Risk management

GRI:**102-15**

The basic risks and their impact as well as the measures used to mitigate the particular risks are presented in the table below. Additional information regarding risk management are provided in note 36 to the consolidated financial statements of the Grupa Kęty S.A. Capital Group Grupy for the year 2018.

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 export currencies results in higher costs of materials.

Risk-mitigating measures

- ‘natural hedge’ measures
- forward and futures contracts
- debt currency structure management

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



Extraordinary events risk (fire, flood, etc.)

Description

The production process of a major part of the assortment requires the use of high temperatures and flammable substances. Additionally, some of the Group plants are located near rivers, which means the risk of flooding.

Potential impact

- Loss of property/assets
- Loss of profit
- Declining sales

Risk-mitigating measures

- 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

Description

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.

Potential impact

- Problems with supplies of basic materials or their higher cost.
- Higher costs of finance resulting from the need to acquire new sources

Risk-mitigating measures

- 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

Description

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.

Potential impact

Higher costs of finance

Risk-mitigating measures

Applying interest rate risk mitigation procedures depending on the level of debt of a particular company



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

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



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 prospects.

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



Risk of damage to the environment

Description

In the production process, the Group companies use substances which, if they leak to soil or surface waters in an uncontrolled manner, may cause contamination of the environment.
The companies use special systems to reduce emissions of harmful substances to air. Their failure may result in excessive emission of harmful substances to the environment.

Potential impact

- Fines for environmental pollution
- Land reclamation costs
- Damaged reputation
- Potential loss of some customers

Risk-mitigating measures

- periodic inspections and repairs of the environmental protection systems
- adequate preparation of the places of hazardous and harmful substances storage

Reputational 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 key suppliers

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