



Capitals:

Risk management

<p>Risk of economic downturn on the main markets</p> <p>→</p>	<p>Reputation risk and the risk of claims related to the quality of the manufactured products</p> <p>→</p>	<p>Risk of water deficit for production purposes</p> <p>→</p>
<p>Risk of emission to water, soil and air of any pollutants originating from production and warehouse processes, or hazardous waste management</p> <p>→</p>	<p>Risk of direct and indirect emission of greenhouse gases and legal changes related to emission levels</p> <p>→</p>	<p>Risk related to rapid changes in the prices of basic materials</p> <p>→</p>
<p>Risk of losing key employees</p> <p>→</p>	<p>Currency risk</p> <p>→</p>	<p>Non-compliance risk</p> <p>→</p>



Risk of economic downturn on the main markets

Description

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.

Potential impact

Lower sales and thereby lower margins resulting from low level of production capacity utilisation

Risk-mitigating measures

- Geographic diversification (exports growth)
- Product diversification – sales growth in industries not related to construction (automotive, food)

Reputation risk and the risk of claims related to the quality of the manufactured products

Description

The Group operates in market segments characterised with high requirements regarding the quality and safety of products, including automotive and construction industries.

Potential impact

- 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

Risk-mitigating measures

- Product quality assurance procedures
- Insurance procedures, including product liability insurance, product withdrawal/recall insurance
- Verification of insurance policies of the key suppliers

Risk of water deficit for production purposes

Description

The risk of insufficient quantity of water for production purposes, as related to the negative impact of climate change, lower ground water level, or administrative rationing of water resources.

Potential impact

- Lack of access to sufficient quantities of water resulting in a loss of production capacity
- Higher costs of water acquisition, modernisation of the existing engineering processes, change of work organisation
- Higher charges for water withdrawal or wastewater discharge

Risk-mitigating measures

- Monitoring of own water intakes capacity as well as quality of the withdrawn water
- Formal procedures of water and wastewater management supervision
- Setting out of protective zones around water intakes
- Adjustment of technology as well as machinery and plant to low water consumption
- Amendment of agreements with utilities suppliers
- Control and optimisation of water consumption for production purposes
- Introduction of closed water circuits
- Sourcing of water for production processes from ground drainage
- Registration and supervision of legal documents

Risk of emission to water, soil and air of any pollutants originating from production and warehouse processes, or hazardous waste management

Description

In the production processes of the Group companies there are used hazardous substances and mixtures, which generates the risk of

uncontrolled spill to the environment, or hazard to the life or health of people.

Potential impact

- Damage to the infrastructure
- Costs of failure removal or environment restoration to the original condition
- Administrative penalties
- Loss of production continuity
- Reputation risk

Risk-mitigating measures

- Supervision of legal requirements regarding failure prevention, or hazardous substances management
- Caring for hazard awareness and competences of the employees with regard to HSE and fire protection measures
- Insurance of activities posing the potential hazard
- Supervision of infrastructure, particularly as regards efficiency maintenance of utilities systems, plant and equipment where hazardous substances are used
- Correct identification of environmental aspects and the principles of processes operational control
- Current identification and assessment of the conditions of applying and approving for use of substances and mixtures
- Implementation of solutions and protective equipment, which limit the possibility of failure to the minimum
- Keeping equipment and employees in permanent readiness to react to emergency situations
- Formal conduct procedures in crisis situations
- Periodical assessment and qualification of suppliers as well as control of supplies of hazardous substances and mixtures
- Supervision of third-party companies providing services on site

Risk of direct and indirect emission of greenhouse gases and legal changes related to emission levels

Description

Climate change poses a challenge to nearly all sectors of business. It may have the consequences of completely new risks realisation, which will hinder the operations owing to infrastructure failure or lack of access to raw materials, or higher raw material prices. The operations of the Grupa Kęty Capital Group cause greenhouse gas emissions. We impact climate change both directly and indirectly. We emit greenhouse gases directly from the stacks at plants, but also indirectly owing to the manufacture of the utilities, materials or services purchased by the Company. Indirect emissions have the greatest influence on the carbon footprint of our organisation, representing nearly 80% of that value. Therefore, within the Risk Management System, we have implemented a series of protective measures, and constantly monitor legislative changes and trends, being ready to adjust the activities of the Group to new requirements. Currently, we have mainly concentrated on energy efficiency improvement projects. We plan to build a high- efficiency gas co-generation system, which will combine the generation of electric energy and heat with an engine fired with natural gas. That will enable partial coverage of the demand for engineering heat on our own, and in winter also the heating of the plant. In the future, we plan to extend the use of green electric energy generated by renewable sources, purchasing energy at special tariffs or directly from the green energy producers. We have also considered emission neutralisation (carbon offset) by way of reduction of GHG emissions in another place in the world. Such mechanisms were defined in the Kyoto Protocol and are used in the emissions trading systems. Owing to the fact that aluminium perfectly fits the climate balance goals as well as the circular economy concept, we perceive the GHG emissions issues not only as a burden but also as a chance for development.

Potential impact

- Inclusion in the European Emissions Trading System (EU ETS) may result in the costs of adjusting systems or purchasing CO₂ emission allowances (lower production profitability)
- Administrative decisions limiting the scope of production
- Necessity to create products which fulfil the customers' requirements with regard to GHG emissions reduction
- Higher pressure on quality requirements, safety or fulfilment of environmental criteria
- Problems with running business resulting from missing energy or materials, or their limited supplies
- Higher prices of energy supply to the plant
- Risk of stoppages in operating activities due to unexpected weather conditions
- The necessity to implement the principles of circular economy (closed-circuit model)
- Abandonment of high- emission, non-renewable sources of energy, and optimisation of materials consumption
- Necessity to adjust production processes to new standards regarding low emissions
- Reputation risk

Risk-mitigating measures

- Implementation of the system of monitoring direct (scope 1) and indirect (scope 2) greenhouse gas emissions as well as carbon footprint of the selected products (scope 1, 2 and 3)
- Approved goals for GHG emissions and products carbon footprint reduction (scope 1 and 2)
- Control of emissions and optimisation of natural gas combustion processes
- Performance of R&D works aimed at creating products tailored to customers' needs, e.g. low-emission billets, passive window-and-door systems, recyclable packaging laminates
- Formal procedures of supervision of GHG emission aspects, as well as supervision and monitoring of the sources of GHG emission
- Monitoring of legal regulations changes and analysis of the consequences of their introduction
- Identification of the possibility to use renewable sources of energy
- Increased share of recycled materials in production
- Flexible management of the supply chain and ensuring supplies of low- carbon-footprint materials

Risk related to rapid changes in the prices of basic materials

Description

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.

Potential impact

An increase in the prices of key materials results in lower return on sales of those products for which fixed prices have been established

Risk-mitigating measures

- 'Natural hedge' measures (pricing formulas)
- Forward and futures contracts
- Contracts based on fixed delivery prices

Risk of losing key employees

Description

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 perspectives.

Potential impact

- Higher costs resulting from lower work efficiency of new employees
- Additional costs of recruiting and training new employees

Risk-mitigating measures

- Periodic assessment and evaluation of the respective positions and suitable remuneration policy
- HR policy, including resource planning, development and training policy, competence management system

Currency risk

Description

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.

Potential impact

- A decline in exchange rates applicable to currencies in which export is made results in lower profitability
- An increase in exchange rates of the import currencies results in higher costs of materials

Risk-mitigating measures

Risk-mitigating measures

- 'Natural hedge' measures (pricing formulas)
- Forward and futures contracts
- Taking out debts in currencies in which export surpluses are generated

Non-compliance risk

Description

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.

Potential impact

- Legal sanctions, including fines
- Damaged reputation

Risk-mitigating measures

- Internal procedures, including internal control and internal audit
- Support by law firms