupa Kęty S.A. issued, of the nominal value of PLN 2.50 each. As at the date of this document publication the Company shares were quoted as part of the mWIG40 index.

A list of the Company major shareholders with over 5% share in the total number of votes at the AGM as at 31 December 2019 and 31 December 2017 is presented in the table below*:

	Number of shares/ votes as at 31.12.2019	Percentage of capital/ share in the total number of votes at the General Meeting	Number of shares/ votes as at 31.12.2018	Percentage of capital/ share in the total number of votes at the General Meeting
Nationale Nederlanden OFE	1,829,832	19.12%	1,836,002	19.23%
OFE AVIVA Santander	1,735,302	18.13%	1,762,985	18.47%
OFE PZU ZŁOTA JESIEŃ	943,654	9.86%	946,571	9.92%
AEGON PTE	694,474	7.26%	688,823	7.22%
MetLife OFE	534,584	5.58%	509,873	5.34%
PTE Allianz Polska	489,576	5.12%	491,227	5.15%
Others	3,342,525	34.93%	3,309,966	34.68%
Total	9,569,947	100.00%	9,545,447	100.00%

*Balance as at 31 December 2019 (based on the Open Pension Funds [OFE] annual reports)

Management Board

Membership of the Management Board and information on changes introduced

As at 1 January 2019, the Management Board of Grupa Kęty S.A. consisted of:

- Dariusz Mańko – President of the Management Board,
- Adam Piela – Member of the Management Board,
- Piotr Wysocki – Member of the Management Board,
- Tomasz Grela – Member of the Management Board,
- Rafał Lechowicz – Member of the Management Board.

In 2019 the membership of the Company Management Board changed as stated below. On 21 May 2019 Mr Adam Piela filed a declaration on resignation from the function of a member of the Management Board, effective of 31 May 2019. On 7 June 2019 Mr Rafał Lechowicz filed a declaration on resignation from the function of a member of the Management Board, effective of 7 June 2019. On 18 September 2019 the Supervisory Board passed a resolution on appointing Mr Rafał Warpechowski member of the Company Management Board, effective of 1 October 2019.

As at 31 December 2019, the Management Board of Grupa Kęty S.A. consisted of:

- Mr Dariusz Mańko – President of the Management Board,
- Mr Rafał Warpechowski – Member of the Management Board,
- Mr Piotr Wysocki – Member of the Management Board,
- Mr Tomasz Grela – Member of the Management Board.

The division of competencies and responsibility among the particular members of the Company Management Board is presented in the chart below.

President of the Management Board	Member of the Management Board (in charge of financial affairs)	Member of the Management Board (in charge of the Extruded Products Segment)	Member of the Management Board (in charge of the Aluminium Systems Segment)
Dariusz Mańko	Rafał Warpechowski	Piotr Wysocki	Tomasz Grela
Directing the Management Board work	Finance and accounting	Supervision and implementation of all strategic and operational affairs at the Extruded Products Segment	Supervision and implementation of all strategic and operational affairs at the Aluminium Systems Segment
Coordination of the segments operation	Management reporting	Cooperation with other segments	Cooperation with other segments
Sustainable development and corporate social responsibility	IT		
Human resources policy	Risk management policy		
Internal audit	Investor relations		
Legal service	Capital investments and restructuring		
Communication			
Supervision of all strategic and operational affairs at the Flexible Packaging Segment			

Detailed information about the particular members of the Management Board, including their qualifications and experience, is presented on the Company Website at: www.grupakety.com/pl/10,zarzad-i-rada-nadzorcza.html

Competences of the Management Board and information on the method of the Board appointment and operation

The Management Board consists of two to five members, including the President of the Management Board. The President of the Management Board and other members of the Board are appointed and recalled by the Supervisory Board. The term of office of the Management Board members is three years. The Management Board members are appointed for a joint term of office. If the membership of the Management Board no longer complies with the requirements of the Articles, the Supervisory Board shall immediately pass a resolution on changing the membership of the Management Board.

The Management Board runs the affairs of the Company and represents it. The Company is represented by two members of the Management Board or one member of the Management Board jointly with a proxy. Any matters related to running the affairs of the Company, which have not been reserved by the Articles or by law for the General Meeting or the Supervisory Board, fall within the competencies of the Management Board.

The methods of the Management Board operation are determined in detail in the Management Board By-law. The By-law is passed by the Management Board and approved by the Supervisory Board. Acting by the Management Board members as members of the management boards or supervisory boards of companies outside of the Capital Group requires consent of the Supervisory Board.

The resolutions of the Management Board are passed with absolute majority of votes. In the event of an equal number of votes for and against a resolution, decisive is the vote of the President of the Management Board. The following matters require a resolution of the Management Board:

- a) presenting to the General Meeting of the annual report on the Company operation and the financial statements for the previous reporting year along with a motion regarding profit distribution or loss coverage;
- b) presenting motions to the General Meeting in the following matters, along with an opinion of the Supervisory Board:
 - change of the Company's line of business;
 - amendments to the Company Articles of Association;
 - share capital increase or decrease;
 - merger, transformation and demerger of the Company;
 - the Company winding-up and liquidation;
 - issue of bonds;
 - transfer and lease of the enterprise or an organized part thereof and creation of a limited right in property thereon;
 - acquisition or disposal of real estate related to the Company's key business;
- c) convening of ordinary or extraordinary General Meetings:
 - on the Management Board's own initiative;
 - at a written request of the Supervisory Board;
 - at a written request of the shareholders representing at least one tenth of the share capital;
- d) division of duties among the Management Board members;
- e) establishment of the Company organisational regulations and organizational structure;
- f) creation and closure of branches, departments, plants and other separated business units of the Company;
- g) granting and revoking the commercial representation rights as well as appointing and dismissing the Management Board proxies for the particular matters;
- h) determining work regulations for the Company employees and rules applicable to the corporate payroll, awards and bonus systems for the employees;
- i) approving annual and long-term strategies, plans and action schemes, including changes in the directions of the Company's business;
- j) entering into contracts by the Company or performing other legal acts which bind the Company to the amount exceeding 40% of its share capital;
- k) approving disposal and lending for use of property, plant and equipment, except for any cases reserved for the competencies of the General Meeting;
- l) making donations to charities or for social purposes;
- m) making decisions on group redundancies.

The resolutions of the Management Board are also required for other matters put forward by the Management Board members.

The managing persons have no right to decide on the issue or redemption of shares but only to initiate actions in that regard.

In 2019 the Management Board of the Company held 61 meetings.

The principles of the Management Board operation are regulated by the Code of Commercial Companies. The detailed methods of the Management Board operation are determined in the Company Articles and the Management Board By-law, passed by the Management Board and approved by the Supervisory Board, available on the Company Website at: www.grupakety.com/pl/18,dokumenty-spolki.html.

3) Supervisory Board and Supervisory Board Committees

Membership of the Supervisory Board and information on changes introduced

In 2019 there were no changes in the membership of the Company Supervisory Board.

As at 31/12/2019, the Supervisory Board was composed of:

- Mr Szczepan Strublewski – Chairman of the Supervisory Board,
- Mr Paweł Niedziółka – Deputy Chairman of the Supervisory Board,
an independent Member of the Supervisory Board,
- Mr Piotr Kaczmarek – an independent Member of the Supervisory Board,
- Mr Bartosz Kazimierzuk – an independent Member of the Supervisory Board,
- Mr Piotr Stępiak – an independent Member of the Supervisory Board,
- Mr Wojciech Włodarczyk – an independent Member of the Supervisory Board.

Detailed information about the particular members of the Supervisory Board, including their qualifications and experience, is presented on the Company Website at: www.grupakety.com/pl/10,zarzad-i-rada-nadzorcza.html.

Competences of the Supervisory Board and information on the method of the Board appointment and operation

The Supervisory Board is composed of five or six members appointed and dismissed by the General Meeting. The term of office of the Supervisory Board is three years. The Supervisory Board members are appointed for a joint term of office. The General Meeting may dismiss any member of the Supervisory Board at any time. The membership of the Supervisory Board should comply with the legal regulations providing for the requirement of appointing independent members of the Supervisory Board.

The Supervisory Board elects the Chairman, the Deputy Chairman and, if needed, the Secretary of the Supervisory Board from among its members. The Chairman of the Supervisory Board convenes and chairs the Supervisory Board meetings and manages its works. If the Chairman is not able to perform his or her duties or is absent, the Deputy Chairman performs the Chairman's duties.

The Supervisory Board meetings are held at least once in each quarter. The Supervisory Board fulfils its tasks and exercises its rights by passing resolutions at meetings, and through control and advisory activities. The resolutions are passed with a simple majority of votes. In the case of an equal number of votes cast for and against a resolution, the casting vote is exercised by the Supervisory Board Chairman. Resolutions are passed in open voting, except for personnel matters which shall be decided in secret voting. Resolutions may be passed if all Board members have been invited.

The Supervisory Board's responsibilities include in particular:

- 1) evaluation of the Company financial statements and the Management Board reports on the Company operations;
- 2) assessment of the Management Board motions concerning profit distribution or loss coverage;
- 3) submitting written reports on the results of the actions referred to in items 1) and 2) above to the General Meeting;
- 4) submitting assessments regarding the Company standing and other opinions to the General Meeting, particularly in reference to the Company sponsoring and charity activities and fulfilment of disclosure obligations by the Company;
- 5) presenting reports on the Supervisory Board activities to the General Meeting;

- 6) appointing and dismissing the Management Board members and determining the rules of their remuneration;
- 7) suspending the individual or all Management Board members in their duties because of important reasons;
- 8) delegating members of the Supervisory Board to temporarily perform the duties of the Management Board members who are incapable of discharging their duties;
- 9) approval of the Management Board By-law;
- 10) approval of consolidated budgets, Company budgets, and strategy of the Capital Group;
- 11) electing the statutory auditor to audit the Company financial statements;
- 12) determining the value of remuneration of the members of the Supervisory Board delegated to temporarily perform the duties of a Management Board member.

In addition, the Management Board shall obtain the consent of the Supervisory Board before performing any of the following acts:

- 1) disposing of and putting into use the Company assets of the value exceeding PLN 50,000,000 (say: fifty million zlotys), except for disposing of and putting into use any assets for the benefit of the companies of the Capital Group or within the ordinary course of business;
- 2) activities, as a result of which the financial debt limit of the Capital Group will be exceeded jointly for more than PLN 50,000,000 (say: fifty million zlotys) or further increase of the excess level;
- 3) activities, as a result of which the off-balance-sheet debt of the Capital Group will be exceeded jointly for more than PLN 50,000,000 (say: fifty million zlotys) or further increase of the excess level;
- 4) taking out cash liabilities in the value exceeding PLN 1,000,000 (say: one million zlotys), under the agreements on providing advisory services to the Company, except for taking out liabilities under advisory agreements signed with the companies of the Capital Group;
- 5) taking out cash liabilities in the value exceeding PLN 12,500,000 (say: twelve and a half million zlotys), in relation to activities which have not been listed in this § 14.3, except for liabilities provided for in the Company budget and liabilities taken out within the Company ordinary course of business;
- 6) creating and joining companies, an taking up or acquiring interest or shares);
- 7) disposing of the inters or shares vested in the Company of the value exceeding PLN 10,000,000 (say: ten million zlotys), including by encumbering them, except for managing for the benefit of the companies within the Capital Group;
- 8) granting finance by the Company based on lending agreements or other activities of similar nature for the amount exceeding PLN 1,000,000 (say: one million) to companies from outside of the Capital Group, except for the cases specified in the approved Company budget, and except for finance granted within the ordinary course of business;
- 9) exercising the right of vote on shares or interest of the Company in key companies in the matters related to granting a consent for:
 - a) disposing of and putting into use the Company assets of the value exceeding PLN 20.000.000 (say: twenty million zlotys), except for disposing of and putting into use any assets for the benefit of the companies of the Capital Group or within the ordinary course of business of the key company;
 - b) activities, as a result of which the financial debt limit of the Capital Group will be exceeded jointly for more than PLN 50,000,000 (say: fifty million zlotys) or further increase of the excess level;
 - c) activities, as a result of which the off-balance-sheet debt of the Capital Group will be exceeded jointly for more than PLN 50,000,000 (say: fifty million zlotys) or further increase of the excess level;
 - d) creating and joining companies, an taking up or acquiring interest or shares);
 - e) disposing of the interest or shares vested in the Company of the value exceeding PLN 10,000,000 (say: ten million zlotys), including by encumbering them, except for managing for the benefit of the companies within the Capital Group;
- 10) conclusion of an agreement with a member of the Supervisory Board;
- 11) conclusion of a major agreement with a shareholder of the Company who holds at least 5% (say: five percent) of the total number of votes in the General Meeting;
- 12) opening or closing a branch.

In 2019 the Supervisory Board of the Company held 13 meetings.

The principles of the Supervisory Board operation are regulated by the Code of Commercial Companies. The detailed methods of the Supervisory Board operation are determined in the Company Articles and the Supervisory Board By-law, passed by the Supervisory Board, available on the Company Website at: www.grupakety.com/pl/18,dokumenty-spolki.html.

The Supervisory Board is a collective body, however, it has delegated some of its powers to the specific committees described below.

COMMITTEES OF THE SUPERVISORY BOARD

The following committees of the Supervisory Board operate at Grupa Kęty S.A.:

- Audit Committee,
- Nomination and Remuneration Committee.

The committees are appointed to make the current work of the Supervisory Board more efficient by preparing, on a current basis, draft decisions of the Supervisory Board concerning its own motions or the motions submitted by the Management Board for examination. The committee members are appointed by virtue of a resolution passed by the Supervisory Board, from among the Board members, and perform their functions until their resignation has been accepted or until their dismissal, in accordance with the appointment procedure. The committee members do not receive any additional remuneration for their work in the committees.

AUDIT COMMITTEE

Membership of the Audit Committee and information on changes introduced

There were no changes in the membership of the Audit Committee in 2019. As at 31/12/2019, the Audit Committee was composed of:

- Mr Piotr Stępnik – Chairman of the Committee

Mr Piotr Stępnik fulfils the statutory independence criteria and possesses knowledge in accounting and auditing financial statements, as referred to in the Act on Statutory Auditors [...].

Mr Piotr Stępnik has many years of experience in management and supervision, gained also at the highest levels of organisations (for example as a CEO or Supervisory Board Chairman), at many Polish and foreign companies. The professional experience of Mr Piotr Stępnik covers but is not limited to financial institutions related to (i) banking (e.g. Lukas Bank S.A. or Getin Group companies) or (ii) assets management (e.g. Skarbiec Group). During his professional career Mr Piotr Stępnik has taken part in many investment processes, which included due diligence studies of Polish, Russian, Ukrainian and Belarusian companies (Getin Group). Additionally, at Getin Group, Mr Piotr Stępnik dealt with ownership supervision of the Group companies. Further, he has been member of a number of Audit Committees at public companies (including Kruk S.A., Skarbiec Holding S.A., Magellan S.A.). He also possesses theoretical expertise in accounting or financial audit within the meaning of Article 129.1 sentence 2 of the Act, which he gained by getting a Double Major B.A. degree in Management and Economics with Financial Accounting and an EMBA degree (Executive Master in Business Administration).

- Mr Szczepan Strublewski – Member of the Committee

Mr Szczepan Strublewski possesses knowledge in accounting and auditing financial statements, as well as the sector of Grupa Kęty S.A. operation, as referred to in the Act on Statutory Auditors [...].

During his professional career Mr Szczepan Strublewski has been mainly related to the financial sector, where he dealt with banking and investments, consulting for M&A transactions (ABN AMRO Corporate Finance Polska sp. z o.o., or Dresdner Kleinwort Wasserstein in London) as well as attracting capital and

restructuring of companies (as an independent consultant). Moreover, at the beginning of his career Mr Szczepan Strublewski acted as a financial consultant at the Audit Department of Arthur Andersen in Warsaw, and subsequently with the financial analysis of Polish and Central European stock companies (at SBC Warburg in Warsaw, and then in London). As a result of his professional activity, Mr Szczepan Strublewski gained qualifications in auditing financial statements, which he used during his work at the Audit Department, providing business and financial consulting and analysing stock companies, which is performed, among other things, through analysis and examination of financial statements.

Mr Szczepan Strublewski has acted as a Member of the Supervisory Board of Grupa Kęty S.A. since 2004, which makes him an expert in understanding the operation of the Grupa Kęty S.A. Capital Group and the whole sector of the Company activity.

- Mr Piotr Kaczmarek – Member of the Committee

Mr Piotr Kaczmarek fulfils the statutory independence criteria and possesses knowledge in accounting and auditing financial statements, as referred to in the Act on Statutory Auditors [...].

Mr Piotr Kaczmarek is the holder of a CFA (Chartered Financial Analyst) title and a securities broker licence. Related to the capital market since the beginning of his professional career, he has 19 years of experience in analysing and measuring financial instruments. He managed the portfolios of two largest pension funds in Poland: ING OFE and Aviva OFE. He is the co-author of the first model of ‘Corporate Governance Principles’ on the pension funds market. Initially, we worked as a securities broker at the BMT S.A. brokerage house (1994–1995), and Bank Handlowy in Warsaw (1997–1998), and subsequently as a capital market dealer at Bank Amerykański w Polsce S.A. (1999–2000). In the years 2000–2008 he was related with ING Nationale-Nederlanden Polska PTE S.A., where he acted as a shares analyst, shares portfolio manager and Investment Director for Shares, respectively. In 2006 he was appointed member of the society Management Board and took the position of the Investment Department Director. In 2009–2010 he was employed as a manager at Skarbiec TFI S.A. From 2011 to May 2016 he worked at Aviva PTE BZWBK S.A. holding the position of a senior analyst and afterwards the shares portfolio manager.

He has long years of experience in working at audit committees of stock companies. In the years 2016–2018 he acted as a member of the Supervisory Board and Chairman of the Audit Committee at ROBYG S.A., as well as a member of the Supervisory Board and the Audit Committee at HARPER HYGIENICS S.A.

At the moment he is member of the Supervisory Boards and Audit Committees at public companies: GRUPA KĘTY S.A., FERRO S.A., DEVELIA S.A., Erbud S.A., VRG S.A., as well as a member of the Supervisory Board at a private company NOVASERVIS spol. s.r.o.

- Mr Bartosz Kazimierczuk – Member of the Committee

Mr Bartosz Kazimierczuk fulfils the statutory independence criteria referred to in the Act on Statutory Auditors [...].

- Mr Wojciech Włodarczyk – Member of the Committee

Mr Wojciech Włodarczyk fulfils the statutory independence criteria and possesses knowledge in accounting and auditing financial statements, as well as the sector of Grupa Kęty S.A. operation, as referred to in the Act on Statutory Auditors [...].

In his professional career Mr Wojciech Włodarczyk dealt, among other things, with creating an Audit and Control Department and managing it (Gobarto S.A.), ensuring cash flows and financing capital expenditure (Voxel S.A.), preparing business plans and financial analyses (Doradztwo Gospodarcze DGA S.A.), verification of financial models, optimisation of investments and raw materials costs (a business consulting entity within the Ernst & Young Group), preparing strategies, financial and investment plans as well as financial reports (PKN Orlen S.A.), designing and implementing accounting procedures (Biuro Maklerskie Certus sp. z o.o.). Further, Mr Wojciech Włodarczyk held the position of a Member of the Audit Committee of Qumak S.A.

He also has many years of experience at manufacturing companies, for example as a Supervisory Board Member at Ceramika Nowa Gala S.A. (ceramic products industry), at Projprzem S.A. (steel structures manufacturing company), and Deputy Manager of the Strategic Projects Office at PKN Orlen S.A. (oil processing industry), which puts him in a position to fully understand the sectors and the business environment of Grupa Kęty S.A.

- Mr Paweł Niedziółka – Member of the Committee

Mr Paweł Niedziółka fulfils the statutory independence criteria referred to in the Act on Statutory Auditors [...].

Mr Paweł Niedziółka has over 20 years of experience in analyses and risk management with regard to financing business companies and structuring of bank financing. He acted as an expert on behalf of the Polish Banks Association (ZBP) in assessing projects to be financed by the Polish Agency for Enterprise Development (PARP). He works at the Faculty of Banking of the SGH Warsaw School of Economics, as associate professor, where he lectures risk management and corporate banking related subjects. He is an author of court expert papers related to financing within a project-finance formula.

Detailed information about the particular members of the Audit Committee of the Supervisory Board of Grupa Kęty S.A., including their qualifications and experience, is presented on the Company Website at: www.grupakety.com/pl/10,zarzad-i-rada-nadzorcza.html

Competences of the Audit Committee and information on the method of the Committee appointment and operation

The Audit Committee consists of at least three members, including the Chairman, appointed by the Supervisory Board for its term of office from among its members. The Committee members appointed by the Supervisory Board elect one of them as the Chairman of the Committee. At least one Committee member possesses knowledge and qualifications in accounting or auditing financial statements. A majority of the Audit Committee members, including the Chairman, are independent of the respective public-interest entity. The Committee members possess knowledge and qualifications related to the industry in which the Company operates. This condition is deemed fulfilled if at least one Committee member has the knowledge and qualifications related to that industry, or individual members – within certain areas – have the knowledge and qualifications related to that industry. A Committee member may be dismissed from the Committee at any time by virtue of a Supervisory Board resolution.

The Committee meetings are convened by the Committee Chairman. The Committee shall adopt resolutions if at least half of its members are present at the meeting and all of the members have been duly invited. The Committee resolutions are passed by a simple majority of the votes cast. In the case of an equal number of votes for and against a resolution, the casting vote is exercised by the Committee Chairman.

The main objective of the Audit Committee is the cooperation with the Management Board of Grupa Kęty S.A. in order to ensure coherence of the Company financial statements, compliance with legally binding regulations and principles, independence of the auditor's opinion and conducting of internal audits at the Company, as well as drawing up the Committee reports to be attached to the annual reports on the operations of the Company Supervisory Board, subsequently submitted to the General Meeting.

Specifically, the tasks of the Audit Committee include:

- 1) monitoring of:
 - a) the financial reporting process;
 - b) the effectiveness of internal control systems, risk management systems and internal audit, also with regard to financial reporting;
 - c) the performance of auditing activities, in particular carrying out of audits by an audit firm, taking into account any findings and conclusions of the Polish Audit Supervision Commission arising from the audits carried out at an audit firm;
- 2) control and monitoring of independence of the statutory auditor and the audit firm, specifically if the audit firm provides the Company with services other than audit;

- 3) informing the Company Supervisory Board about the audit results and explaining how the audit contributed to the fairness of the Company financial reporting, and about the role of the Audit Committee in the auditing process;
- 4) assessing the independence of the statutory auditor and giving consent to the provision by them of the permitted non-audit services to the Company;
- 5) developing a policy of selection of the audit firm to carry out the audit;
- 6) developing a policy on the provision of the permitted non-audit services by the audit firm to carry out the audit, the entities related to that audit firm or a member of the audit firm's network;
- 7) establishing the procedure for the selection of an audit firm by the Company;
- 8) presenting recommendations to the Supervisory Board with regard to the selection of an audit firm;
- 9) presenting recommendations to ensure the integrity of the Company financial reporting process.

In 2018, the audit firm carrying out the audit of the financial statements provided the permitted non-audit services which referred to training in business processes ('Analysis of organisational processes for internal auditors' and 'Practical project management') for the employees of Grupa Kęty S.A., in accordance with the request of the Company Management Board.

The detailed methods of the Audit Committee operation are determined in the Company Articles and the By-law of the Audit Committee of the Supervisory Board of Grupa Kęty S.A., passed by the Supervisory Board, available on the Company Website at: www.grupakety.com/pl/18.dokumenty-spolki.html.

Main assumptions of the policy of selection of the audit firm to carry out the audit of the financial statements of Grupa Kęty S.A.

In accordance with the applicable law, Grupa Kęty S.A. shall have its separate and consolidated financial statements reviewed and audited by an audit firm. The selection of an entity authorised to audit the Company financial statements should be carried out on the basis of the following principles.

1. The entity authorised to audit financial statements shall be selected in a tender procedure by the Supervisory Board of Grupa Kęty S.A., on the basis of a recommendation by the Audit Committee of the Supervisory Board. The decision on the selection is taken in the form of a resolution of the Supervisory Board.
2. When selecting the entity authorised to audit the financial statements, the Supervisory Board of Grupa Kęty S.A. focuses on the experience of the audit team as regards auditing financial statements of stock-listed companies. An important element in selecting an audit firm is the firm's experience in the area of financial hedging, risk management, internal audit, as well as IT and corporate governance audit.
3. The selection is made taking into account the principles of impartiality and independence of the audit firm as well as analysis of the projects carried out by the firm at the Company, going beyond the audit of the financial statements, in order to avoid a conflict of interest (preserving impartiality and independence).
4. The basis for carrying out an audit by a statutory auditor are the binding legal regulations, and specifically the Polish Act on Accounting, the International Financial Reporting Standards and the requirements of the Stock Exchange. The purpose of the audit is the expression by the audit firm of their opinion and preparing a report in Polish and English as to the compliance with the applied accounting principles and the true and fair presentation of assets, financial standing and the financial result of the Company.
5. The Supervisory Board shall be guided by the principle of rotation of the key statutory auditor, namely that a key statutory auditor may perform their auditing activities for a period not longer than five years, whereas their services may be provided again after the lapse of two years.

The Policy of Grupa Kęty S.A. with regard to the selection of an audit firm to carry out the audit of statutory financial statements, and the procedure of selecting an audit firm to audit the statutory financial statements are available on the Company Website at: www.grupakety.com/pl/68.regula-wyboru-podmiotu-uprawnionego-do-badania-sprawozdan-finansowych.html

Main assumptions of the policy on the provision of permitted non-audit services by the audit firm carrying out the audit, the entities related to that audit firm or a member of the audit firm's network

1. The Company does not order any prohibited non-audit services in the following periods:
 - a. in the period from the commencement of the respective audited period to the issue of the audit report; and
 - b. in the reporting year directly preceding the period referred to in letter a), in reference to the services listed in Section 3 letter e).
2. The Company may order non-audit services, other than the prohibited non-audit services, subject to their approval by the Audit Committee and after carrying out of the respective assessment of threats and assuring independence in compliance with Article 22b of Directive 2006/43/EC.
3. Prohibited non-audit services are understood to be the services listed below, in accordance with the REGULATION (EU) No 537/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL:
 - a. tax services relating to:
 - i. preparation of tax forms;
 - ii. payroll tax;
 - iii. customs duties;
 - iv. identification of public subsidies and tax incentives unless support from the statutory auditor or the audit firm in respect of such services is required by law;
 - v. support regarding tax inspections by tax authorities unless support from the statutory auditor or the audit firm in respect of such inspections is required by law;
 - vi. calculation of direct and indirect tax and deferred tax;
 - vii. provision of tax advice;
 - b. services that involve playing any part in the management or decision-making of the audited entity;
 - c. bookkeeping and preparing accounting records and financial statements;
 - d. payroll services;
 - e. designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
 - f. valuation services, including valuations performed in connection with actuarial services or litigation support services;
 - g. legal services, with respect to:
 - i. the provision of general counsel;
 - ii. negotiating on behalf of the audited entity; and
 - iii. acting in an advocacy role in the resolution of litigation;
 - h. services related to the audited entity's internal audit function;
 - i. services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;
 - j. promoting, dealing in, or underwriting shares in the audited entity;
 - k. human resources services, with respect to:
 - i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
 - searching for or seeking out candidates for such position; or
 - undertaking reference checks of candidates for such positions;
 - ii. structuring the organisation design; and
 - iii. cost control.

In 2019 the Audit Committee of the Supervisory Board of Grupa Kęty S.A. held 6 meetings.

The policy of Grupa Kęty S.A. with regard to providing the permitted non-audit services by the audit firm carrying out the audit, by entities related to that audit firm and by a member of the audit firm's network is available on the Company Website at: www.grupakety.com/pl/68,regula-wyboru-podmiotu-uprawnionego-dobadania-sprawozdan-finansowych.html

NOMINATION AND REMUNERATION COMMITTEE

Membership of the Nomination and Remuneration Committee and information on changes introduced

In 2019 by way of Resolution No. X/11/19 of 5 June 2019, the Supervisory Board changed the name of the Remuneration Committee into the Nomination and Remuneration Committee and passed a new By-law.

In 2019 there were no changes in the membership of the Nomination and Remuneration Committee. As at 31 December 2019, the Nomination and Remuneration Committee was composed of:

- Mr Paweł Niedziółka – Chairman of the Committee,
- Mr Bartosz Kazimierczuk – Member of the Committee,
- Mr Wojciech Włodarczyk – Member of the Committee.

Competences of the Nomination and Remuneration Committee and information on the method of the Committee appointment and operation

The basic objectives of the Nomination and Remuneration Committee are as follows:

- control and supervision of the system of remuneration of the Grupa Kęty S.A. Management Board Members as well as recruitment for the positions of the Management Board members;
- analysis of the system of remuneration of the Company Management Board Members in comparison to the systems binding at other companies operating on the market;
- preparing reports of the Committee to be attached to the annual report on the activities of the Company Supervisory Board, subsequently presented to the Company General Meeting.

The Committee consists of at least two members, and their specific number is determined every year by the Supervisory Board. The Committee members are appointed by virtue of a resolution of the Supervisory Board, from among the Board's members, whereas the committee members perform their functions until their resignation has been accepted or until their dismissal, in accordance with the appointment procedure.

In 2019 the Nomination and Remuneration Committee held 8 meetings.

The detailed methods of the Nomination and Remuneration Committee operation are determined in the Company Articles and the By-law of the Nomination and Remuneration Committee of the Supervisory Board of Grupa Kęty S.A., passed by the Supervisory Board, which are available on the Company Website at: <http://www.grupakety.com/pl/18,dokumenty-spolki.html>.

4) General Meeting and rights of the shareholders

The methods of Grupa Kęty S.A. General Meeting operation and the basic rights of the General Meeting are regulated by the Company Articles of Association and the General Meeting By-law. The documents are available on the Company Website at: <http://www.grupakety.com/pl/18,dokumenty-spolki.html>

General Meetings are held at the registered office of the Company in Bielsko-Biała or in Warsaw. They are convened by the Management Board on the basis of an announcement published on the Company Website, in the manner specified for current information disclosure, in accordance with the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies. A General Meeting may also be convened by the Supervisory Board or shareholders representing at least half of the share capital. The shareholders representing at least 5% of the share capital may request the convening of a General Meeting and including certain items in the agenda of the Meeting.

A General Meeting is valid regardless of the number of the shares represented at it. In accordance with the approved By-law of the General Meeting of Grupa Kęty S.A., the session of the General Meeting is opened by an authorised person, in accordance with the Articles provisions. The person opening the General Meeting orders the selection of the General Meeting Chairman from among the participants. Every participant is entitled to report into the minutes one candidate for the function of the General Meeting Chairman. The persons reported are entered in the list of candidates, providing that they agree to stand as candidates.

The selection of the General Meeting Chairman takes place in secret voting by way of voting for each of the candidates separately. The Chairman is the person with the largest number of votes cast. If more than one candidate receive the equal largest number of votes, the person opening the General Meeting orders supplementary voting for the candidates with the equal largest number of votes. The Chairman is the person with the largest number of votes cast in the supplementary voting.

After having selected the Chairman of the General Meeting, the person opening the General Meeting hands over the conducting of the General Meeting to the Chairman of the General Meeting, who verifies the correctness of preparing the list of attendance at the General Meeting and in the absence of reservations signs the same, and confirms the correctness of convening the General Meeting as well as its capacity to pass resolutions in the matters included in the agenda of the meeting, based on the submitted documents related to the convening of the General Meeting, the attendance list and the original powers of attorney, and also the possible motions filed in that regard by a person entitled to vote, orders the acceptance of the agenda, and orders voting on the selection of the vote-counting committee, if they deem the commission appointment needed. In the absence of grounds for determining the correctness of convening the Meeting or capacity to pass resolutions, the Chairman of the General Meeting closes the Meeting session.

During a session the duties and rights of the Chairman include caring for the compliance of the course of proceedings with the provisions of the Code of Commercial Companies, the Articles and the By-law, giving the floor and asking questions to the participants, as well as the persons identified in § 6.2 of the General Meeting By-law, taking the floor away from the participants, ordering voting on removing from the meeting room any persons which grossly breach the law, the provisions of the Articles, the provisions of the By-law or good manners, ordering breaks during the meeting, cooperation with the notary public taking down the minutes from the General Meeting, ordering voting on the resolutions of the General Meeting, determining the correctness of the course of voting and the voting results, taking a stand with regard to the motions reported by the participants and, when such need is determined, ordering voting in the subject-matter of the motions, introducing into the agenda any matters of organisational nature, solving doubts as to the interpretation of the provisions of the General Meeting By-law.

Due to the fact that the Company is stock listed, only the shareholders who had obtained their status at 16 days prior to the date of the General Meeting at the latest may participate in it and exercise their voting rights. Furthermore, the Members of the Management and Supervisory Boards, the Company auditor and other persons invited by the governing body convening the General Meeting, including the representatives of media, may participate in the Meeting, unless, at the request of a participant filed before proceeding to the discussion over the issues included in the agenda, the General Meeting decides otherwise with a simple majority of votes.

The list of shareholders entitled to participate in the General Meeting, signed by the Management Board, and including the names and surnames or business names of the entitled persons or companies, their addresses (addresses of registered offices), the number of their shares and votes, is available at the registered office/on the premises of the Company Management Board three business days prior to the General Meeting.

Pursuant to the Company Articles of Association, the General Meeting of Grupa Kęty S.A. By-law as well as the legal regulations, the Company shareholders may:

- participate in the General Meeting and exercise their voting rights in person or through plenipotentiaries;
- run for the position of the General Meeting Chairman or propose one candidate for the position to be included in the minutes;
- report draft resolutions on matters included in the agenda but not related to organisational matters;
- submit proposals of amendments and supplements to draft resolutions included in the General Meeting agenda by the time of closing the discussion on the items of the agenda concerning the draft resolutions to which such proposals pertain;
- take the floor and ask questions concerning each item on the agenda;
- demand secret voting;
- demand inclusion in the minutes of their objections and other statements;
- demand information from the Company Management Board concerning the items on the General Meeting agenda in the case of and subject to exceptions provided for in legal regulations;
- demand the list of shareholders to be e-mailed to them free of charge, indicating the e-mail address to which such a list should be sent. A shareholder may examine the list of shareholders on the Management Board's premises and demand a copy of the list, paying the costs of its preparation;
- examine the books of minutes of the General Meeting and request copies of resolutions certified by the Management Board;
- appeal against resolutions of the General Meeting in the cases provided for in legal regulations.

The participants attending the General Meeting confirm their presence with their own signature in the attendance list laid out in the meeting room and collect the voting sheets. The representatives and attorneys, before entry into the attendance list, submit to the minutes the documents which undoubtedly prove their legal authorisation to representation in the General Meeting, unless the power of attorney has been granted in electronic form, and they sign the attendance list legibly with their full name and surname, next to the surname or name of the principal. The attendance list must include specifically: the name and surname or company name of each participant, determination of the document based on which the identity of the participant has been confirmed, and in the case of representatives and attorneys of the participants, additionally specified should be: the name and surname or company name of the participant replaced by the representative or the attorney, and the source of representation (e.g. attorney, statutory representative), identification of the basis on which the participant is entitled to participate in the General Meeting (e.g. shareholder, pledgee), the number of shares held by the participant and the number of votes vested in the respective participant.

The attendance list is laid out throughout the term of the General Meeting, until the Meeting session is closed. The persons preparing the attendance list are obliged to include therein any changes in the membership and the number of the represented shares before each voting. The attendance list is signed by the participants and by the Chairman of the General Meeting.

The course of the General Meeting is recorded in the minutes by a notary public, and the minutes must include specifically a statement on the correctness of convening the General Meeting and its capacity to pass resolutions in the matters covered by the agenda, the text of the resolutions passed, as well as the number of votes cast for each resolution and the reported reservations. The minutes are signed by the Chairman of the General Meeting and the notary public. An excerpt from the minutes together with the evidence of convening the General Meeting and the documents referred to in § 12.2 of the By-law are attached by the Management Board to the book of minutes. The book of minutes includes the minutes of the vote-counting committee from the results of voting, if the committee has been appointed, as well as the voting sheets, if the voting has been carried out with the use of the voting sheets.

The resolutions of a General Meeting are passed with the majority of votes, as set out in the Articles of Association and the Code of Commercial Companies. The voting is carried out with the use of a vote counting system ensuring that the number of votes cast is equivalent to the number of votes possessed, as well as eliminating – in the event of secret voting – the possibility of identifying the method of casting votes by the particular persons authorised to vote. The voting is open. Secret voting is ordered during the elections and with regard to motions regarding dismissal of the members of the Company governing bodies, bringing them to justice as well as with respect to personal issues. Secret voting is also ordered when at least one shareholder present or represented at the General Meeting so requests.

After discussing all the matters included in the agenda, the Chairman announces the closing of the General Meeting. The proceedings of the General Meeting are broadcast live on the Internet, and also recorded and uploaded to the Website of Grupa Kęty S.A. to be watched at a chosen time.

In 2019 there was held one General Meeting, i.e. the Annual General Meeting on 30 May 2019, which passed 17 resolutions. Detailed information on General Meetings, and the resolutions passed are available on the Company Website at: <http://www.grupakety.com/pl/38,wza.html>.

5) Amendments to the Company Articles of Association

Any amendment to the Articles of Association requires a resolution of the General Meeting passed with the majority of 3/4 of votes, and the amendment must be entered in the National Court Register (Article 430 of the Code of Commercial Companies). Reporting of the amendment to the Articles is the responsibility of the Company Management Board. The Management Board is obliged to report an amendment to the Articles within three months of the adoption of the respective resolution.

On 30 May 2019 there was held an Extraordinary General Meeting of Grupa KĘTY S.A., in which the shareholders accepted the new wording of the Company Articles, based on resolution No. 16/19 of 30 May 2019.

Information on the issued securities and limitations in the exercise of the right of vote

a) Holders of securities with special control powers

The Company has not issued any securities with special control powers. The Company Articles of Association do not provide for any powers in that regard. The shares of Grupa Kęty S.A. are ordinary bearer shares. Each share entitles its holder to one vote at the General Meeting.

b) Indication of any limitations with regard to the exercise of the right of vote

The Company has not introduced any special limitations on the exercise of the right of vote. The Company Articles of Association do not provide for any limitations in that regard.

c) Restrictions on the transfer of securities ownership rights

The transfer of ownership rights with regard to the securities issued by the Company is not restricted. The Company Articles of Association do not provide for any limitations in that regard.

6) Diversity Policy with regard to the managing and supervisory bodies of Grupa Kęty S.A.

Grupa Kęty S.A. (hereinafter referred to as the Company) has not developed or applied any diversity policy with regard to the Company managing and supervisory bodies. The Company has not ensured a balanced proportion of men and women within the Management and Supervisory Boards. The members of the 4-person Management Board and the 6-person Supervisory Board are only men. The Management Board Members were appointed by the Supervisory Board, whereas two Members of the Management Board were appointed at the request of the President. The Supervisory Board Members have been appointed by the General Meeting from among the candidates proposed by the Company shareholders.

To the best knowledge of the Company Management Board, the appointment of the Management and Supervisory Board Members has been based on their subject-matter knowledge, competencies and experience, and has not been discriminating in any manner with regard to gender, type of education or age.

A Diversity Policy is binding at the Company and the Capital Group with regard to all of their employees, which supplements the guidelines provided for in the Code of Ethics, whereas the basic element of the Diversity Policy is to prevent any forms of employees or contractors discrimination because of their sex, age, disability, health, race, nationality, ethnic origin, religion, denomination, atheism, political views, trade union affiliation, psycho-sexual orientation, gender identity, family status, lifestyle, the form, scope and basis of employment or other discriminatory grounds.

7) Internal control and risk management systems in the process of financial statements preparation

The Management Board of Grupa Kęty S.A. is responsible for the development and implementation of appropriate, effective and efficient internal control and risk management systems in relation to the process of preparing financial statements. The Financial Division, supervised by the Member of the Management Board of Grupa Kęty S.A. acting as the Financial Director, is responsible for the preparation of financial statements, interim financial reporting and provision of management information.

The Supervisory Board supervises the operation of the internal control system, evaluating its relevance, effectiveness and efficiency via the Audit Committee and the Internal Audit Department, whose objective is to systematically and orderly review and evaluate the functioning of risk management, internal control and corporate governance processes. The internal audit function has been built on the basis of the International Standards of Internal Audit Professional Practice published by the Institute of Internal Auditors. As at the end of 2019, four people were employed at the Internal Audit Department.

The financial statements are prepared in cooperation with Dekret Centrum Rachunkowe sp. z o.o., a wholly-owned subsidiary of Grupa Kęty S.A. Dekret employs accounting specialists whose knowledge is supported with the required certificates and education as well as adequate experience.

Grupa Kęty S.A. adopted the Accounting Policy conforming to the International Financial Reporting Standards, the chart of accounts and reporting databases, having regard for the format and detailed nature of the financial figures presented in financial statements.

The aim of the internal control system within the process of preparing financial statements is to ensure accurate, complete and correct accounting for all business transactions in a given period. The system is based on the division of duties, the approval of transactions and data on multiple levels, and verification of correctness of the obtained information.

Additionally, in accordance with the binding legal regulations, the Company has its financial statements audited (annual statements) or reviewed (semi-annual statements) by an independent statutory auditor. The statutory auditor is selected by the Supervisory Board from among the established audit firms, based on the Audit Committee recommendations. Within the audit work, the statutory auditor provides an independent assessment of the fairness and correctness of separate and consolidated financial statements and takes into account the efficiency of the internal control and risk management systems.

The process of preparing financial statements comprises control mechanisms of technical nature (numerical and logical control formulas) and substantive nature (the analysis of control reports outcomes). The following risks have been identified in the process of preparing financial statements:

- erroneous input data;
- faulty data presentation;
- application of erroneous estimates;
- missing IT systems integration.

The risks are mitigated by:

- maintenance of a uniform system of data mapping from the source systems to financial statements, which ensures the proper presentation of data;
- periodical reviews conducted by internal specialists, with the main purpose to confront their knowledge with the financial figures and detect any possible improper presentations of data and erroneous input data;
- making estimates based on the best knowledge of the Management Board, including also with the assistance of independent advisers (e.g. licensed actuaries or property appraisers), if needed;
- auditing the annual separate and consolidated financial statements as well as reviewing the semi-annual separate and consolidated financial statements of the Company and the Capital Group by an independent auditor, for the purpose of detecting the possible major irregularities, including omissions in the process of financial reporting;
- use of an integrated in-house IT system (ensuring complete data integration), which is subject to control in accordance with the Company security procedures binding for that system;
- application of uniform principles in the reporting process of the Capital Group companies, and compliance with the uniform chart of accounts binding at the Group.

Observance of the respective laws and regulations (compliance-related tasks)

The organisational structures of Grupa Kęty S.A. enable the coordination of measures aimed at ensuring compliance with the respective laws and regulations, both at the business segments and at the Capital Group level. The structures comprise the selected departments of Grupa Kęty S.A. responsible for separate areas, the corresponding structures at the subsidiaries, the Group procedures system called OrangeBook as well as the defined competencies and responsibilities of each area.

The OrangeBook – being an established system of guidelines – enables the Capital Group companies to take advantage of the common knowledge and apply a proper approach to any matters related to legal requirements and conducting business.

13. OTHER REPORT ELEMENTS

13.1. Information on the Employee Share Plan control system

The share-based incentive plans are approved at Grupa Kęty S.A. by the General Meeting and supervised by the Company Supervisory Board.

13.2. Description of the allocation of the issue proceeds by the issuer

By way of exercising the rights under the Employee Share Plan the eligible employees acquired the total of 24,500 G and H series shares assigned to the 2012 and 2015 plans. Detailed information is provided in the table below. The related proceeds were allocated to the financing of the current operations of the Company.

Shares	Issue price	Number	Value (PLN '000)
G series shares – 2012 programme	117.10	17,500	2,049.3
H series shares – 2015 plan	304.24	7000	2,129.7
TOTAL	–	24,500	4,179.0

13.3. Information on shares repurchase

In the period covered with the report the Company did not repurchase any of its shares.

13.4. Information on agreements known to the issuer (including agreements concluded after the balance-sheet date), which may result in future changes in the proportions of the shares held by the existing shareholders and bondholders

At present, the Group has two share options plans open for the management staff, based on the issue of shares as part of contingent capital, i.e. the plan adopted by the General Meeting in 2012 and the plan adopted in 2015. An eligible person indicated by the Company Supervisory Board is granted the right to acquire shares when the plan conditions are met. Currently, the maximum number of shares that can be acquired by the eligible persons is 130,700, out of which the acquisition conditions specified by the plan have already been met for 70,700 shares, whereas the fulfilment of conditions for the remaining 60,000 shares will be verified after the approval of 2019 financial statements by the General Meeting. Apart from the information disclosed above, the Company is not aware of any other agreements which may result in future changes in the proportions of the shares held by the existing shareholders and bondholders.

13.5. Information on pending proceedings

As at the last day of the reporting period and as at the date of this report, the companies of the Grupa Kęty S.A. Capital Group were not a party to any proceedings pending at court, competent arbitration tribunal or public administration authority, for which the total value would account for at least 10% of the equity of Grupa Kęty S.A.

13.6. Clarification of differences between the financial result disclosed in the report and previously published projections for the year

The 2019 financial result does not significantly differ from the 2019 projection adjustment published on 31 January 2020.

13.7. Information on agreement with the entity auditing the financial statements

On 14 April 2016, the Supervisory Board of Grupa Kęty S.A. – acting pursuant to § 21.2.11 of the Company Articles of Association – selected Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw (registered under number 130; court ID [KRS] 0000481039) as the entity to audit the separate financial statements of Grupa Kęty S.A. and the consolidated financial statements of the Grupa Kęty S.A. Capital Group for the years 2016–2019, as recommended by the Audit Committee. The table below presents the auditor’s remuneration in 2019 and 2018.

	2019	2018
Remuneration for the audit of annual separate and consolidated financial statements	116	108
Remuneration for the audit of financial statements of subsidiaries	209	213
Remuneration for semi-annual reviews	20	20
Remuneration for open training	8	13
Auditor’s total remuneration for the period	353	354

The services provided did not affect the independence of the audit firm from the parent company and the Group companies.

13.8. Derivative financial instruments

Details concerning derivative financial instruments are presented in note 38 to the consolidated financial statements of the Grupa Kęty S.A. Capital Group for 2019.

13.9. Intra-group transactions

Intra-group transactions from the point of view of the parent company (PLN ‘000):

Subsidiary	Year	Sales	Purchases	Dividends	Receivables	Liabilities
Aluprof S.A.	2019	282,741	2,483	140,000	51,659	302
	2018	254,538	4,166	95,000	55,512	336
Alupol Packaging S.A.	2019	1,720	0	20,000	467	0
	2018	1,612	0	40,000	313	0
Alu Trans System Sp. z o.o. under liquidation*	2019	3	0	0	0	0
	2018	3	0	0	0	0
Dekret Centrum Rachunkowe Sp. z o.o.	2019	980	1,986	447	199	203
	2018	802	1,915	357	57	189
Aluprof Hungary Kft.	2019	200	312	0	93	200
	2018	417	380	0	36	153
Alupol LLC	2019	13,700	8,557	0	541	342
	2018	3,894	9,920	0	158	3,964
ROMB S.A.	2019	12,547	59	0	2,979	0
	2018	14,462	101	0	3,810	66
Aluform Sp. z o.o.	2019	1,263	56,516	22,000	223	3,583
	2018	1,444	59,708	17,520	3,335	6,024
Alupol Packaging Kęty Sp. z o.o.	2019	4,397	28	0	745	13
	2018	7,265	15	0	1,290	11
Alupol Films Sp. z o.o.	2019	521	0	0	129	0
	2018	421	0	0	44	0
Aluprof System Czech s.r.o.	2019	1	0	0	0	0

	2018	2	0	0	0	0
Aluprof Belgium N.V.	2019	67	0	0	5	0
	2018	69	0	0	11	0
Grupa Kęty Italia SRL	2019	0	1,656	0	0	401
	2018	3	1,566	0	0	197
Aluminium Kety EMMI d.o.o.	2019	6,265	3,286	0	709	185
	2018	4,432	3,870	0	886	139
Aluminium Kety Deutschland GmbH	2019	0	1,385	0	0	200
	2018	19	1,293	0	1	210
Aluprof UK	2019	66	0	0	4	0
	2018	67	0	0	15	0
Aluprof Romania	2019	13	0	0	1	0
	2018	12	0	0	1	0
Aluminium Kety CSE s.r.o.	2019	0	623	0	0	41
	2018	0	618	0	0	42
Total	2019	324,484	76,891	182,447	57,754	5,470
Total	2018	289,462	83,552	152,877	65,469	11,331

*Company liquidated in October 2019, non-existent as at the balance-sheet date.

In the reporting period, the Company did not pay any donation to the ‘Grupa Kęty for the Children of the Podbeskidzie Region’ (previous year: PLN 15,000). The Foundation was established by Grupa Kęty S.A. in 2011. The Company contributed PLN 50,000 as the founder’s capital. The Foundation is a non-profit organisation accomplishing social objectives.

Apart from the above mentioned transactions and those described in notes 35 (Guarantees and security bonds) and 37.2, the Group did not enter into any other intercompany transactions.

The transactions with the Management Board and the Supervisory Board are described in note 37.3 to the annual financial statements of Grupa Kęty S.A.

13.10. Post-balance-sheet events

On 5 February 2020, the Management Board of Grupa Kęty S.A. published the projections of the 2020 consolidated financial result of the Capital Group (described in item 6 of this Report).

On 11 March 2020 the World Health Organization (WHO) announced a pandemic of SARS-Cov-2 virus causing the COVID-19 disease (‘coronavirus’), and subsequently, on 12 March, the Polish government introduced the state of epidemic emergency in Poland. Further, in accordance with the Act on Preventing and Combating Infections and Infectious Diseases in People, the Polish government announced an epidemic. In the current opinion of the Issuer, the most important issues which may become a challenge in the nearest future are the hard-to-foresee decisions of the business partners in response to the fast changing market situation and potential limitations related to logistics (which may affect the timely order fulfilment both on the part of suppliers and recipients). At the present moment the Issuer maintains standing contacts with the major business partners and has not received any information which would reflect the necessity of major changes in the scale of its operations.

As at the date of this Report publication, the Grupa Kęty S.A. Capital Group has not felt any direct influence of the pandemic on its operations and financial standing, and thanks to several implemented steps has not limited the scale of its operations. As at the date of this Report, the Group has not identified any limitations in making current payments. Moreover, it avails of various sources of finance ensuring financial liquidity.

The COVID-19 threat circumstances represent a post-balance-sheet event which does not require reflection in the financial figures as at 31 December 2019. Therefore, it has not been included in the major assumptions (identification of impairment indicators, impairment tests, valuation of the expected credit losses). Apart for the discussed matters, there were no significant post-balance-sheet events which should be included in the consolidated financial statements for 2019.

Owing to the impossibility of estimating the duration of the current situation and its further development, as well as the unpredictability of external factors, including legal and regulatory changes, the Management Board of Grupa KĘTY S.A. does not exclude the origination of adverse effects of the pandemics on the Capital Group in the coming months.

14. DECLARATIONS OF THE MANAGEMENT BOARD

DECLARATION OF THE MANAGEMENT BOARD OF GRUPA KĘTY S.A. REGARDING COMPLIANCE OF THE ANNUAL FINANCIAL STATEMENTS WITH THE APPLICABLE ACCOUNTING PRINCIPLES

To the best of our knowledge, the annual financial statements of Grupa Kęty S.A. and the annual consolidated financial statements of the Grupa Kęty S.A. Capital Group, prepared as at the balance-sheet date of 31 December 2019, as well as the comparative data, have been prepared in accordance with the applicable accounting policies and they present a true, fair and transparent view of the assets and financial standing of Grupa Kęty S.A. and the Grupa Kęty S.A. Capital Group, including their financial results. This annual report of the Management Board on the operations of Grupa Kęty S.A. and the Grupa Kęty S.A. Capital Group, presents a true view of the development and accomplishments as well as of the standing of Grupa Kęty S.A. and the Grupa Kęty S.A. Capital Group, including a description of the basic risks and threats.

Dariusz Mańko

President of the Management Board

Rafał Warpechowski

Member of the Management Board

Piotr Wysocki

Member of the Management Board

Tomasz Grela

Member of the Management Board

Kęty, 25 March 2020