Risk management

The basic risks and their impact as well as the measures used to mitigate the particular risks are presented in the table below.

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 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 to it at all (e.g. acts of terrorism, acts of war, epidemic).

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

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 industrie.

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

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

Risk of water deficit for production purposes

Description

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.

Potential impact

- Lack of access to sufficient quantities of water may result in a 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.

Risk-mitigating measures

- testing of water intake capacity and the quality of 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 technology as well as machinery and plant to low energy and water consumption
- amendment of agreements with utilities suppliers

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

Description

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.

Potential impact

- 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

Risk-mitigating measures

- 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

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

Description

In the production process of the Group companies there are used hazardous substances and mixtures, which generates the risk of uncontrolled spill.

Potential impact

- 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 penalties
- Order to stop the production process
- Reputation risk

Risk-mitigating measures

- 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 efficiency maintenance of utilities systems, including air conditioning, as well as 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