

Company strategy for the years 2005 - 2009

Kęty, January 2005

Aluminium Market

Aluminium Market - trends

Since the time of the recession in 2001 and the aluminium market break-down, significant market improvement has been observed, mainly thanks to the following factors:

- High-speed economy development in China
- Economy awakening in the USA

The global market used to be characterized by oversupply, high stock levels and rapid aluminium production growth in China. However, this situation has already started to change in 2004.

- The demand growth shall be higher than the GDP because of recovering from recession and high development speed in China.
- The supply of aluminium in 2005 may increase by ca. 7% up to ca. 30 million tons, mainly thanks to China.

The prices of aluminium will be still high resulting from the following:

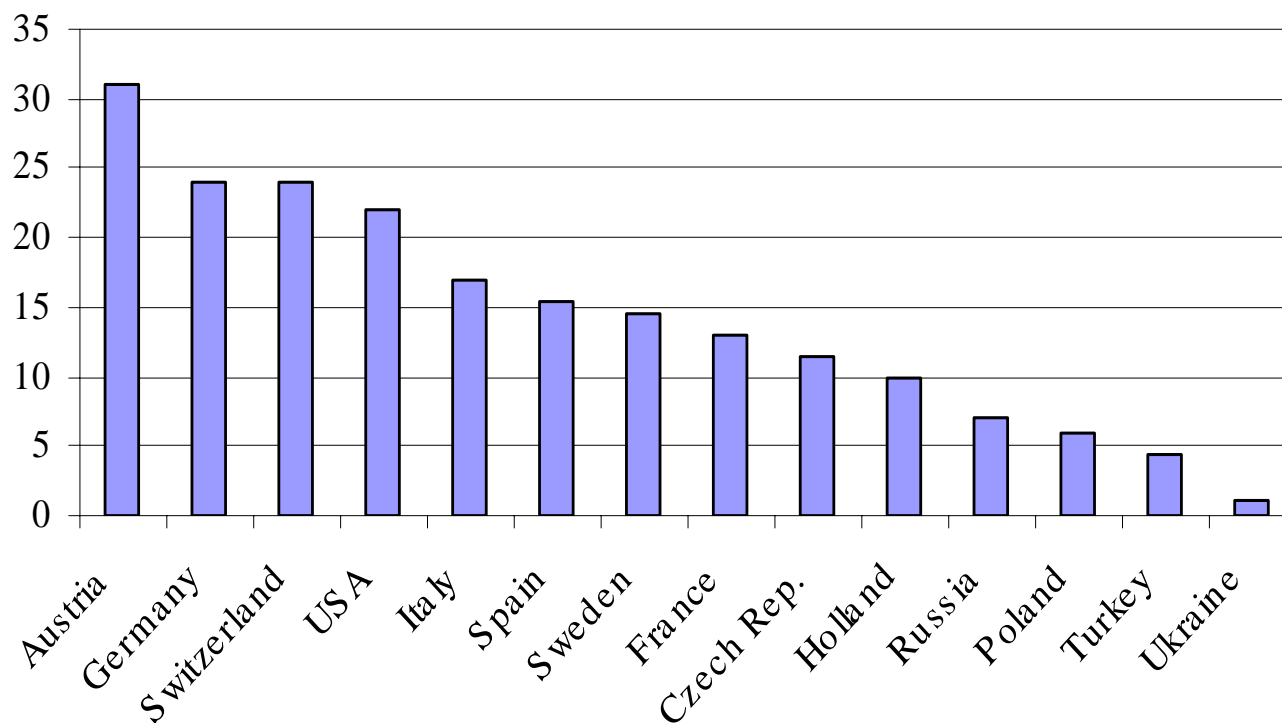
- Higher demand for aluminium (mainly thanks to China, and in the nearest future including the growing development speed in the USA and the EU market recovering from recession). In the period 1999 – 2005 import of raw materials to China has been growing at 23,6% per year. The share of China in the markets has ranged from 60 to 75%.
- Decreasing stocks and full use of aluminium production capacity.
- The price increase may be inhibited by the decisions of China on cooling down the speed of the economy growth.

Further acceleration of consolidation processes resulting from the following:

- General marketability of the industry resulting to its dynamic development.
- The need to limit the price fluctuations effect on financial results, imposing vertical integration.
- Technical processing changes related to the need of stable and significant production cost reduction.

Aluminium Market - trends

Consumption of aluminium per capita in 2003



Source: BrookHunt

Central and Eastern European market

The Central European market has marginal share in the world aluminium market:

- Production ca. 400 thousand tons (1.5%), consumption of 690 thousand (2.5%)

This market, however, has high growth potential of the aluminium consumption

- The expected growth rate in the region to 2015 (according to BrookHunt) will amount to – ca. 14% in Ukraine, ca. 9.3% in Poland, ca. 6.8% in Czech Republic, ca. 5.7% in Hungary, ca. 5.1% in Russia. In this same time the expected growth rate in the UE will not amount to 3%.

The market is relatively dispersed, however, the consolidation process has been developing for a few years:

- The consolidation is going to take place due to the companies with regional ambitions (IMPOL – in the area of former Yugoslavia, Dural, Steelmet (Greek capital) in Romania and Bulgaria) and due to large international corporations reinforcing their position in Europe
- The awakening of the market, the high growth dynamics and the EU extension are going to accelerate the consolidation processes in the region

The largest aluminium processing groups present in the Central and Eastern Europe

- Alcoa
 - Alcoa Kofem (Hungary) – ingot production, aluminium alloy production
 - Alcoa Europe (Hungary) – production of profiles, rolled products, aluminium foil, and wheel rims
 - Taking over from RusAl the plant producing extruded and rolled products in Russia
 - Construction of a plant in Romania for extruded products manufacturing (two presses)
- Alcan
 - Alcan Decin (Czech Republic) – production of profiles
 - Alcan Skrivany (Czech Republic) – production of food packaging
 - Alcan Kolin, Alcan Velim (Czech Republic) – production of other packaging
 - Alcan Koper (Słowenia) – production of aluminium casts for the automotive industry
- Hydro Aluminium
 - Hydro Aluminium Chrzanów (Poland) – production of profiles
 - Hydro Aluminium Győr (Hungary) – production of profiles
 - Slovalco (Slovakia) – aluminium production

Strategy assumptions for 2005 –2009

Company Vision

To be the aluminium processing market leader aluminium in the Central and Eastern Europe, offering a wide range of top quality products and services

Strategy adopted

Focusing the Capital Group activity on the aluminium processing and creating the added value in the four basic segments

- Extruded Products Segment - EPS
- Aluminium Systems Segment - ASS
- Flexible Packaging Segment - FPS
- Rolled Products Segment - RPS

Strategy adopted

The key element of the presented strategy includes:

- Maintaining the dominating position of the Group in all the areas of the business activity in the Polish market by means of offering increasingly wider range of top quality products and services
- Further dynamic development of the Group by means of expansion into most European markets, by organic exports development, acquisition of entities with established reputation in the target markets, and “green field” type projects
- Further cumulating of the added value growth
- Entering the new segment of aluminium processing, so far not included within the activity of the Group, by means of acquisition

The Group shall focus in particular on products with high added value. To achieve this projects shall be undertaken facilitating generation of the added value chain within the capital group, including incorporating into the Group structure primary aluminium producer, once the demand for this metal within the Group has reached the level of at least 200 thousand tons.

Flexible Packaging Segment

- *Sales growth from 200 million PLN in 2004 to 400 million PLN in 2009*
- *Increasing the share in the Domestic market of flexible packaging production up to 30-35% in 2009*
- *Increase of exports sales up to 35% of the total sales volume in this segment in 2009*
- *Optimal use of the own potential*

Flexible Packaging Segment

VISION

To obtain the leading position in the flexible packaging Central and Eastern European market and to establish the market leader position in the Polish market

1. Strategic objectives of the segment

- Sales increase in the segment from 200 million PLN in 2004 to 400 million PLN by the end of 2009
- Increasing the domestic market share from 21% to 30-35% by the end of 2009
- Creating the added value growth within the Group by means of assets and capital investments
- Increase of exports and presence of the Group in all the European markets

2. Business development in Poland

- Start up and development of production of flexography overprint packaging in a Special Economical Zone - annual domestic potential of this market amounts to ca. 20.000 tons– entering a new, prospective market, complimentary for the Group offer
- Implementing the line for plastic foil and paper metallization – independence from the existing external suppliers, maintaining the added value in the Group and reducing the costs of obtaining raw materials
- Continuous increase of own human resources and production capacity optimising

3. Foreign markets development

- Acquisition of two companies within the industry active in the Central and Eastern Europe – with cumulative sales ca. 100 million PLN – the Group existence in the foreign markets as a local producer rather than a foreign supplier
- Using captive raw materials base for expansion into foreign markets
- Increasing the offered product range

Extruded Products Segment

- *Sales growth from 400 million PLN in 2004 to 750 million PLN in 2009*
- *Maintaining the market leader position in the domestic market (ca. 50%)*
- *Increase of the foreign sales share up to ca. 40% of the total sales volume in this segment in 2009*
- *Optimal use of own potential*

Extruded Products Segment

VISION

To obtain the leading position as supplier of aluminium profiles and highly processed products base on captive materials in the Central and Eastern European market and to establish the market leader position in the Polish market

1. Strategic objectives of the segment

- Sales increase in the segment from 400 million PLN in 2004 to 750 million PLN by the end of 2009
- Maintaining the domestic market leader position with the share of ca. 50%
- Creating the added value growth within the Group by means of assets and capital investments
- Increase of exports and presence of the Group in all the European market

2. Business development in Poland

- Opening new presses with the capacity of 1600t and 2800t, thus increasing the production capacity and extending the product range, in particular with top quality hard metal products sold for exports.
- Opening the biggest state-of-the-art anodizing plant in the Central and Eastern Europe
- Continuous increase of own human resources and production capacity optimizing

3. Foreign markets development

- Opening a new production plant (green field) in Ukraine with a new press with the capacity of 1800t – entering the prospective Eastern markets not as a foreign supplier, but a local producer, thus omitting the customs barriers related to Poland joining the EU
- Acquisition or joint-venture with a company experienced in production of processed aluminium profiles (CNC) for the clients from the Western European market– extending the product range with more processed products (building the added value chain within the segment) – sales of the new company on the level of 200 million PLN
- Increasing the offer and sales of high quality hard metal products to end customers, excluding distributors

Aluminium Systems Segment

- *Sales growth from 170 million PLN in 2004 to 300 million PLN in 2009*
- *Maintaining the market leader position in the architectonical aluminium systems segment (ca. 50%)*
- *Increase of exports sales by means of building foreign affiliates and dealers closely cooperating with M-B - Increase up to ca. 30% of the total sales volume in this segment in 2009*
- *Optimal use of the own potential*

Aluminium Systems Segment

VISION

To obtain the leading position as the aluminium systems supplier in the Central and Eastern European market and to establish the market leader position in the Polish market

1. Strategic objectives of the segment

- Sales increase in the segment from 170 million PLN in 2004 to 300 million PLN by the end of 2009
- Maintaining the domestic market share at the level of 50%
- Organic building of the position in each target market
- Segment development based on own systems and know-how solutions – no acquisitions of competitive entities have been planned

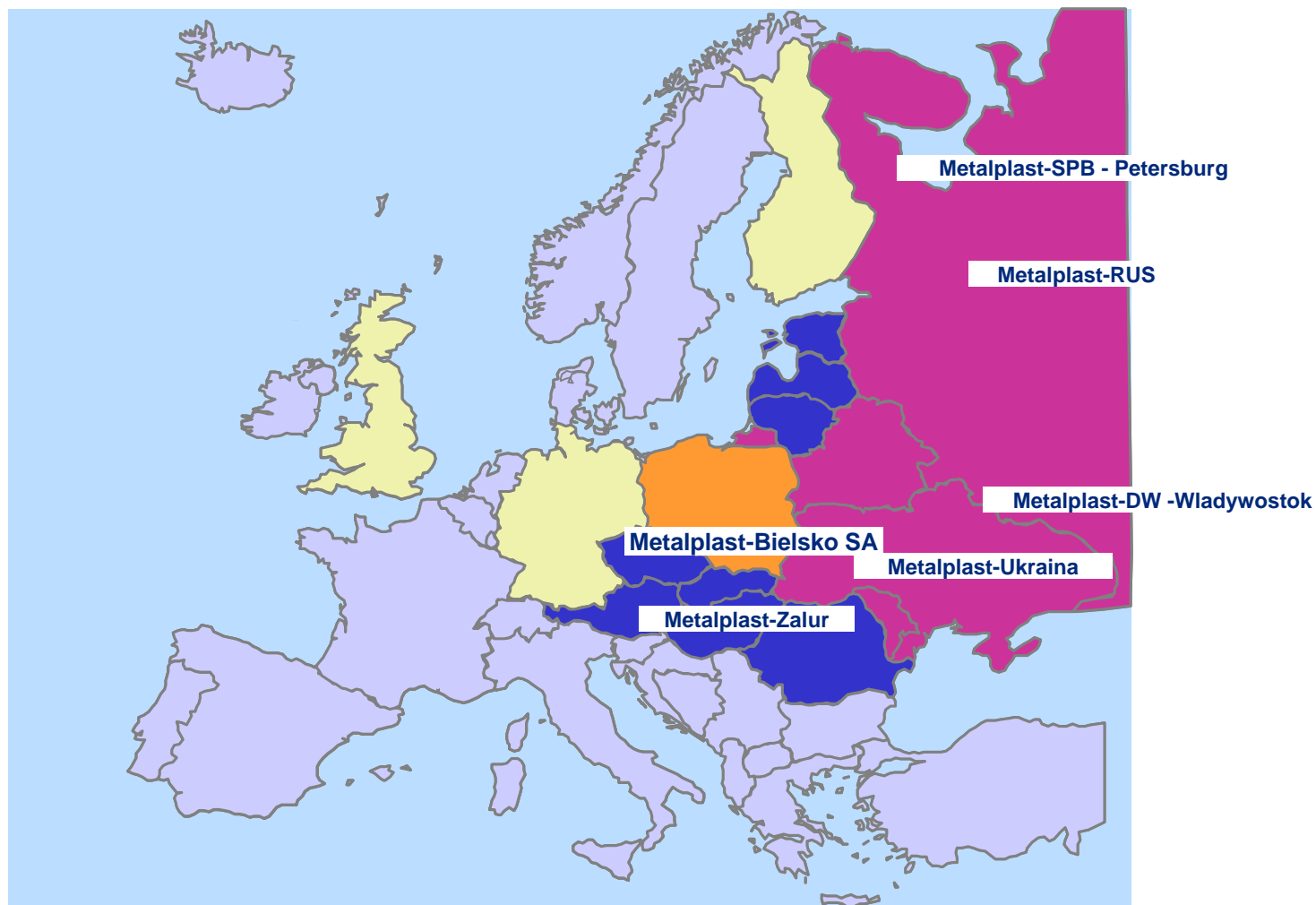
2. Business development in Poland

- Further technical and design development of the offered systems and launching new products, complimentary to the offered product range
- Increasing the marketing and publicity activity amongst architects
- Development and reinforcement of the national network of distributors and co-operating agents
- Continuous increase of own human resources and production capacity optimizing

3. Foreign markets development

- Building the image of a big and reliable and system supplier in the European market by means of developing the network of companies and dealers as the platform for market expansion, development, logistics and service
- Organic development by means of commercial expansion– no acquisitions of competitive systems producers have been foreseen

Aluminium Systems Segment



Rolled Products Segment

- *Introducing the Group into a new segment, offering a wide range of aluminium and aluminium alloy rolled products*
- *Developing the segment by means of acquisition of an entity in Poland or the Central-Eastern Europe*
- *Achieving the revenues in this segment of 800 million PLN by the end of 2009*
- *Supplementing the existing production portfolio of the Group with new products*

Rolled Products Segment

Polish market of rolled products

- *Well-developed market, with growing trends (+10÷15% per year)*
- *Market supplying products to the automotive, electro-machine and construction industries, shipyards, packaging*
- *Total consumption of rolled product in Poland in 2004 amounts to ca. 145 thousand tons, for the value of over 300 million EUR*
- *Ca. 110 thousand tons of products sold in the Polish market come from import*

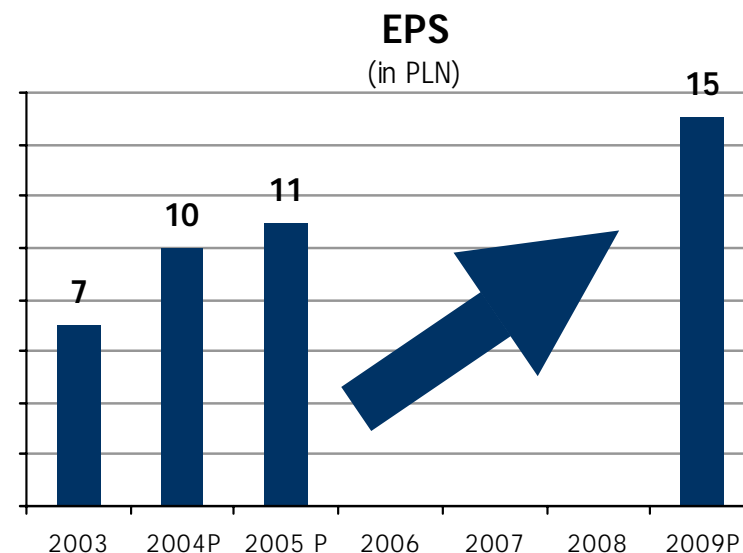
Recapitulation

Financial objectives for the years 2005 - 2009

- *Increase of the sales revenue to the level of 2.1 billion PLN*
- *Maintaining the operating profit margin (EBIT) at the level of 13 – 15%*
- *Maintaining the ROE at least of 20%*
- *Maximum debt level - 2,5 x EBITDA of the Capital Group*
- *Capital Expenditure for the period 2005 - 2009:*
 - *Organic investments – 200 – 250 million*
 - *Acquisitions – 550 – 700 million*

Conclusion – Grupa Kęty in 2009

- *The largest and the strongest capital group active in the Central and Eastern European aluminium market, offering a wide product range – sales of the group ca. 2.3 billion PLN*
- *Aluminium consumption at the level of ca. 200 thousand tons, which allows considering and possibly deciding to acquire a producer of primary aluminium.*
- *Further generation of the Group development potential by means of acquisitions of other entities and organic development in the segments of activity*



**LONG TERM PERSPECTIVES OF
GROWTH OF THE GROUP**

Estimations for 2005

First year of implementing of the strategy

2005 Macro assumptions

▪ Aluminium	1800 USD
▪ Inflation	3,0%
▪ Interest rate WIBOR 3M	7,3%
▪ Exchange rate USD/PLN	3,46
▪ Exchange rate EUR/PLN	4,50
▪ Exchange rate EUR/USD	1,30
▪ GDP Increase	6,0%
▪ Import duty on aluminium	6,0%

2005 Estimations

[in million PLN]	2004E	2005E	Dinamic 05/04
Sales	730	841	+15%
EBITDA	152	174	+14%
Net Profit	92	102	+11%
EPS (for 9.225.663 shares)	10,0	11,1	+11%
ROE	22%	22%	
CAPEX	98	141	

Key drivers of net profit in 2005

- Increase of the operating margin due to:
 - Permanent elimination of products with lower added value
 - Further optimalization of production costs
 - Higher capacity utilization ratio
 - Decreasing provision for overdue receivables
- Decreasing of the operating margin, mainly thanks to the following factors:
 - Negative effect of 6% import duty on aluminium
 - Cost of achievement of new foreign markets
 - Production starting at new localizations
- Effective tax rate still below nominal – ca. 14 – 15%
 - Maintaining tax benefits from operating in the SEZ (Alupol Sp. z o.o.)

Investment Expenditures

EPS – PLN 76m

- New facility (green field) in Ukraine – ca. 38m PLN
- Finalizing of CAPEX from 2004 – ca. 16m PLN

FPS – PLN 54m

- New facility in the SEZ – continuation – ca. 21m PLN
- Acquisition – ca. 30m PLN

ASS – PLN 2m

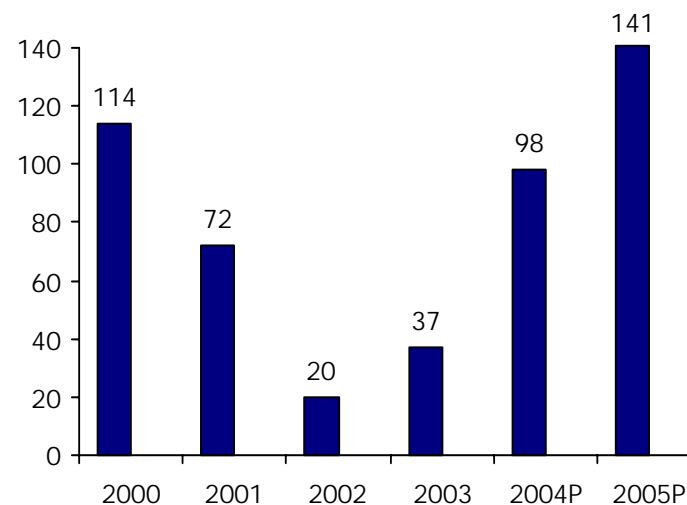
- Development of the company in Ukraine – ca. 0.2m PLN

Other – PLN 8m

- IT –2.9m PLN
- Investment reserve –4.5m PLN

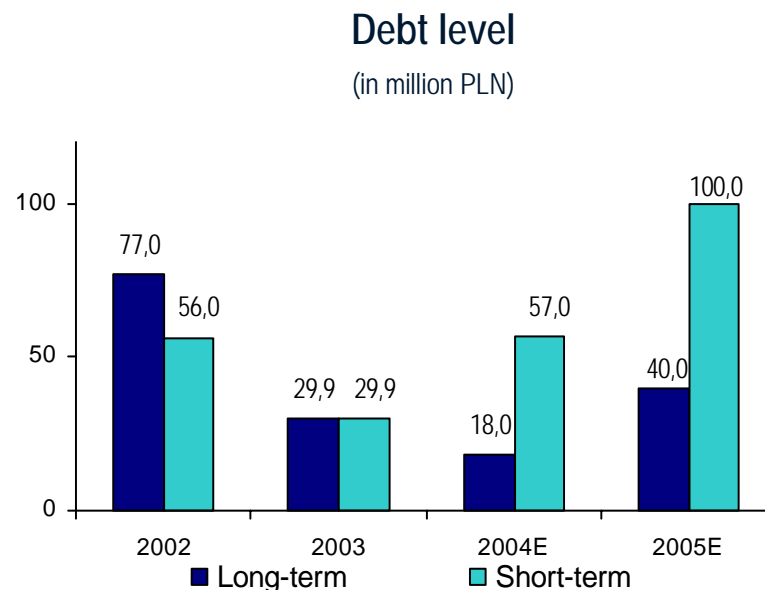
CAPEX 2000 – 2005

(in million PLN)



Indebtedness ratio

- Increase of debt due to investment program and the payment of dividend (4PLN/share) – assuming no acquisition untill the end of June
- Total cost of debt - 7.2%
- Safe currency structure of debt – about 90% in PLN
- Safe level of debt/equity ratio – about 30%



Thank You