

THE ALUMETAL S.A. CAPITAL GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
TOGETHER WITH INDEPENDENT AUDITORS' OPINION**

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Kęty, 9 April 2018

Szymon Adamczyk	President of the Management Board
Krzysztof Błasiak	Vice-president of the Management Board
Przemysław Grzybek	Board Member
Agnieszka Drzyżdzyk	Board Member
Krzysztof Furtak	Chief Accountant

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Note</i>	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Continuing operations			
Sales of finished goods, raw materials and scrap, goods for resale and services	12.1	1 456 240 675.54	1 271 836 179.11
Total sales revenue		1 456 240 675.54	1 271 836 179.11
Cost of sales	12.2	-1 340 386 926.13	-1 135 626 434.41
Gross profit on sales		115 853 749.41	136 209 744.70
Other operating income	12.5	5 076 225.71	4 923 229.05
Selling expenses	12.2	-25 708 310.04	-23 023 420.32
Administrative expenses	12.2	-24 270 976.18	-24 986 870.60
Other operating expenses	12.6	-2 082 559.37	-414 447.45
Operating profit		68 868 129.53	92 708 235.38
Finance income	12.7	64 553.93	2 131 241.04
Finance costs	12.8	-1 416 147.33	-1 018 764.78
Profit before tax		67 516 536.13	93 820 711.64
Income tax	14	3 168 546.22	-3 876 396.57
Net profit from continuing operations		70 685 082.35	89 944 315.07
Discontinued operations			
Profit/ (loss) for the year from discontinued operations		-	-
Net profit/ (loss) for the year		70 685 082.35	89 944 315.07
Other comprehensive income			
Cumulative translation differences	13	-4 681 700.85	2 207 779.87
Net other comprehensive income subject to reclassification to profit/ (loss) in subsequent reporting periods		-4 681 700.85	2 207 779.87
COMPREHENSIVE INCOME FOR THE YEAR		66 003 381.50	92 152 094.94

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	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Profit attributable to: Equity holders of the parent Non-controlling interest	Note 70 685 082.35 –	89 944 315.07 –
Comprehensive income attributable to: Equity holders of the parent Non-controlling interest	66 003 381.50 –	92 152 094.94 –

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Earnings per share:	15	
- basic from the profit for the year attributable to equity holders of the parent	4.57	5.88
- basic from the profit from continuing operations for the year attributable to equity holders of the parent	4.57	5.88
- diluted from the profit for the year attributable to equity holders of the parent	4.57	5.86
- diluted from the profit from continuing operations for the year attributable to equity holders of the parent	4.57	5.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Note</i>	<i>31 December 2017</i>	<i>31 December 2016</i>
ASSETS			
Non-current assets			
Intangible assets	16	1 602 921.80	1 795 336.22
Property, plant and equipment	17	326 569 537.71	317 569 505.69
Other financial assets (non-current)	18.1	10 000.00	10 000.00
Other long-term receivables	22	1 789 232.42	1 892 337.12
Deferred tax assets	14.3	52 062 245.31	45 881 778.42
		382 033 937.24	367 148 957.45
Current assets			
Inventories	21	189 638 458.46	168 960 561.22
Trade and other receivables	22	262 274 209.09	199 439 553.27
Other financial assets	18.1	35 000.00	30 000.00
Other non-financial assets	18.2	400 557.75	313 975.57
Current tax assets		77 775.00	14 796.00
Derivative financial instruments	35.1	632 572.53	–
Cash and cash equivalents	23	6 735 406.17	7 444 884.59
		459 793 979.00	376 203 770.65
TOTAL ASSETS		841 827 916.24	743 352 728.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont.)

As at 31 December 2017

	<i>Note</i>	<i>31 December 2017</i>	<i>31 December 2016</i>
EQUITY AND LIABILITIES			
Shareholders' equity (attributable to the shareholders of the parent)			
Issued capital	24	1 547 949.30	1 537 898.00
Reserve capital	25	301 570 981.51	235 749 124.75
Capital from revaluation of incentive scheme		–	817 473.00
Cumulative translation differences		-1 703 930.94	2 977 769.91
Retained earnings/ (unabsorbed losses)	25.1	202 396 264.59	238 552 492.15
Non-controlling interest		–	–
Total shareholders' equity		503 811 264.46	479 634 757.81
Non-current liabilities			
Interest-bearing loans and borrowings, and liabilities under lease and hire-purchase agreements	26	31 957 435.80	42 762 384.00
Provisions	27	723 872.56	537 085.82
Deferred tax liability	14.3	245 071.15	220 631.21
Accruals and deferred income	28.3	26 149 909.20	22 776 589.26
		59 076 288.71	66 296 690.29
Current liabilities			
Current portion of interest-bearing loans and borrowings, and liabilities under lease and hire-purchase agreements	26	106 463 000.25	58 813 115.00
Provisions	27	134 297.61	105 533.58
Trade and other payables	28.1 28.2	168 375 126.19	133 850 609.67
Current tax liabilities		44 490.00	146 400.00
Derivative financial instruments	35.1	–	319 562.73
Accruals and deferred income	28.3	3 923 449.02	4 186 059.02
		278 940 363.07	197 421 280.00
Total liabilities		338 016 651.78	263 717 970.29
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		841 827 916.24	743 352 728.10

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2017

	<i>Note</i>	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Cash flow from operating activities			
Gross profit		67 516 536.13	93 820 711.64
Adjustments for:			
Depreciation/ amortization	12.3	28 104 515.58	23 206 530.30
(Profit)/ loss from investing activities		38 155.03	- 267 713.14
FX (gains)/ losses		-3 927 600.10	1 228 630.62
(Increase)/decrease in receivables and other financial and non-financial assets		-62 718 946.93	-15 957 677.41
(Increase)/ decrease in inventories		-20 677 897.24	-24 999 008.90
Increase/(decrease) in liabilities, except for loans and borrowings		39 131 157.12	13 548 719.56
Interest and dividends, net		1 018 763.57	749 423.17
Change in prepayments, accruals and deferred income		-4 220 141.35	-2 040 085.57
Change in provisions		215 550.77	-93 013.52
Income tax paid		-4 249 053.30	-4 309 269.56
Other (including cost of incentive scheme)	32	-23 845.68	975 901.91
Net cash flow from operating activities		40 207 193.60	85 863 149.10
Cash flow from investing activities			
Disposal of property, plant and equipment and intangible assets		68 699.19	437 588.08
Purchase of property, plant and equipment and intangible assets		-48 446 232.38	-123 045 864.70
(Purchase)/ sale of other financial assets	32	-	14 631 940.96
Interest received		766.05	612.42
Loans granted		-5 000.00	-6 000.00
Realised gains on derivative financial instruments		3 249 751.41	-695 420.67
Net cash flow from investing activities		-45 132 015.73	-108 677 143.91

CONSOLIDATED STATEMENT OF CASH FLOW (cont.)
For the year ended 31 December 2017

	<i>Note</i>	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Cash flow from financing activities			
Inflow from share issue		2 990 241.75	4 485 407.50
Proceeds from loans and borrowings taken out/ issue of debt securities		–	40 684 081.09
Dividends paid to equity holders of the parent		-44 906 621.60	-38 831 935.50
Repayment of long-term loans and borrowings (including investment loans)		-701 249.70	-3 523 159.75
Interest received		21 026.35	32 082.89
Interest paid		-1 040 555.97	-782 118.48
Subsidies received		7 330 851.29	11 163 000.89
Net cash flow from financing activities		-36 306 307.88	13 227 358.64
Net increase/(decrease) in the balance of cash and cash equivalents		-41 231 130.01	-9 586 636.17
FX differences, net		449 174.24	-301 889.91
Cash and cash equivalents at the beginning of the year	23	-49 890 614.41	-40 002 088.33
Cash and cash equivalents at the end of the year	23	-90 672 570.18	-49 890 614.41

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	<i>Attributable to equity holders of the parent</i>								
<i>Note</i>	<i>Issued capital</i>	<i>Reserve capital</i>	<i>Capital from revaluation of incentive scheme</i>	<i>Cumulative translation differences</i>	<i>Retained earnings/ (unabsorbed losses)</i>	<i>Total</i>	<i>Non-controlling interest</i>	<i>Total shareholders' equity</i>	
As at 1 January 2017	24, 25	1 537 898,00	235 749 124,75	817 473,00	2 977 769,91	238 552 492,15	479 634 757,81	–	479 634 757,81
Net profit for the year		–	–	–	–	70 685 082.35	70 685 082.35	–	70 685 082.35
Other comprehensive income, net, for the year		–	–	–	-4 681 700.85	–	-4 681 700.85	–	-4 681 700.85
Comprehensive income for the year		–	–	–	-4 681 700.85	70 685 082.35	66 003 381.50	–	66 003 381.50
Increase in issued capital		10 051.30	2 980 190.45	–	–	–	2 990 241.75	–	2 990 241.75
Cost of incentive scheme		–	–	89 505.00	–	–	89 505.00	–	89 505.00
Settlement of incentive scheme		–	–	-906 978.00	–	906 978.00	–	–	–
Transfer to reserve capital		–	62 841 666.31	–	–	-62 841 666.31	–	–	–
Dividend payment		–	–	–	–	-44 906 621.60	-44 906 621.60	–	-44 906 621.60
As at 31 December 2017		1 547 949.30	301 570 981.51	–	-1 703 930.94	202 396 264.59	503 811 264.46	–	503 811 264.46

Accounting policies and notes are an integral part of these consolidated financial statements.

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<i>Attributable to equity holders of the parent</i>								
<i>Note</i>	<i>Issued capital</i>	<i>Reserve capital</i>	<i>Capital from revaluation of incentive scheme</i>	<i>Cumulative translation differences</i>	<i>Retained earnings/ (unabsorbed losses)</i>	<i>Total</i>	<i>Non-controlling interest</i>	<i>Total shareholders' equity</i>
As at 1 January 2016	1 522 821.00	200 054 142.26	2 004 910.00	769 990.04	176 543 179.87	380 895 043.17	–	380 895 043.17
Changes in accounting policy/ fundamental error adjustment	–	–	–	–	40 501 626.73	40 501 626.73	–	40 501 626.73
As at 1 January 2016 (restated)	24, 25 1 522 821.00	200 054 142.26	2 004 910.00	769 990.04	217 044 806.60	421 396 669.90	–	421 396 669.90
Net profit for the year	–	–	–	–	89 944 315.07	89 944 315.07	–	89 944 315.07
Other comprehensive income, net, for the year	–	–	–	2 207 779.87	–	2 207 779.87	–	2 207 779.87
Comprehensive income for the year	–	–	–	2 207 779.87	89 944 315.07	92 152 094.94	–	92 152 094.94
Increase in issued capital	15 077.00	4 470 330.50	–	–	–	4 485 407.50	–	4 485 407.50
Cost of incentive scheme	–	–	432 520.97	–	–	432 520.97	–	432 520.97
Settlement of incentive scheme	–	–	-1 619 957.97	–	1 619 957.97	–	–	–
Transfer to reserve capital	–	31 224 651.99	–	–	-31 224 651.99	–	–	–
Dividend payment	–	–	–	–	-38 831 935.50	-38 831 935.50	–	-38 831 935.50
As at 31 December 2016	1 537 898.00	235 749 124.75	817 473.00	2 977 769.91	238 552 492.15	479 634 757.81	–	479 634 757.81

Accounting policies and notes are an integral part of these consolidated financial statements.

ACCOUNTING POLICIES AND NOTES

1. General information

The Alumetal S.A. Capital Group (the „Group”) is composed of ALUMETAL S.A. („parent company”, „parent”, the „Company” or „Alumetal”) and its subsidiary companies (see Note 2). The attached consolidated financial statements of the Group cover the year ended 31 December 2017 and contain the comparative data for the year ended 31 December 2016.

The parent company was incorporated in 2003 following the transformation of Alumetal sp. z o.o., and is entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court, 12th Economic Department of the National Court Register, entry No. KRS 0000177577.

The parent company was granted statistical REGON No. 357081298.

The parent company and the companies of the Capital Group have an unlimited period of operation.

The main area of business activities of the Group includes:

- Production of goods from aluminium and aluminium alloys;
- Wholesale of metals;
- Wholesale of metal waste and scrap;
- Rendering bookkeeping services.

In the year ended 31 December 2017, there were no changes to the scope of business activities of the Group compared to the year ended 31 December 2016.

2. Composition of the Group

The Group is composed of the parent company, Alumetal S.A., and the following subsidiary companies:

Entity	Registered office	Scope of business activities	% in the share capital	
			31 Dec 2017	31 Dec 2016
Alumetal Poland sp. z o.o.	Nowa Sól, Poland	Production	100%	100%
T + S sp. z o.o.	Kęty, Poland	Production	100%	100%
Alumetal Kęty sp. z o.o.	Kęty, Poland	No operating activities	100%	100%
Alumetal Group Hungary Kft.	Komarom, Hungary	Production	100%	100%

As at 31 December 2017 and 31 December 2016, the Group’s share in the total number of votes in the subsidiary companies equated to the Groups’ share in the equity of those companies. During the reporting period, the composition of the Group did not change.

3. Management Board of the parent

As at 31 December 2017, the composition of the Management Board of the parent was as follows:

- Szymon Adamczyk - President of the Management Board;
- Krzysztof Błasiak - Vice-president of the Management Board;
- Przemysław Grzybek - Management Board Member;
- Agnieszka Drzyżdzyk - Management Board Member.

On 10 October 2017, the Supervisory Board of the Company appointed Ms Agnieszka Drzyżdzyk as Management Board Member of Alumetal S.A. During the period from the reporting date to the date of the authorization of these consolidated financial statements there were no changes in the composition of the Company's Management Board.

4. Authorisation of consolidated financial statements

These consolidated financial statements of the Group were authorised for issue by the Management Board on 9 April 2018.

5. Professional judgment and accounting estimates

5.1. Professional judgment

In preparing the Group's consolidated financial statements, the Management Board of the parent is required to make professional judgment, apply accounting estimates and make certain assumptions, which all have impact on the presented revenues, costs, assets and liabilities and the related notes and disclosures concerning contingent liabilities. The uncertainty regarding these assumptions and estimates may result in material adjustments to the carrying amounts of assets and liabilities in the future.

In the process of applying the Group's accounting policies, the Company's Management Board applied the following judgments which have the greatest impact on the presented carrying amounts of assets and liabilities.

Functional currency

The parent company performed an appropriate analysis to determine its functional currency, based on the analysis of revenues, costs, capital expenditures and external borrowings used. Based on this analysis, the parent company determined that for all entities of the Group, except for the foreign entity, the Alumetal Group Hungary Kft., the functional currency is Polish zloty (PLN).

Presentation of overdraft facilities

Due to the fact that the Management Board of the Company considered overdraft facilities an integral part of cash and cash equivalents management, in accordance with the IFRS Guidelines, for the purpose of preparation of the consolidated statement of cash flow, the Group presented overdraft facilities as a reduction of the balance of cash and cash equivalents.

5.2. Uncertainty of estimates and assumptions

Presented below are the key assumptions concerning the future and other key sources of uncertainty at the reporting date that incur a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year. These key assumptions and estimates may change as a result of events in the future in response to market changes or changes which are outside the control of the Group. Such changes are reflected in the estimates or assumptions at the time they materialise.

Depreciation/ amortisation rates

The value of depreciation/ amortisation rates and charges is determined based on the expected useful life of the given item of property, plant and equipment or intangible assets, and estimates regarding residual values of property, plant and equipment. Capitalized overhauls/ periodic repair expenditures are amortised over the period remaining to the expected commencement of the next overhaul or periodic repair of the given item of property, plant and equipment. Group entities perform annual verification of the adopted useful lives of their assets based on current estimates. Verification of assets' useful life performed in 2017 did not have any material effect on the change in the depreciation/ amortization charges in the subsequent years. The applied economic useful life of individual classes of the Company's assets is presented in the table in Note 8.4.

Receivables and inventories impairment write-downs

At each reporting date, the Group assesses whether there is any objective evidence of the impairment of the carrying amount of the items of receivables or group of receivables, or inventories. If the recoverable amount of the given item of assets is lower than its carrying amount, the entity recognizes an impairment write-down.

Detailed information on the value of impairment write-downs of receivables and inventories is presented in Note 21 and Note 22 to these consolidated financial statements.

Deferred tax assets

Deferred tax assets are measured using the tax rates that will be used at the time of the expected realization of assets, based on tax regulations binding at the reporting date. The Group recognizes a deferred tax asset based on the assumption that taxable profit will be available in the future, against which the deferred tax asset will be realised. Any deterioration of taxable profits in the future could render this assumption unreasonable.

A special title for the deferred tax asset is deferred tax asset relating to possible utilisation of public aid in the form of partial income tax exemption (tax credit), as described in more detail in Note 14.3. The estimation of deferred tax asset from this title (public aid planned to be used in the subsequent years) and recognition of this asset was performed in accordance with IAS 12 *Income Taxes* and detailed regulations governing functioning of partial income tax exemption for the Polish and Hungarian entities. In particular, this estimate was performed on the basis of forecasted tax results (of Polish entities and of the Hungarian subsidiary) for the ensuing years. Any deterioration or improvement of realised tax results in the future may have impact on the level of estimated deferred tax asset. Specifically, change in the forecasted tax results of Polish entities (given the pool of public aid available at the reporting date) does not bear any significant impact on the change in the estimate of this asset due to a relatively short period of time assigned for asset utilization. As regards the Hungarian subsidiary, any deterioration or improvement of realised tax results in the future may have a significant impact on the amount of this deferred tax asset which, due to the relatively low level of tax rate and legally limited horizon of asset utilization, based on the prepared forecasts was not recognised for the entire pool of available public aid.

In the opinion of the Company, based on the performed estimates and based on the adopted real assumptions underlying these estimates, as at the date of the preparation of these consolidated financial statements there is no significant risk of non-realizability of a deferred tax asset recognised in the attached consolidated financial statements.

Detailed information on the components of deferred tax asset is presented in Note 14.3 to these consolidated financial statements.

Valuation of provisions for employee benefits

The provisions for employee benefits were estimated using the actuarial methods. In the years 2016-2017, except for a change in the retirement age, no significant changes occurred in the assumptions/ estimates with an impact on the Group's financial result or other comprehensive income in those periods. Interest rates fluctuations in the presented periods did not have any significant impact on the said provisions. Detailed information on provisions for employee benefits is presented in Note 20.1 and Note 27.1 to these consolidated financial statements.

Valuation of provision for litigation

Based on the accounting policy presented in Note 8.17, the Group creates a provision for litigation.

Valuation of currency forward contracts

The fair value of foreign currency forward contracts (currency forwards) is determined based on discounted future cash flows under the transactions made, calculated using the difference between the forward and the transaction price. The forward price is calculated using the NBP fixing and interest rate yield curve implied in the FX swap transactions. Valuation of currency forwards is included in the result from financial activities of the Group, and the foreign exchange risk is described in Note 34.2.

Valuation of incentive programs

The fair value of incentive programs (schemes) is determined using the Monte Carlo simulation model. Detailed information on these programs and their measurement is presented in Note 20.2 of the attached consolidated financial statements.

Uncertain tax treatment

Regulations regarding VAT, corporate profits tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies.

Tax and other settlements (e.g. customs or foreign currency settlements) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that the tax exposure in the countries, in which the Group operates is greater than in the countries that have a more established taxation system.

Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

With respect to the EU regulations, specifically in Poland, on 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rule (GAAR). GAAR are targeted to prevent origination and use of factitious legal structures made to avoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realising tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its *modus operandi* was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to earlier may be treated as a hint of artificial activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realised or continue to be realised. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realised by tax remitters as group restructuring or reorganization.

The Company measures and recognises current and deferred tax assets and liabilities in accordance with the provisions of IAS 12 *Income Taxes* based on taxable profit (tax loss), taxable base, carry-forward of unused tax losses, tax credits and tax rates, while considering assessment of tax treatment uncertainty.

If there is any uncertainty as to whether or to what extent the tax authority will accept individual tax settlements of transactions, the Company recognises these settlements while considering uncertainty assessment.

6. Basis of preparing consolidated financial statements

These annual consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments which are measured at fair value.

These consolidated financial statements are presented in Polish zloty ("PLN") and all amounts are stated in Polish zloty (PLN) except when otherwise indicated.

The consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future.

At the date of the authorization of these consolidated financial statements, no facts or circumstances were identified that would indicate a threat to the continued activity of Group companies.

6.1. Statement of compliance

The attached consolidated financial statements have been prepared in accordance with International Financial Reporting Standards endorsed by the European Union ("EU IFRSs"). At the date of the authorisation of these consolidated financial statements for publication, in light of the current process of IFRS endorsement in the European Union and given the nature of the Group's activities, *there are no* differences between the IFRSs applied by the Group and the EU IFRSs.

The EU IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB").

Some of the Group's subsidiary companies keep their books of accounts in accordance with the accounting policies specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") with subsequent amendments, and in accordance with the regulations issued based on that Act ("Polish Accounting Standards") and in accordance with Hungarian Accounting Standards ("Hungarian Accounting Standards"). These consolidated financial

statements include certain adjustments which are not present in the books of account of Group companies, but which were introduced to achieve the compliance of the financial statements of those companies with the IFRSs.

6.2. Functional and presentation currency

These consolidated financial statements were prepared in Polish zloty, which is also the functional currency of the parent company. For each of the Group's subsidiary companies, the functional currency is determined, and the assets and liabilities of that company are measured in that functional currency. For all subsidiary companies, except for the foreign operations, i.e. the Alumetal Group Hungary Kft., the functional currency is Polish zloty (PLN). The functional currency of Alumetal Group Hungary Kft. is Hungarian forint (HUF). The Group has applied direct consolidation method and has selected the method of accounting for translation gains and losses which is consistent with the applied consolidation method.

7. Changes in estimates

Changes in estimates in the key areas referred to in Note 5 above, including:

- impairment write-downs of receivables and inventories – Note 21 and Note 22;
- provision for litigation – Note 27;
- valuation of incentive scheme – Note 20.2;
- deferred tax asset – Note 14.3

and their impact on the results of individual periods are presented in the above Notes.

During the financial year, the Group did not change its assessment (estimation) methods.

8. Significant accounting policies

8.1. Basis of consolidation

These consolidated financial statements comprise the annual financial statements of Alumetal S.A. and annual financial statements of its subsidiaries prepared, in each case, as at 31 December 2017 and for the year then ended.

The financial statements of subsidiaries, i.e. of T+S sp. z o.o. and Alumetal Group Hungary Kft., *after considering the adjustments made to achieve conformity with IFRSs*, were prepared for the same reporting period as those of the parent company, using consistent accounting policies to similar business transactions and events. Adjustments were made to bring into line any dissimilar accounting policies that may exist.

All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate impairment.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date, on which such control ends. The parent controls an entity, if the parent has:

- power over this entity,
- exposure, or rights, to variable returns from its involvement with the entity, and
- the ability to use its power over the entity to affect the amount of its returns.

The Group reassesses whether it controls the entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Where the Group has less than a majority of voting rights in the given entity, but the voting rights held are sufficient for the Group to have the practical ability to direct the relevant activities of the given entity unilaterally, it means that the Group has the power over this entity. When assessing whether the Company's voting rights are sufficient to give it power, the Company considers all facts and circumstances, including:

- the size of its holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and

• any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Any changes in the shareholding structure of the parent company that do not result in a loss of control over subsidiary company are recognised as equity transactions. In such cases, in order to reflect changes in the relative interest in a subsidiary, the Group adjusts the carrying amount of the controlling and non-controlling interest. All differences between the value of the adjustment to the non-controlling interest and the fair value of the consideration paid or received are taken to the shareholders' equity and allocated to the owners of the parent.

8.2. Re-measurement to fair value

At each reporting date, the Group measures its financial instruments such as derivative financial instruments at fair value.

The fair value is understood to mean the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability,
- in the absence of the principal market, in the most advantageous market for the asset or liability.

The Group must have access to both the principal and the most advantageous market.

The fair value of an item of assets or liabilities is measured on the assumption that market participants, in determining the price of an item of assets or liabilities, would act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use, or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, while maximising the use of relevant observable inputs (*odpowiednie obserwowalne dane wejściowe*) and minimising the use of unobservable inputs.

All assets and liabilities which are re-measured to fair value, or whose fair value is disclosed in the financial statements are classified in the fair value hierarchy in the following manner, based on the lowest level of inputs which is significant to the entire measurement:

- Level 1 – Quoted (unadjusted) market prices on an active market for identical assets and liabilities,
- Level 2 – Valuation techniques, for which the lowest level inputs, which are significant to the entire measurement, are observable for the asset or liability, either directly or indirectly,
- Level 3 - Valuation techniques, for which the lowest level inputs, which are significant to the entire measurement, are unobservable inputs for the asset or liability.

At each reporting date, for recurring individual assets and liabilities, the Group assesses whether any transfers have been made between the levels of fair value hierarchy by re-assessment of the classification to the given level of fair value hierarchy, based on the materiality of inputs from the lowest level which is significant to the entire fair value measurement.

For the purpose of the disclosure of the results of re-measurement to fair value, the Group classified its assets and liabilities into certain classes, based on the nature, characteristics and risks of the asset or liability, and assigned for them their level in the fair value hierarchy, as described above.

8.3. Foreign currency translation

Transactions denominated in currencies other than PLN are translated into Polish zloty at the foreign exchange rate prevailing on the transaction date.

At the reporting date, monetary assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP rate prevailing for the given currency at the year-end. Exchange

differences resulting from translation are recorded, as appropriate, under finance income or finance costs, or – in cases defined in accounting policies – are capitalised in the cost of the assets.

Non-monetary foreign currency assets and liabilities stated at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated into Polish zloty using the rate of exchange binding at the date of re-measurement to fair value. Any resultant gains or losses on the translation of non-monetary foreign currency assets and liabilities recognised at fair value are recognised consistently with the recognition of profit or loss on fair value re-measurement i.e. under other comprehensive income or in profit or loss, depending on the place of recognition of a change in the fair value.

The following exchange rates were used for valuation purposes:

	<i>31 December 2017</i>	<i>31 December 2016</i>
USD	3,4813	4,1793
EUR	4,1709	4,4240
CZK	0,1632	0,1637
100 HUF	1,3449	1,4224

In 2017, the functional currency of foreign subsidiary company was Hungarian forint (HUF). At the reporting date, assets and liabilities of the foreign subsidiary are translated into Group presentation currency at the exchange rate prevailing at the reporting date, while its statement of comprehensive income is translated at the weighted average rate of exchange for the given reporting period. Any resultant exchange differences are recognized under other comprehensive income and accumulated under separate item of the shareholder's equity (*Cumulative translation differences*). Where a foreign subsidiary is disposed of, the deferred foreign exchange differences accumulated in the shareholders' equity are taken to the profit or loss.

The weighted average exchange rates for the presented reporting periods were as follows:

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
100 HUF	1.3767	1.4007

8.4. Property, plant and equipment

Property, plant and equipment are stated at [acquisition] cost or cost of development less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The acquisition cost also comprises the cost of replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are taken to the profit or loss when incurred.

The acquisition cost of property, plant and equipment transferred by clients is determined at the amount of the fair value of those transferred items current at the date of obtaining control.

Upon purchase, fixed assets are divided into components which represent items with a significant value that can be allocated a separate useful life. Overhauls also represent asset component.

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives.

Class	Useful life
Buildings and constructions	5 – 50 years
Plant and machinery	2 - 25 years
Office equipment	2 - 5 years
Motor vehicles	3 - 10 years
Computers	3 - 10 years

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the financial year that has just ended.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on de-recognition of an asset (calculated as the difference

between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss for the period in which de-recognition took place.

Assets under construction (construction in progress) include assets in the course of construction or assembly and are recognized at acquisition cost or cost of construction less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

8.5. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for capitalised research and development costs) are measured on initial recognition at [acquisition] cost or cost of development. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at [acquisition] cost or cost of development less accumulated amortisation and impairment losses, if any. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged against profits in the year (taken to the cost of the period), in which they are incurred.

The useful lives of intangible assets are assessed by the Group to be either finite or indefinite. Intangible assets with finite useful lives are amortised over their useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method of an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation charge on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually, either individually or at the level of cash generating unit.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the reporting period that has just ended.

Research and development costs

Research costs are expensed to the profit or loss when incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition, the historical cost model is applied, which requires that the asset is carried at [acquisition] cost or cost of development less any accumulated amortisation and accumulated impairment losses. Capitalised expenditure is amortised over the period of the expected future sales income from the related project.

The summary of accounting policies applied by the Group to intangible assets is as follows:

	<i>Computer software</i>
Useful life	2 -10 years
Method of amortisation	Straight line method
Internally generated or acquired	Acquired
Impairment testing	Annual assessment to determine whether there is any indication that an asset may be impaired

Any gains or losses on de-recognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the item of assets, and are recognised in the profit or loss upon de-recognition.

8.6. Leases

The Group as lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to the ownership of a leased item, are recognized in the statement of financial position at the inception of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between finance charges and reduction of the outstanding lease liability so as to produce a constant rate of interest on the outstanding liability. Finance charges are recorded directly in the profit or loss, unless capitalization criteria have been fulfilled.

The policies of depreciation of fixed assets used under finance lease agreements should be consistent with the policies used for depreciation of Group entities' own depreciable assets. If, however, there is no sufficient certainty as to whether the lessee receives ownership title prior to the end of the lease term, fixed assets leased under finance lease agreements are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and rewards incidental to the ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and subsequent lease payments are recognised under operating expenses in the profit or loss on a straight-line basis over the lease term.

Contingent lease payments are recognised as cost in the period, in which they become due and payable.

In the reporting period, the Group did not use, and currently does not use lease services.

8.7. Impairment of non-financial long-term assets

An assessment is made at each reporting date to determine whether there is any indication that a non-financial long-term asset may be impaired. If such indication exists, or in case an annual impairment testing is required, the Group makes an estimate of the recoverable amount of that asset or of the cash generating unit to which such asset belongs.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is any indication that the previously recognised impairment losses are no longer required or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount of the given item. A previously recognised impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would be determined, net of accumulated depreciation or accumulated amortisation, had no impairment loss been recognised for the asset in prior years. Reversal of impairment losses is recognised immediately as revenue in the statement of comprehensive income. After recognition of impairment loss reversal, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's verified carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

8.8. Borrowing costs

Borrowing costs are capitalized to the cost of development of property, plant and equipment or intangible assets. Included in the borrowing costs are the following items: interest calculated using the effective interest rate, finance charges under finance lease agreements and foreign exchange gains/ losses that arose in connection with external financing to the amount representing the adjustment to interest expense.

8.9. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition were designated as at fair value through profit or loss,
- those that are designated as available for sale, and
- those that meet definition of loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the reporting date.

A financial asset is classified as at fair value through profit or loss if it meets either of the following conditions:

- a) It is classified as held for trading. A financial assets is classified as held for trading, if it is:
 - acquired for the purpose of selling in the near term,
 - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking,
 - a derivative, except for a derivative that is a designated and effective hedging instrument, or a component of financial guarantee agreement.
- b) It is designated as at fair value through profit or loss upon initial recognition, in accordance with IAS 39.

Financial assets at fair value through profit or loss are measured at fair value, which takes into account their market value at the reporting date, but no sale transaction costs. Any changes in the fair value of these instruments are taken to the statement of comprehensive income as finance income (favourable net changes in the fair value) or finance costs (unfavourable net changes in the fair value). If a contract contains one or more embedded derivatives, the entire contract may be classified to the group of financial assets at fair value thorough profit or loss. This does not apply to instances, where embedded derivative does not materially affect cash flows from the contract or where bifurcating embedded derivatives from host contracts is expressly forbidden with or without any high level review, had similar hybrid instrument been considered in the first place. Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment or valuation (accounting mismatch); or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed 12 months after the reporting date. Loans and receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Available-for-sale financial assets are measured at fair value, increased by the transaction costs that may be directly attributable to the acquisition or issuance of an available-for-sale financial asset. Where no quoted market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value (if quoted market price determined in regulated market is available or if the fair value can be determined using other reliable method) and acquisition cost, net of deferred tax, of financial assets available for sale are taken to other comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment losses is taken to the statement of comprehensive income as finance cost.

Purchase and sale of financial assets is recognized at the transaction date. Initially, financial assets are recognized at fair value plus, in case of financial assets other than those classified as financial assets at fair value through profit or loss, transaction costs that may be directly attributed to the acquisition.

Financial assets are derecognized if the Group loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset, or where all cash flows attributed to the given asset are transferred to an independent third party.

Where the Group:

- has a legally enforceable right to set off the recognized amounts; and

- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously;

a financial asset and financial liability are offset, and the net amount is presented in the statement of financial position.

The master netting arrangement referred to in IAS 32.50 is not the basis for the set-off if the above two set-off criteria are not fulfilled.

8.10. Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

8.10.1. Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the original effective interest rate (i.e. the effective interest rate computed upon asset initial recognition). The carrying amount of the asset is reduced through the allowance account. The amount of the loss is recognised in the profit or loss.

The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and assessed collectively for impairment. Assets which are individually assessed for impairment and for which an impairment loss was recognised, or it was assumed that the then current impairment loss would not change, are not included in collective impairment assessment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit or loss, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

8.10.2. Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative instrument that is linked to and has to be settled by delivery of such unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

8.10.3. Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale asset, then the amount of the difference between [acquisition] cost (net of any principal and interest payments) and current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss, is removed from equity and reclassified to profit or loss. Reversals of impairment losses on equity instruments classified as available-for-sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in the profit or loss.

8.11. Derivative financial instruments and hedges

The Group uses mainly currency forward contracts (currency forwards) to hedge against the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken directly to the net profit or loss for the year.

The fair value of currency forwards is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

8.12. Inventories

Inventories are stated at the lower of [acquisition] cost/ cost of development and net realizable value.

The acquisition cost or cost of development of each inventory item includes all purchase- or development-related costs and the costs incurred in bringing each inventory item to its present location and condition, and are accounted for as follows for both the current and previous year:

Raw materials and scrap	–	cost determined on a first-in, first-out basis;
Finished goods and work-in-progress	–	cost of direct materials and labour and an appropriate proportion of manufacturing overheads based on normal operating capacity, excluding borrowing costs;
Goods for resale	–	cost determined on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

8.13. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any doubtful debts. An estimate for doubtful debts' allowance is made when the collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to the present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognized as finance income.

Other receivables include, in particular, state budget receivables, except for current tax assets which represent a separate item in the statement of financial position. Prepayments are recognized in accordance with the character of the underlying assets, i.e. under non-current or current assets. As non-monetary items, prepayments are not discounted.

State budget receivables are presented under other non-financial assets, except for current tax assets which represent a separate item in the statement of financial position.

8.14. Cash and cash equivalents

Cash and short-term deposits recognized in the statement of financial position comprise cash at bank and cash on hand and the short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, reduced by outstanding overdraft facilities.

8.15. Interest-bearing loans and borrowings and debt securities

All loans and borrowings and debt securities are initially recognized at fair value, net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings and debt securities are measured at amortised cost using the effective interest rate method. In determining amortised cost, transaction costs and any discount or premium on settlement are taken into account.

Revenues and expenses are recognised in the profit or loss when the underlying liabilities are derecognised or settled using the effective interest rate.

8.16. Trade and other payables

Short-term trade payables are carried at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including bifurcated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment of both valuation and recognition of gains or losses that would otherwise arise from the measurement on a different basis; or (ii) the liabilities are part of a group of financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) financial liabilities contain embedded derivatives which should be recorded separately.

Financial liabilities at fair value through profit or loss are re-measured to fair value, after considering their market value at the reporting date without transaction costs. Any changes in the fair value of these liabilities are recognised in the statement of comprehensive income as finance income or finance cost.

Other financial liabilities which are not financial instruments at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

A financial liability is derecognized [removed from the statement of financial position] by the Group when the obligation under the liability is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instrument with substantially different terms is accounted for by the Group as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, significant modifications to the terms and conditions of an existing financial liability are treated as an extinguishment of the original financial liability and the recognition of a new financial liability with any resultant differences in the respective carrying amounts taken to profit or loss.

Other non-financial liabilities include, in particular, liabilities to the tax office in respect of value added tax, social security, personal income tax and advance payment liabilities which will be settled by way of delivery of goods or services, or fixed assets. Other non-financial liabilities are recognized at the amount due and payable.

8.17. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits is certain or highly probable to be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the costs covered by the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Where the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to the present value using a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

8.18. Employee benefits

In accordance with appropriate internal remuneration regulations, employees of the Group are entitled to retirement benefits. Retirement benefits are paid out as one-off benefit upon retirement. The amount of those benefits depends on the number of years of employment and employee's average salary. The Group creates a provision for future liabilities under retirement benefits in order to allocate the costs of those allowances to the periods to which they relate. In accordance with IAS 19, retirement benefits are post-employment defined benefits. The present value of the Company's liabilities resulting from the provision for retirement benefits is calculated at each reporting date by an independent actuary. The balance of calculated liabilities equates discounted payments which will be made in the future, and accounts for staff turnover, and relates to the period to the reporting date. Demographic information and information on staff turnover are based on historical information.

Re-valuation of retirement benefits liabilities from defined benefit plans covering actuarial gains and losses is recognised under other comprehensive income and is not subject to further re-classification to profit or loss.

The Group recognises the following changes in net liabilities from defined benefit plans under, as appropriate, cost of sales and general administrative expenses, which are composed of the following:

- employment costs (including, among others, current and past service costs),
- net interest on net liabilities from defined benefit plans.

8.19. Incentive programs

Executives of the Company participate in the incentive programs (schemes) which were described in detail in Note 20.2.

8.19.1. Transactions settled in equity instruments

The cost of employee transactions settled in equity instruments is measured by reference to instrument's fair value at the underlying rights grant date. The fair value of equity instruments is determined by an independent appraiser, based on the guidelines provided in IFRS 2. In measuring equity-settled transactions, market conditions are taken into account (which relate to the Company's share price) as well as non-market vesting conditions.

The cost of equity-settled transactions is recognised along with the matching increase in equity in the period, in which the pre-requisite performance- or service-related conditions were satisfied, and which ends on the day, on which the given employees become fully eligible employees („vesting date”). At each reporting date to a vesting date, the accumulated cost of equity-settled employee transactions reflects the extent of the duration of vesting period and the number of awards, which – in the opinion of the Company's Management Board as at that date, based on the best possible estimate of the number of equity instruments - will finally vest.

No costs are recognised for the equity instruments, to which the rights will not finally vest, except for these equity instruments, for which the acquisition of rights depends on market-related conditions or on the conditions other than vesting conditions, which are treated as vested, irrespective of whether market-related conditions or the conditions other than vesting conditions have been satisfied or not, provided that all other performance- or service-related conditions have been met.

Where vesting conditions for equity-settled transaction are modified, as part of minimum requirement fulfilment, transaction costs are recognised as if the vesting conditions have not been changed. In addition, costs are recognised for each increase in the transaction value resulting from modification, measured at the change date.

If an award settled in equity-instruments is cancelled, it is treated in such way as if the underlying rights vested at the cancellation date, and any costs not yet recognised are recognised immediately. This also relates to the awards, for which the conditions other than vesting conditions under the control of the Company or employee are not satisfied. If, however, the cancelled award is replaced by a new award, defined as a replacement award at its grant date, the award cancelled and the new award are treated as a modification of the original award i.e. in the manner described in the paragraph above.

8.20. Allocation of profit for employee purposes and special funds

In accordance with Polish business practice, entity's shareholders may appropriate profit for employee purposes in the form of transfer to the company's Social Fund, or to any other special funds. In the IFRS financial statements, this portion of allocated profit is included in the cost of business activities of the period, in which profit allocation was authorised by the Shareholders' Meeting.

8.21. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised at the fair value of the consideration received or receivable, net of Value Added Tax and discounts. The following specific recognition criteria must also be met before revenue is recognised:

8.21.1. Sale of goods for resale, finished goods, raw materials and scrap

Revenue is recognised when the significant risks and rewards of the ownership of goods for resale, finished goods, raw materials and scrap have passed to the buyer and when the amount of the revenue can be reliably measured.

8.21.2. Rendering of services

Revenue from the provision of services is recognised by reference to the stage of service completion. If the results of a given contract cannot be assessed in a reliable manner, revenue from this contract is recognized only to the amount of the incurred costs that the Group expects to recover. The Group renders re-melting services (*usługi przetopu*) to third parties.

8.21.3. Interest

Interest revenue is recognised as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the underlying financial asset.

8.21.4. Dividends

Dividend income is recognised when the shareholders' rights to receive the payment are established.

8.21.5. Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Where the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to the profit or loss over the estimated useful life of the underlying asset by way of equal annual instalments.

8.22. Income taxes

8.22.1. Current tax

Current tax liabilities and current tax assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

8.22.2. Deferred tax

For financial reporting purposes, deferred tax is recognised, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liability is recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax asset is recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is also recognized outside profit or loss: under other comprehensive income if relates to items recognised under other comprehensive income, or under equity – if relates to items recognized in equity.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes that are levied by the same taxation authority.

8.22.3. Tax credits

The activities of the production plants of Alumetal Poland in Gorzyce and Nowa Sól are conducted in the Special Economic Zones (SEZ) such as Tarnobrzaska SEZ „Euro-Park Wisłosan” and Kostrzyńsko-Słubicka SEZ, based on the following permits (licenses):

Type of permit/ license	Validity date
License No. 92/ARP S.A./2004 of 14 July 2004 to conduct business operations in the Tarnobrzaska SEZ in the Gorzyce production plant (with changes).	31 December 2026
License No. 189/ARP S.A./2010 of 1 July 2010 to conduct business operations in the Tarnobrzaska SEZ in the Gorzyce production plant.	31 December 2026
License No. 216/ARP S.A./2011 of 8 December 2011 to conduct business operations in the Tarnobrzaska SEZ in the Gorzyce production plant.	31 December 2026
License No. 260/ARP S.A./2014 of 28 May 2014 to conduct business operations in the Tarnobrzaska SEZ in the Gorzyce production plant.	31 December 2026
License No. 319/ARP S.A./2016 of 27 September 2016 to conduct business operations in the Tarnobrzaska SEZ in the Gorzyce production plant.	31 December 2026
License No. 163 of 15 July 2008 to conduct business operations in the Kostrzyńsko-Słubicka SEZ in the Nowa Sól production plant (with changes).	31 December 2026
License No. 217 of 22 March 2012 to conduct business operations in the Kostrzyńsko-Słubicka SEZ in the Nowa Sól production plant.	31 December 2026
License No. 247 of 29 April 2014 to conduct business operations in the Kostrzyńsko-Słubicka SEZ in the Nowa Sól production plant.	31 December 2026

In accordance with the appropriate regulations governing SEZs functioning, revenues from business activities conducted in a SEZ described in the license are exempted from [corporate] income tax. The amount of public aid granted in the form of this exemption/ tax relief (i.e. tax credit) may not exceed the amount of public aid granted to an entrepreneur that is admissible for the areas qualifying to receive the highest possible amount of public aid, determined in accordance with the provisions of the Act on Public Aid Procedures. Covered by this exemption are solely revenues from business activities conducted in a SEZ. At the same time, if a license is cancelled, tax remitter loses the exemption right and is obligated to pay the amount of tax calculated for the entire period of tax exemption.

SEZ licenses are of conditional nature and define the scope of business activities and the terms and conditions for their conducting, and relate, among others, to: (i) the number of persons employed to conduct business activities in a SEZ in a defined period of time; (ii) entrepreneur investment expenditure in a SEZ in the amount exceeding a certain pre-determined amount; (iii) deadline for investment completion; (iv) maximum value of investment's qualified costs and 2-year qualified labour costs. The Act on SEZ provides for a possibility of a loss of, or restriction of rights under the given license, if at least one of the below circumstances materialise: (i) an entity ceases to conduct in a SEZ business operations covered by the license; (ii) an entity grossly violates the terms and

conditions set forth in the license; (iii) it does not remove defaults identified during control within the timeframe set for defaults removal.

The terms and conditions regarding maintenance of appropriate employment levels and making investments in the Special Economic Zones under the license of 14 July 2004, 15 July 2008, 1 July 2010 and 8 December 2011 were fulfilled. The description below relates only to these licenses, for which the qualifying conditions must still be satisfied in the ensuing reporting periods.

Under the license of 22 March 2012, the Group was required to incur investment expenditure at the minimum level of PLN 25 million and the maximum level of PLN 37.5 million by 31 December 2015, and to increase the employment level to 125 persons in the Kostrzyńsko-Słubicka SEZ by 31 December 2013 and to maintain this headcount to 31 December 2018. As at 31 December 2017, under this license, the Group incurred qualified expenditure with respect to the Kostrzyńsko-Słubicka SEZ in the amount of PLN 37.3 million and the employee headcount was 169 persons.

Under the license of 29 April 2014, the Group was required to incur investment expenditure at the minimum level of PLN 12 million and the maximum level of PLN 18 million by 31 December 2017, and to increase the employment level to 141 persons in the Kostrzyńsko-Słubicka SEZ by 31 December 2014 and to maintain this headcount to 31 December 2019. As at 31 December 2017, under this license, the Group incurred qualified expenditure with respect to the Kostrzyńsko-Słubicka SEZ in the amount of PLN 17.4 million and the employee headcount was 169 persons.

Under the license of 28 May 2014, the Group was required to: (i) incur investment expenditure in the Tarnobrzaska SEZ at the minimum level of PLN 8 million by 31 December 2017, and cumulatively not less than PLN 12 million to 31 December 2021, but not more than PLN 18 million, of which, as at 31 December 2017 the qualifying expenditure amounted to PLN 8.3 million, as well as to (ii) maintain employee headcount at minimum 126 persons by 31 December 2017, of which employee headcount as at 31 December 2017 was 169 persons, while as at 31 December 2016 – 170 persons.

Under the license of 27 September 2016, the Group was required to: (i) incur investment expenditure in the Tarnobrzaska SEZ at the minimum level of PLN 33.1 million by 31 December 2019, and cumulatively not less than PLN 55 million to 31 December 2023 but not more than PLN 71.5 million, of which, as at 31 December 2017 the qualifying expenditure amounted to PLN 18.0 million as well as to (ii) maintain employee headcount at minimum 134 persons by 31 December 2023, of which employee headcount as at 31 December 2017 was 169 persons, while as at 31 December 2016 – 170 persons.

To the best knowledge of the Management Board, as at the date of the preparation of these consolidated financial statements, the fulfilment of and compliance with the above regulations necessary for the Group to be able to use the tax credits being, among others, deadlines for SEZ tasks performance, minimum investment expenditure or employee headcount are not at risk.

In addition, the Alumetal Group Hungary Kft. will be allowed to benefit from public aid in the form of partial income tax relief (tax credit) (in the years 2019 – 2028), based on the application for such tax relief for development purposes filed on 2 October 2014, as documented by the incurred qualified expenditure. At the same time, the Alumetal Group Hungary Kft. received from the Hungarian government a binding offer, and has accepted it (with the underlying contract for the support finally becoming effective on 2 February 2016, for a government grant in the form of cash for this undertaking. In 1Q 2018, an annex was signed that modified the contract in the part relating to beneficiary's obligations concerning employee headcount, contract security (performance bond) and the date for project realization. The total value of Hungarian public aid from these two titles is limited by the 35% level of the incurred qualified investment expenditure.

In the case of Alumetal Group Hungary Kft, the company is obligated to: (i) construct a production plant with a production capacity of at least 55 000 tons per year (this obligation was already fulfilled); (ii) maintain yearly average employee headcount at 113 persons starting from 2019 to 2025 (with at least 2.7% of employees of higher education) while retaining total wage bill at a pre-defined level; (iii) maintain project life-period for at least 5 years (in the case of grant/ subsidy contract – for at least 7 years); (iv) realize sales revenue at certain pre-defined level, and (v) start plant operation not later than on 31 December 2018. The public aid in Hungary may be lost or rescinded if the Alumetal Group Hungary Kft. does not fulfil the above requirements or its obligations under labour, environmental protection or tax law.

To the best knowledge of the Management Board, as at the date of the preparation of these consolidated financial statements, the fulfilment of and compliance with the above regulations necessary for the Alumetal Group Hungary Kft. to be able to use the tax credits are not at risk.

As described in Note 5.2, in accordance with IAS 12 *Income Taxes* and detailed regulations governing functioning of partial exemption from income tax (tax credit) for Polish entities and for the Hungarian subsidiary, based on the prepared forecasts the Group estimated and recognised the value of deferred tax asset relating to public aid planned to be used in the ensuing years (as described in more detail in Note 14.3).

8.22.4. Value Added Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authorities, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as appropriate; and
- receivables and payables, which are stated inclusive of the amount of value added tax.

The net amount of value added tax recoverable from or payable to the taxation authorities is recognized in the statement of financial position as part of receivables or payables.

8.23. Earnings per share

Earnings per share for each reporting period is calculated as the quotient of the net profit for the given accounting period and the weighted average number of shares outstanding in that period.

9. Changes in applied accounting policies

The accounting policies applied in the preparation of the attached consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2016, except for the application of the amendments described below. These amended IFRSs were used in these consolidated financial statements in accordance with their effective dates, however, they did not have any material impact on the presented and disclosed financial information or were not applicable to the transactions made by the Group.

- Amendments to IAS 12 *Recognition of deferred tax assets for unrealised losses*

The amendments clarify the issues relating to the origination of deductible temporary differences for debt instruments measured at fair value, estimation of possible future taxable profit and assessment whether the taxable profit earned will allow for the utilization of deductible temporary differences. These amendments are applied retrospectively.

- Amendments to IAS 7 *Disclosure initiative*

These Amendments obligate the entity do disclose information which allow users of the financial statements make an assessment regarding change in liabilities from financing activities. No comparative information for prior reporting period is required.

The Group did not decide to apply earlier any other standard, interpretation or amendment that was issued but has not become effective in light of the EU regulations.

10. New standards and interpretations that have been issued but are not yet effective

The following standards and interpretations were issued by the IASB (*International Accounting Standards Board*) or IFRIC (*International Financial Reporting Interpretations Committee*) but have not yet become effective:

- **IFRS 9 *Financial Instruments*** (issued on 24 July 2014) - effective for annual periods beginning on or after 1 January 2018.

- **IFRS 14 *Regulatory Deferral Accounts*** (issued on 30 January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard; at the date of authorization of these consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2016.
- **IFRS 15 *Revenue from Contracts with Customers*** (issued on 28 May 2014) – including amendments to IFRS 15 *Effective date of IFRS 15* (issued on 11 September 2015). Effective for annual periods beginning on or after 1 January 2018.
- **Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (issued on 11 September 2014) – the work leading to the authorization of these amendments has been postponed by the EU *sine die*; the effective date for these amendments has been deferred by the IASB for an indefinite period of time.
- **IFRS 16 *Leases*** (issued on 13 January 2016) – effective for annual periods beginning on or after 1 January 2019.
- **Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*** (issued on 12 September 2016) – effective for annual periods beginning on or after 1 January 2018.
- **Explanations to IFRS 15 *Revenue from Contracts with Customers*** (issued on 12 April 2016) – effective for annual periods beginning on or after 1 January 2018.
- **Amendments to IFRS 2 *The Classification and Measurement of Share-based Payment Transactions*** (issued on 20 June 2016) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2018.
- **Amendments to IAS 28 *Investments in Associates and Joint Ventures*** representing part of **Annual Improvements to IFRSs, Cycle 2014-2016** (issued on 8 December 2016) – effective for annual periods beginning on or after 1 January 2018.
- **Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards*** representing part of **Annual Improvements to IFRSs, Cycle 2014-2016** (issued on 8 December 2016)) – effective for annual periods beginning on or after 1 January 2018.
- **IFRIC 22 *Foreign Currency Transactions and Advance Consideration*** (issued on 8 December 2016) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2018.
- **Amendments to IAS 40 *Transfers of Investment Property*** (issued on 8 December 2016) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2018.
- **IFRS 17 *Insurance Contracts*** (issued on 18 May 2017) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2021.
- **IFRIC 23 *Uncertainty of Income Tax Treatments*** (issued on 7 June 2017) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2019.
- **Amendments to IFRS 9 *Prepayment features with negative compensation*** (issued on 12 October 2017) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2019.
- **Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*** (issued on 12 October 2017) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2019.
- **Annual Improvements to IFRSs, Cycle 2015-2017** (issued on 12 December 2017) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2019.

- **Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*** (issued on 7 February 2018) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2019.

The effective dates are the dates arising from the contents of Standards published by the International Accounting Standards Board. Dates of application in the European Union may differ from the dates arising from standard contents and are published at the time of endorsement for use by the European Union.

Presented below is the information on the implementation status of the standards which are effective for annual periods beginning on or after 1 January 2018.

10.1. Implementation of IFRS 15

The International Financial Reporting Standard 15 *Revenue from Contracts with Customers* („IFRS 15”), which was issued in May 2014 and then amended in April 2016 has established the so-called “Five-step Model” for recognition of revenue from contracts with customers. In accordance with IFRS 15, revenue is recognised at the amount of a consideration, to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

The new Standard will replace all current requirements relating to revenue recognition in accordance with IFRS. The Standard is applicable to annual reporting periods commencing on or after 1 January 2018. Earlier application is permitted.

The Group has the right to select the full or modified retrospective approach, and transitional provisions provide for certain practical expedients.

The Group intends to apply IFRS 15 as of its effective date and use the full retrospective method.

The Group operates in the area of manufacture and sale of aluminium casting alloys, and – to a lesser extent – of fluxes and quenching salts, and sells its products and scrap, and – incidentally goods for resale and raw materials. The Group also renders production services on a one-off basis, which, most often, consist in re-melting of a raw material delivered by customer.

In addition, Alumetal S.A. regularly renders management, accounting and IT services, but only to other Alumetal Group companies.

Revenue is recognised to the extent, to which it is probable that the Group will receive economic benefits relating to the given transaction and where the amount of revenue can be measured in a reliable manner. Revenue is recognised at the fair value of the consideration received or receivable, less value added tax (VAT) and discounts and rebates, if any. In revenue recognition, the following criteria are also binding:

- A. Sale of goods for resale, finished goods, raw materials and scrap

Revenue is recognised where the significant risks and rewards of ownership of goods for resale, finished goods, raw materials and scrap have passed to the buyer and where the amount of revenue can be measured in a reliable manner.

- B. Sale of services (production and non-production)

Revenue from the provision of services is recognised in proportion to service completion.

For the sale of goods for resale, finished goods, raw materials and scrap, customer contract contains only one performance obligation – sale of promised goods. The Group estimates that the impact of IFRS 15 implementation on recognition of revenue from contracts with customers and on the financial results of the Group will not be significant. Revenue is recognised at a specific moment in time i.e. where a customer assumes control over promised goods for resale.

As part of impact assessment of IFRS 15 implementation, the Group has considered the following aspects:

- *Variable consideration*

In accordance with IFRS 15, where a contract contains elements of variable consideration, the entity estimates the amount of variable consideration, to which it will be entitled in exchange for transferring promised goods or services to a customer, and includes variable consideration in the transaction price, in whole or in part, if, and only

to the extent, that is highly probable that its inclusion will not result in a reversal in the future of a considerable amount of earlier recognised accumulated revenue, when the uncertainty relating to variable consideration has been subsequently resolved.

The performed analysis proved that variable consideration occurs in rather limited number of contracts with customers and relates only to several customers, for which contracts provide for a discount for early consideration payment (in 2017, this related to only 3 customers whose sales revenue accounted for 0.35% of total sales revenue for 2017).

- Right to return

Contracts with customers do not provide for the possibility of return of delivered goods following unilateral customer decision.

- Guarantees

The Group issues guarantees for sold products which only ensure customers that the given product complies with the specification agreed by the parties and do not represent an additional service. Group products are verified by customers for quality directly upon delivery or shortly afterwards, and so there is no possibility of large scale warranty returns between these two periods of time (Alumetal is responsible for delivered goods only to the moment of change of its physical-chemical features i.e. to the moment of melting). Customer complaints in the Alumetal Group in 2017 accounted for 0.04 % of realized sales.

- Sale of a bundle of goods and services or a bundle of several services rendered in different periods

In accordance with IFRS 15, the transaction price is allocated to each performance obligation by reference to relative standalone selling price. The Group does not sell significant amounts of Product Bundles (multiple – element arrangement for the sale of products and goods for resale together with performance of other services) both in the case of goods for resale, finished goods, raw materials and scrap, as well as in the case of rendering of production services (these are not stretched over time and are invoiced immediately after delivery to a customer of the object of service, which occurs systematically) and non-production services (invoiced systematically on a monthly basis).

- Advance payments from customers

The Group presents advance payments from customers under „Trade and other payables”. In accordance with current accounting policies, the Group does not account for interest expense calculated on advance payments. In accordance with IFRS 15, the Group assesses whether the contract contains a significant financing component. The Group has elected to apply a practical expedient, whereby it does not adjust the promised consideration by the impact of a significant financing component, where upon contract concluding it expects that the period from the moment of transfer to a customer of promised goods or services to the moment of consideration payment for delivered goods/ rendered services will not exceed one year. For this reason, for short-term advance payments, the Group will not assess significant financing components (due to a limited number of contracts where despatch of goods takes place immediately after customer’s making an advance payment).

- Presentation and disclosure requirements

In addition, in accordance with IFRS 15, the Group recognises revenue from contracts with customers analysed by categories which reflect the manner, in which the economic factors affect the character, amount, payment date and uncertainty of revenues and cash flows. In addition, the Group discloses sufficient information that allow the users of the financial statements understand the relation between revenue recognition analysed by categories and information on revenues, which the entity discloses for each reporting segment. The disclosure and measurement requirement under IFRS 15 are also applicable to the recognition and measurement of gains/ losses on disposal of non-financial assets (such as property, plant and equipment or intangible assets), where such disposal is not made in the ordinary course of business.

Considering all, the Alumetal Group expects that the impact of IFRS 15 implementation on recognition of revenue and on the financial result of the Group will be immaterial.

10.2. Implementation of IFRS 9

In July 2014, the International Accounting Standards Board published the International Financial Reporting Standard 9 *Financial Instruments* („IFRS 9”). IFRS 9 covers the following three aspects relating to financial instruments: classification and measurement, loss of value and hedge accounting. IFRS 9 is applicable to annual reporting periods commencing on or after 1 January 2018 with earlier application possible.

The Group plans to implement IFRS 9 as of its effective date with no comparative data restatement.

In 2017, the Group performed a detailed assessment of the impact of IFRS 9 implementation on the Group’s accounting policies with respect to the Group’s activities or its financial results. This assessment is based on the currently available information and may change in response to obtaining reasonable and documentable additional information in the period, in which the Group becomes the first-time adopter of IFRS 9.

The Group does not expect any material impact of IFRS 9 implementation on the statement of financial position or shareholders’ equity.

a) *Classification and measurement*

The Group expects that the implementation of IFRS 9 requirements in the area of classification and measurement will not have any material impact on the statement of financial position or on the shareholders’ equity. It is expected that all financial assets which to date have been measured at fair value will continue to be measured at fair value.

The Group will take advantage of the possibility to choose and in the case of interest in non-listed companies, will account for any further changes in their fair value through other comprehensive income, and hence the application of IFRS 9 will not have any material impact on the Group’s financial result.

Trade receivables are held with a view to obtaining contractual cash flows, and the Group does not sell trade receivables in factoring transactions – these will continue to be measured at amortised cost through profit or loss. The Group will make use of a practical expedient and will not assess significant components of financing for trade receivables maturing in less than 12 months.

b) *Impairment loss*

In accordance with IFRS 9, the entity measures expected credit losses in the amount equating to 12-month expected credit losses or credit losses expected over the life of a financial instrument. For trade receivables, the Group will apply the simplified approach and will measure the expected credit losses in the amount equating to credit losses expected over credit entire life period.

In accordance with the currently applied estimation methods, in calculating impairment losses the Group has already accounted for the expected credit losses.

Given the above, the amount of the impairment loss calculated in accordance with IFRS 9 approximates the amount of impairment loss determined based on the accounting policies that have been applied to date.

In conclusion, the Group expects that the impact of IFRS 9 implementation will be immaterial.

10.3. Implementation of IFRS 16

IFRS 16 requires that a lessor and lessee provided more disclosures than under IAS 17.

The lessee has the right to choose either the full or modified retrospective approach and the transitional provisions provide for certain practical expedients.

IFRS 16 is applicable to annual periods commencing on or after 1 January 2019. Earlier application is permitted for the entities which apply IFRS 15 as of the date or prior to the date of first-time application of IFRS 16. The Group has not elected to apply IFRS 16 before its effective date.

As at the date of the authorization of these consolidated financial statements for publication, the Management Board is in the course of assessment of the impact of IFRS 16 implementation on the accounting policies applied by the Group with respect to its operations or financial results.

11. Operating segments

For management purposes, the Group was divided into operating segments identified based on the type of goods produced and services rendered. Therefore, the following operating segments were identified:

1) Casting alloys

The main output of the production process of the Group are aluminium casting alloys (master alloys and casting alloys) produced in the form of one-notch ingots (*aluminiowe stopy odlewnicze produkowane w postaci gąsek dwudzielnych*) (of 6–8 kg), two-notch ingots (of approx. 13 kg) and in the form of waffle plates (wafers) (of approx. 12 kg) in the production plant in Nowa Sól and Gorzyce. Apart from solid casting alloys, the Alumetal Group delivers to its customers alloys in the form of liquid metal.

The total real production capacity of the three Polish production plants in 2016 amounted to 165.0 thousand tons per year (similar to that of 2015). At the end of September 2016, the Alumetal Group started the production activities in the newly-constructed plant in Hungary, in Komarom, which resulted in an increase in its production capacities to 225 thousand tons a year.

Given the systematic exceeding of real production capacity by the Gorzyce and Nowa Sól plants (above 100% of production capacity) observed in 2016 which related to a continuous increase in the efficiency of certain production lines, the Management Board of Alumetal SA increased as of 2017 the assumptions regarding real production capacity of Alumetal Poland sp. z o.o. by 8 thousand tons per year, i.e. from 165 thousand tons per year to 173 thousand tons per year.

As a result, the production capacity of the entire Group increased from 225 thousand tons per year to 233 thousand tons per year. Annual real production capacity is understood to mean nominal production capacity reduced by the effect of standard stoppage of main production equipment during the year resulting from, among others, natural for the automotive industry periods of limited production (summer break in August and Christmas break in December), during which the Alumetal Group carries out necessary repair and maintenance work.

Chemical composition of aluminium casting alloys is adjusted to individual customer needs and complies with the currently valid global, European and Polish standards.

Casting alloys are delivered mainly to the customers of the automotive industry (approx. 87.4% of the volume sold in 2017 compared to 90.2% in 2016), but also to other industry segments: construction, metallurgy, machine, smelting and other.

2) Fluxes and salts

The Alumetal Group, through the T+S sp z o.o. company, produces in the Kęty production plant auxiliary materials used in the smelting and casting industries, including fluxes (*topniki*), aluminium refiners (*rafinatory*), quenching salts (*sole hartownicze*), modifiers (*modyfikatory*), insulating casting powders (*zasypki izolacyjne*) and casting binders (*spoiwa odlewnicze*). The production capacity of the Kęty production plant is 7 thousand tons per year.

The auxiliary materials are used in the production by Group companies of both aluminium casting alloys and master alloys; these are delivered to the external customers operating in the smelting and casting industries i.e. manufacturing such goods as steel, cast steel (*staliwo*), cast iron (*żeliwo*), copper, aluminium and non-ferrous metals.

3) Other

The by-products of the production activities of the Group are all sorts of metal wastes, including scrap from the preparation/ sorting phase of raw materials (in particular, steel scrap, zinc scrap, non-ferrous metal scrap and magnesium scrap), fine-grained aluminium scobs and swarf (*frakcje drobne wiórów*) and aluminium dross (*zgary*). The by-products of the Group are sold on the market and represent an additional source of revenue. Included in the *Other* segment are also revenues from the sale of raw materials and scrap, goods for resale and services.

The transaction prices between operating segments are determined based on the arm's length basis using the transfer prices procedures.

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The tables below present segment results for individual years, as required by IFRS 8:

2017	Casting alloys	Flux and salts	Other	Unallocated items	Consolidation exclusions	Total
Total volume (tons), of which:	177 164	2 889	31 138	-	-11 316	199 876
- <i>inter-segment sales</i>	<i>1 273</i>	<i>2 636</i>	<i>7 407</i>	-	<i>-11 316</i>	-
Of which:						
Volume of goods (tons), of which:	177 164	2 737	4 591	-	-8 460	176 032
- <i>inter-segment sales</i>	<i>1 273</i>	<i>2 597</i>	<i>4 591</i>	-	<i>-8 460</i>	-
Volume of raw materials, scrap and services (tons), of which:	-	152	25 777	-	-2 855	23 074
- <i>inter-segment sales</i>	-	<i>39</i>	<i>2 817</i>	-	<i>-2 855</i>	-
Volume of goods for resale (tons), of which:	-	0	770	-	-	770
- <i>inter-segment sales</i>	-	<i>0</i>	-	-	-	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 419 472 775.41	6 256 837.02	93 801 318.63	-	-63 290 255.52	1 456 240 675.54
- <i>inter-segment sales</i>	<i>10 481 456.90</i>	<i>5 556 214.58</i>	<i>47 252 584.04</i>	-	<i>-63 290 255.52</i>	-
Cost of sales	-1 312 315 519.98	-4 201 947.99	-85 353 535.67	-	61 484 077.51	-1 340 386 926.13
Gross profit on sales	107 157 255.43	2 054 889.03	8 447 782.96	-	-1 806 178.01	115 853 749.41
Selling expenses	-25 366 930.10	-214 114.67	-147 015.37	-	19 750.10	-25 708 310.04
Operating profit (before administrative expenses)	81 790 325.33	1 840 774.36	8 300 767.59	-	-1 786 427.91	90 145 439.38
<i>% margin</i>	<i>5.8%</i>	<i>29.4%</i>	<i>8.8%</i>	-	-	<i>6.2%</i>
Administrative expenses				-26 103 135.18	1 832 159.00	-24 270 976.18
Other operating income/ other operating expenses				2 996 921.37	-3 255.03	2 993 666.34
Depreciation/ amortization				28 163 474.44	-58 958.86	28 104 515.58
EBITDA*				-	-	96 972 645.12
<i>% margin</i>				-	-	<i>6.7%</i>
Finance income/ finance costs				39 032 875.43	-40 384 468.84	-1 351 593.41
Profit before tax				-	-	67 516 536.13
Income tax expense				3 168 546.22	-	3 168 546.22
Net profit for the year				-	-	70 685 082.35
2016	Casting alloys	Flux and salts	Other	Unallocated items	Consolidation exclusions	Total

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Total volume (tons), of which:	160 872	3 615	34 196	-	-9 237	189 446
- <i>inter-segment sales</i>	1 743	3 240	4 254	-	-9 237	-
Of which:						
Volume of goods (tons), of which:	160 872	3 452	3 067	-	-8 049	159 342
- <i>inter-segment sales</i>	1 743	3 239	3 067	-	-8 049	-
Volume of raw materials, scrap and services (tons), of which:	-	161	29 994	-	-1 187	28 968
- <i>inter-segment sales</i>	-	-	1 187	-	-1 187	-
Volume of goods for resale (tons), of which:	-	2	1 135	-	-1	1 136
- <i>inter-segment sales</i>	-	1	-	-	-1	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 224 477 551.01	7 840 261.50	94 128 876.91	-	-54 610 510.31	1 271 836 179.11
- <i>inter-segment sales</i>	13 013 370.11	6 920 758.04	34 676 382.11	-	-54 610 510.31	-
Cost of sales	-1 101 635 286.85	-5 238 913.89	-81 373 849.30	-	52 621 615.63	-1 135 626 434.41
Gross profit on sales	122 842 264.16	2 601 347.61	12 755 027.61	-	-1 988 894.68	136 209 744.70
Selling expenses	-22 622 452.00	-227 319.10	-180 780.69	-	7 131.47	-23 023 420.32
Operating profit (before administrative expenses)	100 219 812.16	2 374 028.51	12 574 246.92	-	-1 981 763.21	113 186 324.38
<i>% margin</i>	8.2%	30.3%	13.4%	-	-	8.9%
Administrative expenses				-26 944 492.31	1 957 621.71	-24 986 870.60
Other operating income/ other operating expenses				4 529 906.30	-21 124.70	4 508 781.60
Depreciation/ amortization				23 259 561.77	-53 031.47	23 206 530.30
EBITDA*				-	-	115 914 765.68
<i>% margin</i>				-	-	9.1%
Finance income/ finance costs				79 287 394.33	-78 174 918.07	1 112 476.26
Profit before tax				-	-	93 820 711.64
Income tax expense				-3 876 396.57	-	- 3 876 396.57
Net profit for the year				-	-	89 944 315.07

* EBITDA was calculated by adjusting the gross profit for finance income and finance costs and depreciation

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Segment results are monitored by the Management Board at the level of gross profit and operating profit, before administrative expenses.

Segment assets and liabilities are not monitored by the Management Board. The reconciliation with the data presented in the statement of comprehensive income is as follows:

1. Inter-segment sales are eliminated on consolidation, as presented in a separate column „Consolidation exclusions”;
2. The following items were presented in aggregate/ on a net basis: Other operating income/ other operating expenses; Finance income/ finance costs.

Geographical information

Business activities of the Alumetal S.A. Capital Group are mostly conducted in the territory of Poland, where three out of four production plants are located. In the supplies structure, supplies from the Polish market predominate, while in the sales structure – sales to other markets are prevailing.

Presented below is the information on the Group’s revenues from external customers, by geographical area:

<i>Customer location</i>	<i>Sales value (year ended 31 December 2017)</i>	<i>Sales value (year ended 31 December 2016)</i>	<i>Sales structure (year ended 31 December 2017)</i>	<i>Sales structure (year ended 31 December 2016)</i>
Poland	533 808 395.80	527 794 734.11	36.7%	41.5%
Germany	314 859 060.54	280 811 024.47	22.6%	22.1%
Other European countries	607 573 219.21	463 230 420.53	40.7%	36.4%
Total	1 456 240 675.54	1 271 836 179.11	100%	100%

The above information on revenues is based on the data on customer place of delivery.

Both in 2017 and in 2016, the Group realised sales with a value exceeding 10% of its total annual revenue to the following business entities:

- the Volkswagen Group
- the Federal Mogul Group.

Similarly, both in 2017 and in 2016, the Group was not the customer of a supplier with purchases exceeding 10% of its total sales revenue.

12. Revenues and expenses

12.1. Sales of finished goods, raw materials and scrap, goods for resale and services

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Sales of finished goods	1 411 691 458.05	1 213 792 223.51
Sales of raw materials and scrap	37 310 854.20	48 337 967.11
Sales of goods for resale	4 953 155.46	7 700 315.09
Sales of services	2 285 207.84	2 005 673.40
	1 456 240 675.54	1 271 836 179.11

12.2. Costs by type

	<i>Note</i>	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Depreciation/ amortization	12.3	28 104 515.58	23 206 530.30
Inventory impairment write-downs	12.3	-145 507.04	-86 294.34
Materials and energy		1 231 489 764.57	1 031 512 398.95
External services, of which:		42 493 576.05	36 836 053.02
- repair services		5 884 014.75	4 384 240.59
- transport services		24 277 788.14	20 620 328.48
- advisory services		815 452.24	938 895.08
Taxes and charges		3 718 207.29	3 133 865.86
Employee allowances	12.4	53 775 420.76	47 463 683.29
Other costs by type		3 754 771.95	3 554 096.95
Cost of goods for resale, raw materials and scrap sold		32 121 988.46	46 576 907.79
Total costs by type, of which:		1 395 312 737.62	1 192 197 241.82
Items recognised in cost of sales		1 340 386 926.13	1 135 626 434.41
Items recognised in selling expenses		25 708 310.04	23 023 420.32
Items recognised in administrative expenses		24 270 976.18	24 986 870.60
Change in stocks of finished goods		4 946 525.27	8 560 516.49

12.3. Depreciation/ amortization charges and impairment losses included in the Statement of Comprehensive Income

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Depreciation of property, plant and equipment	24 848 090.60	20 487 367.45
Amortization of intangible assets	258 946.75	217 681.74
Inventory impairment	-145 507.04	-86 294.34
Included in cost of sales	24 961 530.31	20 618 754.85
Depreciation of property, plant and equipment	978 705.72	941 350.00
Included in selling expenses	978 705.72	941 350.00
Depreciation of property, plant and equipment	1 972 558.52	1 490 652.05
Amortization of intangible assets	46 213.99	69 479.06
Included in administrative expenses	2 018 772.51	1 560 131.11

12.4. Employee allowances

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Wages and salaries	42 139 822.32	37 558 177.53
Social security costs	8 056 682.93	6 972 698.77
Cost of incentive scheme	89 505.00	432 520.97
Retirement benefits	194 580.29	152 596.44
Amounts transferred to the Social Fund	1 301 469.45	1 175 236.12
Other employee benefits (training, health care, work hygiene and safety, meals and other)	1 993 360.77	1 172 453.46
Total employee allowances, of which:	53 775 420.76	47 463 683.29
Items recognised in cost of sales	46 157 535.40	39 931 327.22
Items recognised in selling expenses	2 059 172.98	1 740 494.01
Items recognised in administrative expenses	5 558 712.38	5 791 862.06

12.5. Other operating income

	<i>Note</i>	<i>Year ended</i> <i>31 December</i> <i>2017</i>	<i>Year ended</i> <i>31 December</i> <i>2016</i>
Gains on the sale of property, plant and equipment		50 431.88	278 186.19
Subsidy (incl. recognition of accrued income)	28.3	2 839 934.86	2 206 825.42
Net effect of settlement of employee court proceedings		-	210 000.00
Receivables impairment write-down- reversal		1 904 017.02	1 488 872.48
Net effect of insurance expense and indemnities		-	553 810.23
Received awards and compensations		98 057.62	26 394.86
Other (total of non-material items)		183 784.33	159 139.87
Total other operating income		5 076 225.71	4 923 229.05

12.6. Other operating expenses

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Penalties and compensations	162 563.31	60 954.61
Net effect of insurance expense and indemnities	210 696.70	–
Receivables impairment write-downs	1 210 149.24	73 356.21
Court fees	80 051.61	3 134.92
Donations granted	44 139.84	30 883.53
Cost of liquidation of property, plant and equipment	88 586.91	10 473.05
Other (total of non-material items)	286 371.76	235 645.13
Total other operating expenses	2 082 559.37	414 447.45

12.7. Finance income

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Interest, of which:	63 787.88	173 703.42
- interest from business partners (receivables)	42 761.53	141 620.53
- bank interest	21 026.35	32 082.89
FX gains	–	1 950 815.20
Gains on the sale of investments	–	3 340.00
Other (total of non-material items)	766.05	3 382.42
Total finance income	64 553.93	2 131 241.04

12.8. Finance costs

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Interest on bank loans	1 040 555.97	779 875.59
Interest on trade and administrative liabilities	16 880.76	19 790.10
FX losses	217 382.35	–
Other (total of non-material items)	141 328.26	219 099.09
Total finance costs	1 416 147.34	1 018 764.78

13. Components of other comprehensive income

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Cumulative translation differences	-4 681 700.85	2 207 779.87
Total components of other comprehensive income	-4 681 700.85	2 207 779.87

14. Income tax

14.1. Tax expense

The main components of income tax expense for the year ended 31 December 2017 and 31 December 2016 are as follows:

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Recognised in profit or loss:		
<i>Current income tax:</i>	3 701 674.00	4 529 842.00
Current tax expense	3 701 674.00	4 529 842.00
<i>Deferred tax:</i>	-7 205 412.64	-584 951.43
Relating to origination and reversal of temporary differences	-7 205 412.64	-584 951.43
<i>Local business tax</i>	335 192.42	-
<i>Return of prior year tax:</i>	-	-68 494.00
Income tax reported in the consolidated profit or loss	-3 168 546.22	3 876 396.57

14.2. Reconciliation of effective income tax rate

The reconciliation of income tax on accounting gross profit calculated using the statutory tax rate and income tax on taxable profit calculated using the effective interest rate of the Group for the year ended 31 December 2017 and 31 December 2016 is as follows:

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Accounting gross profit from continuing operations	67 516 536.12	93 820 711.64
Accounting gross profit	67 516 536.12	93 820 711.64
Tax at statutory tax rate in Poland of 19% (in 2017 and 2016)	12 828 142.00	17 825 935.00
Utilisation of tax credit relating to SEZ operations	-14 318 359.56	-16 942 345.61
Effect of difference in tax rate of the foreign subsidiary	856 486.69	584 005.53
Local business tax at a foreign subsidiary	335 192.42	-
Effect of tax-exempted revenues and non-tax-deductible expenses, of which:	99 146.37	160 146.43
- <i>PFRON (National Disabled Persons Rehabilitation Fund) expenses</i>	82 140.42	77 967.45
- <i>cost of incentive scheme</i>	17 005.95	82 178.98
Effect of change in deferred tax asset relating to unused tax credits	-3 154 650.61	2 141 937.14
Other	185 496.48	175 212.08
Return of prior year tax	-	-68 494.00
Tax expense at effective tax rate of (-) 4.7% in 2017 (2016: 4.1%)	-3 168 546.22	3 876 396.57
Tax expense/ tax income reported in the consolidated profit or loss	-3 168 546.22	3 876 396.57

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14.3. Deferred tax

Deferred tax results from the following items:

	<i>Consolidated Statement of Financial Position as at</i>		<i>Effect of translation of foreign subsidiary recognised in the statement of financial position</i>	<i>Consolidated Statement of Comprehensive Income for the year ended</i>	
	<i>31 Dec 2017</i>	<i>31 Dec 2016</i>		<i>31 Dec 2017</i>	<i>31 Dec 2016</i>
Difference between carrying amount and tax base of property, plant and equipment and intangible assets	8 358 955.06*	5 537 828.35*		2 818 220.56	3 140 165.50
Calculated compensations	-1 519.32	-7 030.00		5 510.68	-7 030.00
Accrued interest	-5 625.45	-3 415.43		-2 210.02	-3 415.43
FX gains	-706 056.75	-424 761.74		-281 295.02	-130 878.41
Provision for retirement benefits	163 052.33	122 097.69		40 954.65	-17 672.56
Receivables impairment write-down	208 561.82	265 871.00		-57 309.18	-899 289.93
Inventories impairment write-downs	21 812.38	7 032.22		14 780.16	-78 643.06
Property, plant and equipment impairment write-down	144 683.69	144 683.69		-	-
Unpaid wages, salaries and allowances	397 136.51	529 621.17		-132 484.66	18 924.93
FX losses	1 003 567.33	485 841.11		517 726.21	148 507.58
Unpaid bank costs	575.19	4 198.78		-3 623.59	1 595.37
Provision for services	15 035.59	-		15 035.59	-
Tax loss	-	68 025.20		-68 025.20	-9 200.86
Tax loss of the foreign subsidiary	1 700 152.77	571 465.58	-54 794.66	1 183 481.85	563 825.44
Deferred tax asset relating to unused tax credits	40 516 843.01	38 359 689.59	-997 497.19	3 154 650.61	-2 141 937.14
Deferred tax expense				7 205 412.64	584 951.43
Net Deferred tax asset/ deferred tax liability, of which:					
Deferred tax asset from continuing operations	52 062 245.31	45 881 778.42			
Deferred tax liability with respect to continuing operations	-245 071.15	-220 631.21			

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*change in the value of deferred tax calculated on the difference between carrying amount and tax base of property, plant and equipment and intangible assets results from a decrease in tax depreciation rates of the items of property, plant and equipment located in the Group's plants operating in Special Economic Zones and from the application of different accounting and tax depreciation rates by other Group plants

Tax credits (Income tax reliefs with respect to the activities in special economic zones)

Alumetal Poland sp. z o.o. has conducted its business operations in the Kostrzyńsko-Słubicka Special Economic Zone and in the Tarnobrzaska Special Economic Zone based on appropriate licences, which define the terms and conditions that are required to be fulfilled to benefit from income tax relief (i.e. tax credit). These terms and conditions were presented in Note 8.22.3 of these consolidated financial statements.

As a result, the Group is entitled to benefit from public aid in the form of income tax relief with respect to the SEZ activities.

The tables below present key parameters relating to SEZ activities of the Company (in PLN), at individual reporting dates, which, apart from the financial forecasts for the ensuing years, are the basis to calculate the allowed public aid, inclusive of:

- qualified expenditure incurred to individual reporting dates (at nominal and discounted value as at the date of SEZ license award), after considering the intensity of public aid (50% of qualified expenditure) and its utilization through the received subsidies;
- public aid utilised to individual reporting dates (at nominal and discounted value as at the date of SEZ license award), through the income tax relief:

	31 December 2017	31 December 2016
Qualified expenditure incurred to the reporting date at nominal value (after considering public aid intensity – 50% of the qualified expenditure and utilization through received subsidies*)	96 720 177.75	81 656 138.48
Utilised public aid from income tax relief at nominal value (after considering utilisation for the year ended on the last calendar day)	86 824 033.49	72 505 673.88
	31 December 2017	31 December 2016
Qualified expenditure incurred to the reporting date at discounted value as at the date of SEZ license award (after considering public aid intensity – 50% of the qualified expenditure and utilization through received subsidies*)	84 991 554.19	70 701 296.63
Utilised public aid from income tax relief at discounted value at the date of SEZ license award (after considering utilisation for the year ended on the last calendar day)	65 273 306.82	53 702 248.89

* as at 31 December 2017, the total value of utilised public aid delivered in the form of subsidies in the years 2006-2011 amounted to PLN 21,151,281.44 at nominal value, and PLN 19,706,691.06 at discounted value as at the date of SEZ licenses award.

In addition, the Alumetal Group Hungary Kft. is allowed to benefit from public aid in the form of partial income tax relief (tax credit) in the period from 2019 to 2028, based on the application for such tax relief for development purposes filed on 2 October 2014, as documented by the incurred qualified expenditure. The conditions that this entity must fulfill to be able to use the tax relief were presented in more detail in Note 8.22.3 of these consolidated financial statements.

The tables below show key parameters relating to the company's unused tax credit as at 31 December 2017 and as at 31 December 2016, which – apart from financial forecasts for the subsequent years – are the basis to calculate the available pool of public aid, inclusive of qualified expenditure incurred to the reporting date (at nominal and discounted value at the date of license application), and after considering public aid intensity which is reduced by the component of cash subsidy granted to the company.

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	31 December 2017	31 December 2016
Qualified expenditure incurred to the reporting date at nominal value (after considering public aid intensity – 35% of the qualified expenditure**)	22 135 785.95*	22 315 185.40*
Utilised public aid from income tax relief at nominal value (after considering utilisation for the year ended on the last calendar day)	–	–
	31 December 2017	31 December 2016
Qualified expenditure incurred to the reporting date at discounted value as at the date of application (after considering public aid intensity – 35% of the qualified expenditure**)	20 957 816.66*	21 174 402.26*
Utilised public aid from income tax relief at discounted value (after considering utilisation for the year ended on the last calendar day)	–	–

* the amounts were translated at the average NBP exchange rate (HUF/PLN) prevailing at the reporting date (as at 31 December 2017: 0.013449, and as at 31 December 2016: 0.014224)

** At the same time, in 2014 the Alumetal Group Hungary Kft. received from the Hungarian government a binding offer, and has accepted it (with the underlying contract for the support finally becoming effective on 2 February 2016), for a government grant in the form of cash for this undertaking. In 1Q 2018, an annex was signed that modified the contract in the part relating to beneficiary's obligations concerning employee headcount, contract security (performance bond) and the date for project realization. The above amounts account for the appropriate reduction by the value of subsidy which reduces the value of unused income tax relief.

In accordance with IAS 12 *Income Taxes* and detailed regulations governing functioning of partial income tax exemption (relief) for the Polish and Hungarian entities, based on the prepared long-term financial forecasts, the Group assessed and recognised a deferred tax asset relating to public aid planned to be used in the ensuing years. The deferred tax asset referred to above was recognised in the nominal value of a potential future income tax expense, which will result in the utilization of a tax relief (relating to the investment expenditure incurred to the reporting date) to the extent, to which it is possible that taxable profit will be available against which the carry-forward of unused tax credit could be utilized.

The estimate of the Group as at 31 December 2017 was performed based on the long-term financial forecasts – forecasted tax results (prepared to 2026 for Alumetal Poland and to 2028 for the Alumetal Group Hungary Kft.). The amounts of recognised deferred tax asset are as follows:

- as at 31 December 2017 – PLN 22 264 123.33 for Alumetal Poland and PLN 18 252 719.68 for the Alumetal Group Hungary (total of PLN 40 516 843.01)
- as at 31 December 2017 – PLN 20 598 325.95 for Alumetal Poland and PLN 17 761 363.64 for the Alumetal Group Hungary (total of PLN 38 359 689.59).

Change in the value of the deferred tax asset between said dates results mainly from the utilisation of public aid in this period (decrease in the deferred tax asset in correspondence with net profit) and from the incurred qualified investment expenditure in the period building up the pool of available public aid (increase in the deferred tax asset in correspondence with net profit).

Any deterioration or improvement of realised tax results in the future may have impact on the level of estimated deferred tax asset. Specifically, change in the forecasted tax results of Polish entities (given the pool of public aid available at the reporting date) does not bear any significant impact on the change in the estimate of this asset due to a relatively short period of time assigned for asset realization. As regards the Hungarian subsidiary, any deterioration or improvement of realised tax results in the future may have significant impact on the amount of this deferred tax asset which, due to the relatively low level of tax rate and legally limited horizon of asset utilization, based on the prepared forecasts was not recognised for the entire pool of available public aid.

15. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent (less interest on preference convertible shares) by the weighted average number of ordinary shares outstanding during the year increased by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The table below shows the profit- and share-related data used in the calculation of basic and diluted earnings per share:

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Net profit from continuing operations	70 685 082.35	89 944 315.07
Net profit	70 685 082.35	89 944 315.07
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share (accounting for share split)	15 479 493	15 303 595
Effect of dilution		
Share options relating to share-based payment, as provided under IFRS 2 <i>Share-based Payment</i>	-	45 239
Weighted average number of outstanding ordinary shares, adjusted for dilution effect (accounting for share split)	15 479 493	15 348 834
Earnings per share		
- basic from the profit for the year	4.57	5.88
- diluted from the profit for the year	4.57	5.86

Details concerning share incentive scheme with effect on the dilution of earnings per share were described in Note 20.2. The Group does not hold other than described above financial instruments that cause dilution of calculated earnings per share.

16. Intangible assets

Year ended 31 December 2017	<i>Development expenses</i>	<i>Patents and licenses</i>	<i>Goodwill</i>	<i>Other</i>	<i>Intangible assets under construction</i>	<i>Total</i>
Gross carrying amount as at 1 January 2017	–	452 880.18	–	2 567 183.54	472 642.70	3 492 706.42
Purchases	–	–	–	–	113 569.80	113 569.80
Transfer from intangible assets under construction	–	172 369.80	–	413 309.69	-585 679.49	–
Cumulative translation differences	–	–	–	-292.05	-533.00	-825.06
Gross carrying amount as at 31 December 2017	–	625 249.98	–	2 980 201.18	–	3 605 451.16
Amortization and impairment as at 1 January 2016	–	230 865.58	–	1 466 504.62	–	1 697 370.20
Amortization charge for the period	–	60 131.69	–	245 029.05	–	305 160.74
Cumulative translation differences	–	–	–	-1.57	–	-1.57
Amortization and impairment as at 31 December 2017	–	290 997.27	–	1 711 532.10	–	2 002 529.37
Net carrying amount as at 1 January 2017	–	222 014.60	–	1 100 678.92	472 642.70	1 795 336.22
Net carrying amount as at 31 December 2017	–	334 252.70	–	1 268 669.08	–	1 602 921.80
Year ended 31 December 2016						
	<i>Development expenses</i>	<i>Patents and licenses</i>	<i>Goodwill</i>	<i>Other</i>	<i>Intangible assets under construction</i>	<i>Total</i>
Gross carrying amount as at 1 January 2016	–	554 927.62	–	2 562 790.25	14 500.00	3 132 217.87
Purchases	–	–	–	–	462 333.54	462 333.54
Transfer from intangible assets under construction	–	–	–	4 393.29	-4 393.29	–
Cumulative translation differences	–	–	–	–	202.45	202.45
Other	–	-102 047.44	–	–	–	-102 047.44
Gross carrying amount as at 31 December 2016	–	452 880.18	–	2 567 183.54	472 642.70	3 492 706.42
Amortization and impairment as at 1 January 2016	–	183 588.80	–	1 226 620.60	–	1 410 209.40
Amortization charge for the period	–	47 276.78	–	239 884.02	–	287 160.80
Amortization and impairment as at 31 December 2016	–	230 865.58	–	1 466 504.62	–	1 697 370.20
Net carrying amount as at 1 January 2016	–	371 338.82	–	1 336 169.65	14 500.00	1 722 008.47
Net carrying amount as at 31 December 2016	–	222 014.60	–	1 100 678.92	472 642.70	1 795 336.22

No securities were established on intangible assets on the presented reporting dates.

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17. Property, plant and equipment

Year ended 31 December 2017

	Land (incl. perpetual usufruct right)	Buildings, premises and civil engineering objects	Plant and machinery	Motor vehicles	Other [tangible] fixed assets	AUC	Prepayments for AUC	Total
<i>Gross carrying amount as at 1 January 2017</i>	12 270 947.40	149 948 616.49	222 438 834.90	9 410 644.27	4 314 379.28	24 258 216.89	18 199 662.29	440 841 301.52
Purchases	–	–	–	–	–	21 019 111.93	22 826 781.07	43 845 893.00
Sale	–	–	–	-392 980.91	–	–	–	-392 980.91
Liquidation	–	-16 753.51	-1 742 694.28	-402 441.15	–	–	–	-2 161 888.94
Costs of periodic repairs – overhauls	–	–	1 426 130.04	–	–	-1 426 130.04	–	–
Spare parts – purchase	–	–	-64 871.02	–	–	–	–	-64 871.02
Transfer to intangible assets	–	–	–	–	–	-55 000.00	–	-55 000.00
Transfers	–	7 597 315.72	38 506 625.31	1 962 562.45	388 097.31	-20 549 627.86	-27 904 972.91	–
Cumulative translation differences	-251 593.20	-2 732 418.12	-3 039 531.18	-85 532.90	-49 939.13	-705 968.34	-208 121.12	-7 073 103.99
<i>Gross carrying amount as at 31 December 2017</i>	12 019 354.20	154 796 760.58	257 524 493.77	10 492 251.75	4 652 537.46	22 540 602.57	12 913 349.33	474 939 349.66
<i>Depreciation and impairment as at 1 January 2017</i>	–	18 046 342.38	96 888 698.89	5 181 241.17	2 540 250.79	615 262.60	–	123 271 795.83
Depreciation charge for the period	–	4 457 988.00	21 799 027.01	1 226 197.68	316 142.14	–	–	27 799 354.84
Impairment	–	–	–	–	–	–	–	–
Sale	–	–	–	-374 713.60	–	–	–	-374 713.60
Liquidation	–	- 1 116.80	-1 669 744.08	-402 441.15	–	–	–	-2 073 302.03
Cumulative translation differences	–	-50 800.50	-177 042.93	-11 973.59	-13 506.07	–	–	-253 323.09
<i>Depreciation and impairment as at 31 December 2017</i>	–	22 452 413.08	116 840 938.89	5 618 310.51	2 842 886.86	615 262.60	–	148 369 811.95
Net carrying amount as at 1 January 2017	12 270 947.40	131 902 274.11	125 550 136.01	4 229 403.10	1 774 128.49	23 642 954.29	18 199 662.29	317 569 505.69
Net carrying amount as at 31 December 2017	12 019 354.20	132 344 347.50	140 683 554.88	4 873 941.24	1 809 650.59	21 925 339.97	12 913 349.33	326 569 537.71

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Year ended 31 December 2016	Land (incl. perpetual usufruct right)	Buildings, premises and civil engineering objects	Plant and machinery	Motor vehicles	Other [tangible] fixed assets	AUC	Prepayments for AUC	Total
<i>Gross carrying amount as at 1 January 2016</i>	12 159 600.02	101 641 004.85	173 872 478.96	7 488 356.75	3 377 121.08	10 617 770.25	8 132 682.99	317 289 014.90
Purchases	-	-	-	-	-	59 086 529.66	63 451 408.16	122 537 937.82
Sale	-159 401.89	-	-577 824.39	-259 468.09	-	-	-	-996 694.37
Liquidation	-	-	-747 418.46	-	-6 959.89	-	-	-754 378.35
Costs of periodic repairs - overhauls	-	-	455 487.77	-	-	-455 487.77	-	-
Spare parts – purchase	-	-	390 088.36	-	-	-	-	390 088.36
Transfers	68 500.80	47 673 623.39	48 427 761.31	2 159 574.63	932 558.91	-45 541 225.50	-53 720 793.54	-
Cumulative translation differences	202 248.47	633 988.25	618 261.35	22 180.98	11 659.18	550 630.25	336 364.68	2 375 333.16
<i>Gross carrying amount as at 31 December 2016</i>	12 270 947.40	149 948 616.49	222 438 834.90	9 410 644.27	4 314 379.28	24 258 216.89	18 199 662.29	440 841 301.52
<i>Depreciation and impairment as at 1 January 2016</i>	-	14 685 373.34	80 616 918.61	3 889 431.59	2 110 921.96	615 262.60	-	101 917 908.10
Depreciation charge for the period	-	3 355 674.66	17 580 863.74	1 549 355.95	433 475.15	-	-	22 919 369.50
Impairment	-	-	-	-	-	-	-	-
Sale	-	-	-577 824.39	-259 468.09	-	-	-	-837 292.48
Liquidation	-	-	-746 845.41	-	-6 959.89	-	-	-753 805.30
Cumulative translation differences	-	5 294.38	15 586.34	1 921.72	2 813.57	-	-	25 616.01
<i>Depreciation and impairment as at 31 December 2016</i>	-	18 046 342.38	96 888 698.89	5 181 241.17	2 540 250.79	615 262.60	-	123 271 795.83
Net carrying amount as at 1 January 2016	12 159 600.02	86 955 631.51	93 255 560.36	3 598 925.16	1 266 199.12	10 002 507.65	8 132 682.99	215 371 106.80
Net carrying amount as at 31 December 2016	12 270 947.40	131 902 274.11	125 550 136.01	4 229 403.10	1 774 128.49	23 642 954.29	18 199 662.29	317 569 505.69

At the presented reporting dates, the Group did not have any machines and equipment used under finance lease or hire-purchase agreements.

Land and buildings with a carrying amount of PLN 80 583 thousand (as at 31 December 2016 – PLN 79 276 thousand) are pledged as mortgage collateral for bank loans and borrowings of the Group (Note 26).

There were no capitalized borrowing costs in the year ended 31 December 2017 or 31 December 2016.

The IAS 36- based analysis performed to identify potential loss of value of assets did not identify any indicators that would necessitate performance of assets impairment tests at the Group.

18. Other assets

18.1. Other financial assets

	<i>31 December 2017</i>	<i>31 December 2016</i>
Loans granted	35 000.00	30 000.00
Shares in other entities	10 000.00	10 000.00
Total, of which:	45 000.00	40 000.00
- short-term portion	35 000.00	30 000.00
- long-term portion	10 000.00	10 000.00

The financial assets relate to the loans granted to Alumetal Kęty sp. z o.o. and shares in this company.

18.2. Other non-financial assets

	<i>31 December 2017</i>	<i>31 December 2016</i>
Excess of social assets over Social Fund liabilities	131 195.70	111 388.69
Subscriptions	–	1 215.00
Insurance	159 861.65	69 996.12
IT services	109 500.40	131 375.76
Total, of which:	400 557.75	313 975.57
- short-term portion	400 557.75	313 975.57
- long-term portion	–	–

19. Social assets and Social Fund liabilities

The Social Fund Act dated 4 March 1994 (with subsequent amendments) requires enterprises that have at least 20 FTEs (*full-time employees*) to establish and run a Social Fund. The Group operates such Fund and makes periodic contributions to this Fund based on the established basic contribution amount. The Funds' purpose is to subsidize the Group companies' social activities, loans to employees and other social expenditures.

The Group netted off the assets of the Fund with its liabilities to the Fund, as these assets do not fulfil the definition of the Group's assets.

	<i>31 December 2017</i>	<i>31 December 2016</i>
Cash and cash equivalents	525 552.75	415 336.60
Social Fund liabilities	394 357.05	303 947.91
Balance after netting off	131 195.70	111 388.69

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Amounts transferred (contributions) to the Social Fund during the year	1 301 469.45	1 175 236.12
Non-refundable expenditure by the Fund	1 212 533.55	1 182 903.60

20. Employee benefits

20.1. Retirement benefits

The Group entities provide retirement benefits to the retiring employees in the amount defined in the Remuneration Regulations of the Group. As a result, based on the valuation made by a professional actuarial company, a provision for the present value of the retirement benefits liability was recognized.

The amount of this provision and the reconciliation of provision movements during the year are presented in the table below:

	2017	2016
At the beginning of the period as at 1 January	642 619.40	735 632.92
Provision recognition/ reversal	410 130.94	59 582.92
Cost of benefits paid out	-194 580.17	-152 596.44
At the end of the period as at 31 December	858 170.17	642 619.40

20.2. Incentive programs

Program II

The Annual General Meeting of the Company authorized on 28 May 2014 the second incentive scheme for the years 2014-2016 dedicated to management and executives (Eligible Persons). The assumptions of the new incentive scheme provide for a conditional increase in the Company's issued capital through the issue of free-of-charge and non-transferable three tranches of subscription warrants (series A, B and C) and the matching three tranches of new shares of the Company (series D, E and F) with a total nominal value not exceeding PLN 45,231, of which:

- up to 150,770 subscription warrants, series A, which will entitle their holders to take up not more than 150,770 shares, series D, of the Company during the period from the date of authorization of the Group's consolidated financial statements for the year ended 31 December 2014 to 31 December 2018;
- up to 150,770 subscription warrants, series B, which will entitle their holders to take up not more than 150,770 shares, series E, of the Company during the period from the date of authorization of the Group's consolidated financial statements for the year ended 31 December 2015 to 31 December 2018;
- up to 100,513 subscription warrants, series C, which will entitle their holders to take up not more than 100,513 shares, series F, of the Company during the period from the date of authorization of the Group's consolidated financial statements for the year ended 31 December 2016 to 31 December 2018.

The issue of the subscription warrants (series A, B and C) was dedicated to the members of the Management Board and key executives appointed by the Management Board and authorized by the Supervisory Board. The Eligible Persons will be able to exercise their right to take up shares in the Company on the condition of the fulfilment of certain conditions, and especially on the condition of being in the employment relationship or other similar legal relation being the basis for rendering services to the Company or to the Subsidiary Companies from the first date of listing of Company's shares on the Warsaw Stock Exchange to the date directly preceding the date of exercising the rights under the subscription warrants of the given series. In addition, exercising the right under the subscription warrants will be possible on the condition of achieving an appropriate growth of EBITDA per Company share; achieving appropriate growth in the ratio of net profit per share, appropriate rate of return on the Company's shares during the period from the first date of Company's shares quotation on the regulated market maintained by the

Warsaw Stock Exchange in relation to the dynamics of WIG index changes. The issue price of the shares included in the new incentive scheme will equate to the final unit selling price of the Company's shares to Individual Investors in the first Offering, reduced by certain appropriate percentage ratio.

Detailed policies of this incentive scheme (Program II) were described in the Incentive Program Policy adopted by the Supervisory Board on 12 December 2014. Since in October 2014, an allocation was made of the number of shares to individual persons and a list of eligible employees was prepared, the Company valued this share incentive scheme as at 31 October 2014 in accordance with IFRS 2 *Share-based Payment*.

Presented below is the cost of the program for the subsequent years and the value of capital under the incentive scheme at consecutive reporting dates.

	<i>31 December 2017</i>	<i>31 December 2016</i>
Capital under incentive Program II	–	817 473.00

<i>Year ended</i>	<i>31 December 2017</i>	<i>31 December 2016</i>
Cost of Program II	89 505.00	432 520.97

As at 30 June 2017, the Company performed a final settlement of the Program, about which it informed in its current report No. 26/2017 on 3 August 2017.

Program III

The Annual General Meeting of the Company authorized on 7 November 2017 the third incentive scheme for the years 2018 - 2020 dedicated to management and executives (Eligible Persons) (Incentive Program III). The assumptions underlying the new incentive scheme provide for a conditional increase in the Company's issued capital through the issue of free-of-charge and non-transferable three tranches of subscription warrants (series D, E and F) and the matching three tranches of new shares of the Company (series G, H and I) with a total nominal value not exceeding PLN 46,438.20, of which:

- up to 154,794 subscription warrants, series D, which will entitle their holders to take up not more than 154,794 shares, series G, of the Company during the period from 1 July 2020 to 31 December 2022;
- up to 154,794 subscription warrants, series E, which will entitle their holders to take up not more than 154,794 shares, series H, of the Company during the period from 1 July 2021 to 31 December 2022;
- up to 154,794 subscription warrants, series F, which will entitle their holders to take up not more than 154,794 shares, series I, of the Company during the period from 1 July 2022 to 31 December 2022;

The Subscription Warrants (series D, E and F) may be taken up by the members of the Company's Management Board and the key Company's personnel indicated by the Company's Management Board and authorized by the Company's Supervisory Board, with the proviso that the key Company's personnel should be understood to mean both the employees and associates of the Company and of its subsidiary companies who are employed based on an employment contract, or render services to the Company based on a civil-law contract, but who in the opinion of the Company's Management Board participate in taking significant decisions or their activities contribute to the development of the Company (Eligible Persons), on the condition that both at the time of taking up Subscription Warrants and at the time of exercising rights attached to those warrants leading to taking up the Incentive Program Shares 3, the Eligible Person remained in the same or similar relation with the Company or its subsidiary company (employment contracts or rendering services based on a civil-law contract or fulfilling a defined role in the organizational structure of the Company or of its subsidiary company) as was defined upon awarding a given person the status of an Eligible Person. In addition, exercising rights from subscription warrants could take place on the following conditions: achieving the pre-defined level of growth of EBITDA per Company's share; achieving the appropriate growth ratio of normalized consolidated net profit per Company's share; achieving the appropriate rate of return on the Company's share compared to the dynamics of change in the WIG index. The issue price of the shares covered by the Incentive Program III will be PLN 48.60.

Detailed policies of this incentive scheme (Program III) were described in the Incentive Program Policy adopted by the Supervisory Board on 14 December 2017. In January 2018, individual contracts were signed with the Eligible Persons. As at the date of the preparation of these consolidated financial statements, the Company is in the process of valuation of the cost of Program III in accordance with IFRS 2 *Share-based Payment*.

21. Inventories

	<i>31 December 2017</i>	<i>31 December 2016</i>
Raw materials and scrap (at acquisition cost)	85 000 504.14	68 460 309.68
Work in progress and semi-finished goods (at cost of production)	57 951 641.82	52 582 261.25
Finished goods	46 311 403.52	44 062 062.87
Goods for resale	37 096.11	–
Advance payments for supplies	337 812.87	3 855 927.42
Total inventories at the lower of cost (cost of production) and net realizable value, of which:	189 638 458.46	168 960 561.22
Inventory impairment write-downs	-209 932.11	-369 067.57

Inventory items pledged as collaterals for loans and borrowings were described in detail in Note 26.

22. Trade and other receivables

	<i>31 December 2017</i>	<i>31 December 2016</i>
Trade receivables	252 420 062.88	183 820 093.58
State budget receivables – VAT	7 984 810.74	12 450 166.53
Other third party receivables	1 869 335.47	3 169 293.16
Total short-term receivables, net, of which:	262 274 209.09	199 439 553.27
Receivables impairment write-downs	-7 898 310.73	-11 536 250.81
Total short-term receivables, gross	270 172 519.82	210 975 804.08

Long-term receivables

Guarantee receivables*	1 789 232.42	1 892 337.12
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* Guarantee receivables arising from the contract with gas installation contractor and, at the same time, future supplier of gas fuel to the Plant in Hungary

Trade receivables are non-interest bearing and usually have 60-day collection period.

Factoring

On 15 September 2014, the Group concluded a factoring agreement with the Bank UniCredit Luxembourg S.A., whereby a full factoring was established on the Euro-based receivables from one of the customers of the Alumetal Group at the risk of this customer, with no recourse to the Alumetal Group, and with no limit (limited in practice by the scale of cooperation with the given customer); the concluded factoring agreement provided for a flexible use of this service. As at 31 December 2017, the value of discounted invoices was EUR 0.0 (as at 31 December 2016 –EUR 0.00).

Receivables impairment write-down

The Group has appropriate policy regarding making sale to verified customers only. The Management believes that owing to this policy, there is no additional credit risk in excess of the level defined by the bad debts allowance typical for trade receivables of the Group. Details concerning credit risk management were presented in Note 34.4. As at 31 December 2017, trade receivables of PLN 7 898 310.73 (as at 31 December 2016: PLN 11 536 250.81) were deemed as irrecoverable and covered by appropriate allowance.

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Movements in the balance of receivables' impairment write-down were as follows:

	2017	2016
Impairment write-down as at 1 January	11 536 250.81	11 876 082.75
Increase	1 503 048.87	725 934.62
Utilisation/ Reversal	-5 140 988.95	-1 065 766.56
Impairment write-down as at 31 December	7 898 310.73	11 536 250.81

Presented below is the analysis of trade and other receivables (with no state budget receivables), which as at 31 December 2017 and 31 December 2016 were past due, but which were not deemed as irrecoverable, and for which no impairment write-down was recognised.

	Total	Current	< 30 days	Past due, but recoverable			
				31 – 90 days	91 - 180 days	181-365 days	> 366 days
31 Dec 2017	254 289 398.35	233 527 400.21	20 627 306.12	120 102.66	14 589.36	–	–
31 Dec 2016	186 989 386.74	174 678 948.02	11 822 187.96	429 332.36	–	37 000.00	21 918.40

Receivables from Cimos d.d.

In accordance with the restructuring process of Cimos d.d. described in the consolidated financial statements for the year ended 31 December 2014 and the resultant customer agreements, in 2017 the Group recorded payment of another two instalments by Cimos d.d. in the amount of EUR 92 415.60 each on 26 April 2017 and on 27 October 2017. As a result, the Group reversed an impairment write-down against this receivable and recognized it in the 2017 result in the amount of the two funds transfer received.

Until the date of the authorization of these consolidated financial statements, the Company has not received any new information on the recovery proceedings of Cimos d.d. As at 31 December 2017, the balance of impaired receivables from CIMOS d.d. amounted to EUR 277 246.81 (2016 - EUR 462 078.01).

Receivables from the Arche Group companies

In 2015, two companies of the Arche Group i.e. F.V.M. Technologies Société anonyme (French-law based company) with its registered office in Villers la Montagne (France) and SIFA Technologies Société anonyme (French-law based company) with its registered office in Orleans Cedex 2 (France) were covered by corporate recovery proceedings before the Commercial Court in Paris. The Company was not informed about details of these recovery proceedings, but received only information on the possible repayment of part of its receivables from F.V.M. Technologies Société anonyme (French-law based company), in the amount of EUR 131 470.29, which on 7 March 2016 was paid to the Company's subsidiary company, ALUMETAL Poland sp. z o.o. Due to the non-receipt from the business partners of information on both further procedure with respect to the remaining balance of receivables from F.V.M. Technologies Société anonyme (EUR 971 082.70) and on the entire balance of its receivables from SIFA Technologies Société anonyme (EUR 839 610.86), the Management Board of Alumetal Poland sp. z o.o., decided to recognize an impairment write-down in the amount equating to the full outstanding balance i.e. PLN 7 694 672.42. Recognition of said impairment write-down was announced to the public in the Company's current report No. 3/2016.

On 26 November 2016, the Company received from the attorney ad litem of its subsidiary company, ALUMETAL Poland sp. z o.o., a notification about validation on 24 November 2016 by the Commercial Court in Paris of a corporate recovery plan which assumes continuation of business, as part of the corporate recovery procedure executed based on French law, by SIFA Technologies Société anonyme (French-law based company) with its registered office in Orleans Cedex 2 (France), which –according to the information held by the Issuer – belonged to the capital group of Arche.

The validation of said corporate recovery plan effected a protocol of settlement concluded between SIFA Technologies Société anonyme and ALUMETAL Poland sp. z o.o. („Protocol of Settlement”), which provides for the method of payment to ALUMETAL Poland sp. z o.o. of debt in the amount of EUR 839,610.86 (in words: eight hundred thirty nine thousand six hundred ten euro and eighty six cents) which is the equivalent of PLN 3,716,201.63 (in words: three million seven hundred sixteen thousand two hundred one zloty and sixty three groszy) translated at the exchange rate prevailing on 24 November 2016.

The Protocol of Settlement provided for the payment of EUR 419,805.43 (in words: four hundred nineteen thousand eight hundred five euro and forty three cents), which was the equivalent of PLN 1,858,100.81 (in words: one million eight hundred fifty eight thousand one hundred zloty and eighty one groszy) i.e. 50% of the total amount of debt covered by the recovery procedure in twelve monthly instalments with a value of EUR 34,983.00 (in words: thirty four thousand nine hundred eighty three euro and zero cents) payable in 12 following months, with the proviso that the amount of the first instalment was EUR 34,992.43. Payment of the first instalment was to take place within 5 business days of the Protocol of Settlement validation (i.e. to 1 December 2016). Payment of the subsequent instalments was to be made by the 15th day of each month (or on the next business day) over the next 11 months starting from first instalment payment.

If the repayment of debt is executed in accordance with the provisions of the Protocol of Settlement, ALUMETAL Poland sp. z o.o. committed to remit (cancel) the remaining 50% of the total amount of receivables under corporate recovery procedure. The Parties also agreed a change in the method of conducting their trade relations which consisted, among other things, in making by SIFA Technologies Société anonyme immediate payments of its current liabilities. Where payments were not made in accordance with the Protocol of Settlement, the debt of ALUMETAL Poland sp. z o.o. was to be repaid in full amount in the period covered by the Corporate Recovery Plan i.e. by 2026.

As at 31 December 2017, all 12 instalments were repaid, and the remaining 50% of debt written off, as provided in the Protocol of Settlement. As at 31 December 2016, the balance of receivables from SIFA Technologies Société anonyme covered by impairment write-down amounted to EUR 699 669.44.

Receivables from JN Metal

On 5 June 2017, Alumetal Poland Sp. z o.o. filed a lawsuit with the District Court in Cracow, 9th Economic Department in an action against JN Metal Jerzy Nykiel for payment for supplies with a value of PLN 1 503 048.87. As at 31 December 2017, the balance of receivables from JN Metal Jerzy Nykiel covered by impairment write-down decreased as a result of set-offs to PLN 1 266 471.77. As at the date of the preparation of these consolidated financial statements, the amount of receivables from JN Metal Jerzy Nykiel covered by impairment loss allowance was PLN 1 266 471.77. On 7 March 2018, a hearing took place before the District Court in Cracow concerning action brought by Alumetal Poland Sp. z o.o. against JN Metal Jerzy Nykiel for payment. The Parties applied for a date to reach settlement. The court set a new date for 25 April 2018.

Due to its further trade expansion, the Company decided to change its approach to trade risk management, and in the 1st half of 2016 signed an agreement for receivables insurance. The verification covered the entire sales to non-related entities, except for sales to the three largest customers of the Alumetal Group (the Federal Mogul Group, the Nematik Group and the Volkswagen Group), and the insurance taken covered the period from 1 April 2016. In 2Q 2017, a decision was taken to collaborate with two insurers at the same time, which additionally improved the level of coverage of the Group's needs in the area of awarded insurance limits. As a result, the credit risk of the Company became considerably limited (the Group intends to continue to insure its receivables in the ensuing years). However, one should note that pursuant to the policies operating in the contracts of this type, part of receivables of each customer is not insured due to the so-called own-share of the policyholder. In addition, as provided in the insurance contract, the Company's Management Board has the right to take a sale decision that originates receivables from customers in the amount higher than the coverage limit granted by the insurer (currently, the Group cooperates with two insurance companies).

23. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents approximates their carrying amounts. Cash and cash equivalents reported in the consolidated statement of cash flow comprise cash and cash equivalents reduced by outstanding overdraft facilities, which are an integral element of cash management.

The balance of cash and cash equivalents presented in the consolidated statement of cash flow is composed of the following items:

	<i>31 December 2017</i>	<i>31 December 2016</i>
Cash on hand and cash at bank	6 729 406.17	5 056 884.59
Short-term deposits	6 000.00	2 388 000.00
Overdraft facilities	-97 407 976.35	-57 335 499.00
Cash and cash equivalents reported in the consolidated statement of cash flow	-90 672 570.18	-49 890 614.41

24. Issued capital and reserves

24.1. Issued capital

<i>Issued capital</i>	<i>31 December 2017</i>	<i>31 December 2016</i>
Ordinary shares, series A, with a nominal value of PLN 0.10 each	9 800 570	9 800 570
Ordinary shares, series B, with a nominal value of PLN 0.10 each	1 507 440	1 507 440
Ordinary shares, series C, with a nominal value of PLN 0.10 each	3 769 430	3 769 430
Ordinary shares, series D, with a nominal value of PLN 0.10 each	150 770	150 770
Ordinary shares, series E, with a nominal value of PLN 0.10 each	150 770	150 770
Ordinary shares, series F, with a nominal value of PLN 0.10 each	100 513	–
	15 479 493	15 378 980

Nominal value of shares

All issued shares have nominal value of PLN 0.10 and were paid for in full.

Due to the fulfilment of all pre-requisite conditions for the implementation of the share incentive scheme realised as part of the conditional increase in the Company's issued capital, as defined in the Resolution No. 5 of the Extraordinary Annual General Meeting of the Company of 28 May 2014, about which the Company informed in its Prospectus authorised by the Polish Financial Supervision Authority on 17 June 2014, in its annual report and consolidated annual report for the year 2014 as published on 12 March 2015, as part of the execution of adopted share incentive scheme, the Company issued 150,770 registered, non-transferrable subscription warrants, series A and B and 100,513 registered, non-transferrable subscription warrants, series C, in exchange for which it issued:

- 150,770 ordinary bearer shares, D-series, issued in de-materialised form, with a nominal value of PLN 0.10 (in words: ten groszy) each, which based on the Resolution No. 338/15 of the Management Board of KDPW S.A. of 26 May 2015 were registered on the securities accounts of the Incentive Program participants on 1 June 2015. Based on the Resolution No. 509/2015 of the Management Board of the WSE of 27 May 2015, the D-series shares were admitted to trading on the main market as of 1 June 2015. The Company informed about the D-series share issue process in its current reports: No. 16/2015 of 29 April 2015, No. 19/2015 of 26 May 2015, No. 21/2015 of 28 May 2015, No. 22/2015 of 28 May 2015.
- 150,770 ordinary bearer shares, E-series, issued in de-materialised form, with a nominal value of PLN 0.10 (in words: ten groszy) each, which based on the Resolution No. 474/16 of the Management Board of KDPW S.A. of 15 July 2016 were registered on the securities accounts of the Incentive Program participants on 20 July 2016. Based on the Resolution No. 728/2016 of the Management Board of the WSE of 15 July 2016, the E-series shares were admitted to trading on the main market as of 20 July 2016.

The Company informed about the E-series share issue process in its current reports: No. 19/2016 of 15 July 2016, No. 20/2016 of 15 July 2016, No. 21/2016 of 18 July 2016, No. 22/2016 of 18 July 2016.

- 100,513 ordinary bearer shares, F-series, issued in de-materialised form, with a nominal value of PLN 0.10 (in words: ten groszy) each, which based on the Resolution No. 445/17 amended by the Resolution No. 446/17 of the Management Board of KDPW S.A. of 10 July 2017 were registered on the securities accounts of the Incentive Program participants on 21 July 2017. Based on the Resolution No. 781/2017 amended by the Resolution No. 782/2017 of the Management Board of the WSE of 19 July 2017, the F-series shares were admitted to trading on the main market as of 21 July 2017. The Company informed about the F-series shares issuance process in its current reports No. 16/2017 of 20 June 2017, No. 18/2017 of 11 July 2017, No. 22/2017 of 19 July 2017 and No. 23/2017 of 19 July 2017.

The increase in the issued capital of Alumetal S.A. through the issuance of shares, series D, was registered in the National Court Register on 6 July 2015.

Share premium realized on D-series shares in the total amount of PLN 4 470 330.50 was taken to increase the Company's reserve capital.

The increase in the issued capital of Alumetal S.A. through the issuance of shares, series E, was registered in the National Court Register on 8 September 2016.

Share premium realized on E-series shares in the total amount of PLN 4 470 330.50 was taken to increase the Company's reserve capital.

The increase in the issued capital of Alumetal S.A. through the issuance of shares, series F, was registered in the National Court Register on 18 September 2017.

Share premium realized on F-series shares in the total amount of PLN 2 980 190.45 was taken to increase the Company's reserve capital.

During 2017, the entities directly controlled by the Chairman of the Supervisory Board of Alumetal S.A., Mr Grzegorz Stulgis, IPOPEMA 30 FIZAN and IPO 30 FIZAN A/S (formerly Ipopema 30 FIZAN A/S) carried out transactions as a result of which, participating interest of individual funds in the issued capital of Alumetal S.A. changed as follows:

- IPOPEMA 30 FIZAN sold all held shares which as at 31 December 2016 counted at 4,530,754 pieces. As at 31 December 2017, said fund did not hold any participating interest in Alumetal S.A.

- IPO 30 FIZAN A/S increased its participating interest from 1,537,896 shares as at 31 December 2016 to 5,108,221 shares as at 31 December 2017.

The Company informed the public about these transactions in its current reports Nos. 1/2017, 3/2017, 4/2017, 14/2017, 15/2017, 25/2017, 27/2017, 28/2017, 29/2017, 30/2017, 32/2017, 33/2017, 34/2017, 35/2017, 36/2017, 40/2017, 41/2017, 42/2017, 44/2017, 45/2017.

As at the date of the authorisation of these consolidated financial statements, the participating interest of IPO 30 FIZAN A/S in the issued capital of the Company did not change.

During 2017, Aviva Otwarty Fundusz Emerytalny BZ WBK increased its participating interest in the issued capital of Alumetal S.A. to above 10% i.e. from 1,506,000 shares as at 31 December 2016 to 1,625,112 shares as at 31 December 2017. The Company informed the public about this transaction in its current report No. 21/2017.

On 7 September 2017, the Company received information about exceeding, cumulatively, the 5% threshold of interest in the total number of votes by the two entities managed by Aegon Powszechnie Towarzystwo Emerytalne S.A.: Aegon Otwarty Fundusz Emerytalny and Nordea Otwarty Fundusz Emerytalny. In accordance with the received information, threshold exceeding was related to the assumption on 1 September 2017 by Aegon Powszechnie Towarzystwo Emerytalne S.A. of the management function over Nordea Otwarty Fundusz Emerytalny. Prior to the above assumption, Aegon Otwarty Fundusz Emerytalny held 481,615 shares in the Company, giving right to 481,615 votes at the Annual General Meeting of the Company that accounted for a total of 3.11% in the total number of votes at the Annual General Meeting of the Company, while Nordea Otwarty Fundusz Emerytalny held 474,601 shares in the Company, giving right to 474,601 votes at the Annual General Meeting of the Company that accounted for a total of approx. 3.07% in the total number of votes at the Annual

General Meeting of the Company. As a result of the above business event, Aegon Powszechnie Towarzystwo Emerytalne S.A. exercises control over 956,216 shares in the Company giving right to 956,216 votes at the Company's General shareholders' Meeting and accounting for approx. 6.18% in the total number of votes at the General Shareholders' Meeting of ALUMETAL S.A. The Company informed the public about this transaction in its current report No. 31/2017.

In addition, on 17 November 2017, following liquidation of Nordea Otwarty Fundusz Emerytalny resulting in the transferring of all held assets to Aegon Otwarty Fundusz Emerytalny, the participating interest of Aegon OFE in the issued capital of Alumetal SA increased to 956,216 shares which accounted for 6.18% of the total number of shares. The Company informed the public about this transaction in its current report No. 50/2017.

Shareholder rights

Attached to shares, series A, B, C, D, E and F is the right to one vote per share. Shares of all series have equal preference rights as regards dividend payment and return on equity.

As at the reporting date, the shareholding structure was as follows:

	31 December 2017	31 December 2016
IPOPEMA 30 Fundusz Inwestycyjny Zamknięty		
Aktywów Niepublicznych		
share in equity	–	29.46%
share in the number of votes	–	29.46%
IPO 30 FIZAN A/S (formerly Ipopema 30 FIZAN A/S)		
share in equity	32.99%	9.99%
share in the number of votes	32.99%	9.99%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK		
share in equity	10.50%	9.79%
share in the number of votes	10.50%	9.79%
Nationale Nederlanden Otwarty Fundusz Emerytalny* (formerly ING Otwarty Fundusz Emerytalny)		
share in equity	7.37%	7.42%
share in the number of votes	7.37%	7.42%
Aegon Otwarty Fundusz Emerytalny		
share in equity	6.18%	–
share in the number of votes	6.18%	–
Krzysztof Błasiak		
share in equity	2.59%	2.47%
share in the number of votes	2.59%	2.47%
Szymon Adamczyk		
share in equity	1.79%	1.68%
share in the number of votes	1.79%	1.68%
Przemysław Grzybek		
share in equity	1.08%	0.97%
share in the number of votes	1.08%	0.97%
Agnieszka Drzyżdzyk		
share in equity	0.05%	–
share in the number of votes	0.05%	–
Others		
share in equity	37.45%	38.22%
share in the number of votes	37.45%	38.22%

As at the date of the preparation of these consolidated financial statements, the shareholding structure was as follows:

	<i>9 April 2018</i>
<i>IPO 30 FIZAN A/S (formerly Ipopema FIZAN A/S)</i>	
share in equity	32.99%
share in the number of votes	32.99%
<i>Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK</i>	
share in equity	10.50%
share in the number of votes	10.50%
<i>Nationale Nederlanden Otwarty Fundusz Emerytalny*(formerly ING Otwarty Fundusz Emerytalny)</i>	
share in equity	7.37%
share in the number of votes	7.37%
<i>Aegon Otwarty Fundusz Emerytalny</i>	
share in equity	6.18%
share in the number of votes	6.18%
<i>Krzysztof Błasiak</i>	
share in equity	2.58%
share in the number of votes	2.58%
<i>Szymon Adamczyk</i>	
share in equity	1.79%
share in the number of votes	1.79%
<i>Przemysław Grzybek</i>	
share in equity	1.08%
share in the number of votes	1.08%
<i>Agnieszka Drzyżdżyk</i>	
share in equity	0.05%
share in the number of votes	0.05%
<i>Others</i>	
share in equity	37.46%
share in the number of votes	37.46%

25. Reserve capital

The reserve capital was created from statutory appropriations of the profits generated in prior financial years in the amount of PLN 515 983.10, from share premium realized on D-series, E-series and F-series shares in the total amount of PLN 11 920 851.45, as well as from profit appropriations in excess of statutory amount of PLN 289 134 146.96 as at 31 December 2017 (as at 31 December 2016, profit appropriation in excess of statutory amount was PLN 226 305 882.42).

25.1. Retained earnings (unabsorbed losses) and restrictions on dividend payment

The balance of retained earnings comprises also certain balances which are not subject to appropriation, which means that they cannot be distributed in the form of dividends.

Statutory financial statements of Alumetal Poland Sp. z o.o. and Alumetal S.A. have been prepared in accordance with International Financial Reporting Standards, while the financial statements of T+S Sp. z o.o. have been prepared in accordance with Polish Accounting Standards. Statutory financial statements of Alumetal Group Hungary Kft. have been prepared in accordance with Hungarian Accounting Policies, and restated for consolidation purposes in accordance with the accounting policy of the Group. Dividend may be paid out from the profits reported in annual separate financial statements prepared for statutory purposes, and from the reserve capital, after considering statutory and other restrictions.

In accordance with the provisions of the Code of Commercial Companies, the Company is required to create reserve capital for possible losses. Transferred to this category of capital is at least 8% of profit for the given financial year recognised in the separate financial statements of the parent company until such time as the value of the reserve capital reaches at least one third of the issued capital of the parent company. The use of the reserve capital and of other reserves depends on the resolutions of the Annual General Meeting; however, the portion of the reserve capital representing one third of the issued capital may be used only to cover a loss shown in the separate financial statements of the parent company and shall not be used for any other purpose.

The multi-product agreement concluded on 10 November 2005, with subsequent amendments, between the Company, Alumetal Poland, Alumetal Group Hungary Kft. and T+S as borrowers and ING Bank Śląski as lender, and the investment loan agreement for financing the investment project in Hungary concluded on 15 October 2015 between Alumetal and ING Bank Śląski S.A. obligates the borrowers not to execute, without prior permission of the Bank, an out of net profit dividend payment: (i) in the total amount exceeding 50% of the consolidated net profit for the prior financial year, (ii) as of 2017, in the total amount exceeding 70% of the consolidated net profit for the prior financial year, (iii) and as of 2018, in the total amount exceeding 70% of the normalised consolidated net profit for the prior financial year.

25.2. Dividends paid and proposed

Dividends paid

On 16 May 2017, the Ordinary Annual General Meeting resolved to appropriate the Alumetal S.A.'s profit for the year from 1 January to 31 December 2016 in the following manner:

- PLN 44,906,621.60 deriving from the Company's net profit for the year – to dividend payment,
- PLN 55,000.00 – to transfer to the Company's Social Fund
- PLN 32,491,566.65 – to transfer to the Company's reserve capital.

The amount of dividend of PLN 44,906,621.60 was paid on 7 June 2017. Eligible to dividend payment were the Shareholders of the Company who were entitled to the shares on 24 May 2017.

The value of dividend per share authorised for payment from the 2016 net profit was PLN 2.92.

Proposed dividend

In accordance with the dividend policy of the Company, the Management Board will propose payment of dividend for the year 2017 at the level of 67% of the normalised consolidated net profit (normalised net profit is the net profit adjusted by the impact of assets valuation in the form of CIT exemption) in the amount of PLN 45 200 119.56 which means that the value of dividend per share would be PLN 2.92. The Management Board will propose that the dividend is paid in August 2018.

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26. Interest-bearing bank loans and borrowings

	Available limit	Currency*	Maturity date	31 December 2017 Limit utilised	31 December 2016 Limit utilised
<i>Overdraft facility:</i>					
Aggregate limit facility for several Group companies at ING Bank Śląski S.A. with an interest rate based on 1M LIBOR (USD) + margin, 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin	36 000 000.00**	PLN*	20.06.2018	7 002 037.60	8 800 178.06
Aggregate limit facility for several companies of the Group at Alior Bank (loans assumed from BPH S.A.) with an interest rate based on 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin, 1M BUBOR (HUF) + margin*****	46 000 000.00***	PLN*	22.06.2017	–	19 062 544.70
Aggregate limit facility for several companies of the Group at DNB Bank Polska S.A. with an interest rate based on 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin, 1M BUBOR (HUF) + margin; 1M LIBOR (USD) + margin	40 000 000.00	PLN*	18.06.2018	36 392 901.56	–
Limit facility for several companies of the Group at Bank Handlowy w Warszawie S.A. with an interest rate based on 1M LIBOR (USD) + margin, 1M WIBOR (PLN) + margin, 1M LIBOR (EUR) + margin, 1M BUBOR (HUF) + margin	54 000 000.00	PLN*	18.05.2018	48 141 304.56	23 619 443.43
Limit facility for Alumetal Group Hungary Kft. at Citibank Europe Hungarian Branch Office with an interest rate based on O/N EURIBOR (EUR) + margin, O/N BUBOR (HUF) + margin	1 875 000.00	EUR*	16.08.2018	5 871 732.63	5 853 332.81
Short-term portion of the investment loan issued. by ING Bank Śląski S.A. in the amount of EUR 10 million, with an interest rate based on 1M EURORIBOR + margin taken out to finance the construction of a production plant in Hungary****	10 000 000.00****	EUR	14.10.2022	9 055 023.90	1 477 616.00
Total short-term portion				106 463 000.25	58 813 115.00
Long-term investment loan issued to Alumetal S.A. by ING Bank Śląski S.A. in the amount of EUR 10 million, with an interest rate based on 1M EURIBOR + margin, taken out to finance the construction of a production plant in Hungary	10 000 000.00****	EUR	14.10.2022	31 957 435.80	42 762 384.00
Total				138 420 436.05	101 575 499.00

* the „currency” means solely the currency of the limit and thus may differ from loan currency

**as part of the loan agreement, the available limit was formally increased by PLN 3.6 million to the amount of PLN 39.6 million as a mechanism hedging the Bank against fluctuations in the EUR/PLN and USD/PLN exchange rates and against origination of past due loan liability

*** as part of the loan agreement, the available limit is increased by the limit for financial market transactions by the amount of PLN 2 million to the amount of PLN 48 million

**** the total limit for the short- and long-term portion of the investment loan is PLN 10 million

***** repaid on time in June 2017

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The collaterals for loans and borrowings established on the assets of the Group were as follows:

As at 31 December 2017:

<i>Type of liability</i>	<i>Creditor</i>	<i>Type of assets pledged as collateral</i>	<i>Value of assets pledged as collateral*</i>
Maximum mortgage	ING Bank Śląski S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	59 857 934.44
Contractual mortgage	ING Bank Śląski S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	8 346 931.04
Maximum mortgage	Bank Handlowy w Warszawie S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	21 409 780.85
Transfer of receivables	ING Bank Śląski S.A.	Receivables	42 719 148.10
Transfer of receivables	DBN Bank Polska S.A.	Receivables	6 934 620.29
Pledge	Bank Handlowy SA	Property, plant and equipment	986 838.13
Pledge	ING Bank Śląski S.A.	Property, plant and equipment	4 819 988.60
Pledge	ING Bank Śląski S.A.	Raw materials scrap	Not higher than 6 000 000.00
Pledge	DBN Bank Polska S.A.	Raw materials scrap, semi-finished goods scrap, finished goods	Not higher than 45 000 000.00
Pledge	Bank Handlowy SA	Warehouse stocks of finished goods	Not higher than 5 000 000.00
Pledge	Bank Handlowy SA	Raw materials scrap	Not higher than 16 000 000.00

* *On the basis of carrying amount*

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As at 31 December 2016:

<i>Type of liability</i>	<i>Creditor</i>	<i>Type of assets pledged as collateral</i>	<i>Value of assets pledged as collateral*</i>
Maximum mortgage	ING Bank Śląski S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	59 327 647.29
Contractual mortgage	ING Bank Śląski S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	8 582 836.64
Maximum mortgage	Bank Handlowy w Warszawie S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	22 123 204.05
Maximum mortgage (second ranking)	Alior Bank S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	22 123 204.05
Transfer of receivables	ING Bank Śląski S.A.	Receivables	36 910 912.62
Transfer of receivables	Alior Bank S.A.	Receivables	6 271 444.63
Pledge	Bank Handlowy SA	Property, plant and equipment	1 488 757.25
Pledge	Alior Bank S.A.	Property, plant and equipment	7 382 937.40
Pledge	ING Bank Śląski S.A.	Property, plant and equipment	5 635 779.08
Pledge	ING Bank Śląski S.A.	Raw materials scrap	4 677 247.85
Pledge	Alior Bank S.A.	Raw materials scrap, semi-finished goods scrap, finished goods	Not higher than 45 000 000.00
Pledge	Bank Handlowy SA	Warehouse stocks of finished goods	Not higher than 5 000 000.00
Pledge	Bank Handlowy SA	Raw materials scrap	13 880 152.03

* *On the basis of carrying amount*

The collateral for the long-term investment loan taken out by Alumetal S.A. at ING Bank Śląski S.A. in the amount of EUR 10 000 000.00 for the purpose of financing the construction of a production plant in Hungary is the mortgage on the property at the production plant of Alumetal Poland sp. z o.o. in Nowa Sól with a net carrying amount as at 31 December 2017 of PLN 47 523 687.99 (as at 31 December 2016 - of PLN 48 949 437.39).

In addition, on 31 July 2017, an agreement was signed on establishing registered pledge on inventories with the maximum sum insured of PLN 45 million and two agreements on the transfer of receivables covering collaboration with three customers as collateral for a short-term loan with a limit of PLN 40 million issued to the Alumetal Group by DNB Bank Polska S.A., with the proviso that on 29 December 2017, contents of these agreements were modified by excluding one of the customers from the transfer of receivables.

To collateralise the short-term loan in the form of a multi-currency common facility at Alior Bank S.A. (*formerly Bank BPH S.A.*) each and every borrower (Alumetal S.A., Alumetal Poland sp. z o.o., Alumetal Group Hungary Kft.) signed an *in blanco* promissory note together with declaration. Due to the repayment of the loan in June 2017, the issued promissory notes were returned to the drawers on 25 October 2017.

In 2009, Alumetal Poland sp. z o.o. (*formerly Alumetal Nowa Sól Sp. z o.o.*) issued in favour of the National Fund for Environmental Protection and Water Management (*Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej*) an *in blanco* promissory note as security for any possible claims of the said Fund against this company that may arise from a contract between these two parties for a financial compensation (subsidy) in the amount of PLN 20 million for the execution of the project called *Construction of a plant for the scrap and aluminium waste management and production of casting alloys – phase I* („Budowa zakładu przerobu złomów, odpadów aluminiowych i produkcji stopów odlewniczych – etap I”). This promissory note will be returned or destroyed

upon a written request of the Beneficiary in 2018 after 5 years of the date of investment projects completion and after the fulfilment of all obligations set forth in the financial compensation contract.

In 2017, Alumetal SA and Alumetal Poland sp. z o.o. issued guarantees and sureties in respect of trade liabilities of Alumetal Group Hungary Kft in favour of the suppliers of the Hungarian subsidiary. The total value of these guarantees and sureties amounted as at 31 December 2017 to PLN 2 498 154.22 (as at 31 December 2016 - PLN 3 983 920.74).

27. Provisions

27.1. Movements in provisions

	Provision for retirement benefits and similar obligations	Total
As at 1 January 2017	642 619.40	642 619.40
Recognition/ reversal during the year	410 130.94	410 130.94
Utilisation	-194 580.17	-194 580.17
As at 31 December 2017	858 170.17	858 170.17
Short-term as at 31 December 2017	134 297.61	134 297.61
Long-term as at 31 December 2017	723 872.56	723 872.56
As at 1 January 2016	735 632.92	735 632.92
Recognition/ reversal during the year	59 582.92	59 582.92
Utilisation	-152 596.44	-152 596.44
As at 31 December 2016	642 619.40	642 619.40
Short-term as at 31 December 2016	105 533.58	105 533.58
Long-term as at 31 December 2016	537 085.82	537 085.82

27.2. Provision for court proceedings in progress

Both in 2017 and 2016, no significant court proceedings were conducted against the Alumetal Group companies.

28. Trade and other payables, and accruals and accrued income

28.1. Trade and other financial liabilities (current)

	<i>31 December 2017</i>	<i>31 December 2016</i>
Trade payables	157 977 065.86	119 563 067.46
Liabilities under reverse factoring	2 315 137.73	3 206 315.34
Payroll liabilities	2 231 759.92	1 852 748.61
Investment liabilities	1 844 833.40	5 681 570.49
Other liabilities	354 470.10	295 074.88
Total	164 723 267.01	130 598 776.78

Trade payables are non-interest bearing and usually have the maturity date of 21-60 days.

On 28 June 2011, Alumetal Poland sp. z o.o. signed an agreement (with subsequent amendments) with Bank Handlowy w Warszawie S.A. relating to collaboration between the parties in the matter of acquisition by the Bank, based on separate agreements, of trade receivables of ALUMETAL Poland sp. z o.o. attributable to its business partners, with a total limit of PLN 7 million (full factoring for the suppliers realised at their cost).

28.2. Other non-financial liabilities

	31 December 2017	31 December 2016
VAT	277 403.27	142 857.80
Personal income tax	795 415.07	765 357.86
Social security	2 517 457.84	2 252 792.04
PFRON	35 998.00	60 232.78
Excise tax	25 585.00	27 895.00
Other	-	2 697.41
Total, of which:	3 651 859.18	3 251 832.89
- short-term portion	3 651 859.18	3 251 832.89
- long-term portion	-	-

28.3. Accruals and deferred income

	31 December 2017	31 December 2016
Accrued expenses, of which:		
- unused annual leave	568 942.91	563 448.53
- employee bonus, incl. annual bonus	324 000.00	1 135 405.00
Deferred income, of which:		
- subsidies	29 180 415.31	25 263 794.75
Total, of which:	30 073 358.22	26 962 648.28
- short-term portion	3 923 449.02	4 186 059.02
- long-term portion	26 149 909.20	22 776 589.26

The received financial compensation (subsidies) reported in the consolidated statement of comprehensive income related to the financing received from the EU funds, which comprise:

- a) financing received under sector operating program called *Enhancement of Enterprise Competitiveness in the years 2004-2006* („*Wzrost Konkurencyjności Przedsiębiorstw, lata 2004-2006*”) and related to the execution of the following investment projects:
- Purchase and installation of the equipment for raw materials scrap packaging (*Zakup i instalacja urządzenia do paczkowania surowców złomowych*) – financing in the amount of PLN 1 037 333.62;
 - Construction of a gas purification system in the process of re-melting of secondary aluminium in 3 Induction Furnaces, type PIT-6000 (*Budowa instalacji oczyszczania gazów z procesu przetopu aluminium w zespole 3 szt. Pieców indukcyjnych typu PIT-6000*) – financing in the amount of PLN 946 690.18;
 - Modernization of gas-fired melting furnaces and construction of gas purification system at melting furnaces, holding furnaces and melting loss press (*Modernizacja pieców topielnych gazowych i budowa instalacji oczyszczania gazów dla pieców topielnych, pieców odstojowych i pras do zgarów*) – financing in the amount of PLN 5 952 500.00,
 - Improvement of enterprise competitiveness through the construction of aluminium scrap melting furnace, type PIT-6000, and modernization of quality lab (*Wzrost konkurencyjności przedsiębiorstwa poprzez*

budowę pieca do topienia złomu aluminium PIT-6000 oraz unowocześnienie laboratorium jakościowego)
– financing in the amount of PLN 1 151 281.44;

- b) Financing under the operating program called *Infrastructure and Environment 2007 - 2013 (Infrastruktura i Środowisko 2007-2013)* related to the realisation of the investment project called *Construction of a plant for the scrap and aluminium waste management and production of casting alloys – phase I („Budowa zakładu przerobu złomów, odpadów aluminiowych i produkcji stopów odlewniczych – etap I”)* – financing in the amount of PLN 20 000 000.00.

Based on the agreement with the National Fund for the Environmental Protection and Water Management, the Group is required to fulfil contractual obligations, including the obligation relating to project durability over the period defined in the agreement. The security for the obligations defined in the agreement for project financing is an *in blanco* promissory note, described in more detail in Note 26.

In addition, in 2014, the Alumetal Group Hungary Kft. received from the Hungarian government a binding offer, and accepted it, concerning cash subsidy for this project, and the underlying agreement became finally effective on 2 February 2016. In 1Q 2018, an annex was signed that modified the contract in the part relating to beneficiary's obligations concerning employee headcount, contract security (performance bond) and the date for project realization.

Until the date of the preparation of these consolidated financial statements, the Alumetal Group Hungary received ten advance payments under the underlying agreement: on 20 September 2016 for the amount of HUF 197 781 071.00, on 13 December 2016 for the amount of HUF 587 019 329.00, on 20 March 2017 for the amount of HUF 154 511 670.00, on 20 June 2017 for the amount of HUF 59 609 726.00, on 21 July 2017 for the amount of HUF 30 453 981.00, on 21 July 2017 for the amount of HUF 33 440 937.00, on 31 July 2017 for the amount of HUF 139 506 710.00, on 18 August 2017 for the amount of HUF 101 039 459.00, on 21 November 2017 for the amount of HUF 26 522 749.00 and on 20 March 2018 for the amount of HUF 116 454 833.00.

The total amount of nine advance payments made towards subsidy in the years 2016-2017 amounted to HUF 1 329 885 632 being the equivalent of PLN 18 493 852.18, while the PLN-based amount of the tenth instalment received in 2018 amounted to PLN 1 580 641.45.

In the case of Alumetal Group Hungary Kft, the company is obligated to: (i) construct a production plant with a production capacity of at least 55 000 tons per year (this obligation was already fulfilled); (ii) maintain yearly average employee headcount at 113 persons starting from 2019 to 2025 (with at least 2.7% of employees of higher education) while retaining total wage bill at a pre-defined level; (iii) maintain project life-period for at least 5 years (in the case of grant/ subsidy contract – for at least 7 years); (iv) realize sales revenue at certain pre-defined level, and (v) start plant operation not later than on 31 December 2018. The public aid in Hungary may be lost or rescinded if the Alumetal Group Hungary Kft. does not fulfil the above requirements or its obligations under labour, environmental protection or tax law.

To the best knowledge of the Management Board, as at the date of the preparation of these consolidated financial statements, the fulfilment of and compliance with the above regulations are not at risk.

The total aid under the above two titles (cash subsidy and partial exemption from corporate income tax) from Hungarian public funds is limited by the 35% level of incurred qualified investment expenditure.

29. Investment liabilities

As at 31 December 2017, the committed capital expenditure of the Group amounted to PLN 20 753 209.57. The most significant items were the liabilities arising from the concluded contracts for the Development of a master alloy plant (*Rozbudowa zakładu zapraw*) in Alumetal Poland, Gorzyce plant in the amount of PLN 19 921 913.76.

As at 31 December 2016, the committed capital expenditure of the Group amounted to PLN 33 290 840.55. The most significant items were the liabilities arising from the concluded contracts for the Development of a master alloy plant (*Rozbudowa zakładu zapraw*) in Alumetal Poland, Gorzyce plant in the amount of PLN 20 429 599.16.

30. Contingent liabilities and contingent assets

30.1. Court proceedings

Both in 2017 and 2016, no significant court proceedings were conducted against the Alumetal Group companies.

30.2. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) may be subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and sanctions. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in the interpretations of tax regulations both within government bodies and between companies and government bodies create areas of uncertainty and conflict. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Taxation authorities may examine the accounting records within up to five years after the end of the year in which the tax payment was made. Therefore, as a result of tax inspections, tax liabilities of the Company may be increased by additional amounts. As at 31 December 2017, neither the Company, nor any of its subsidiaries were parties to conducted tax proceedings.

In connection with the activities conducted in the Special Economic Zones, the Group is required to fulfil certain requirements and obligations attached to the received licenses, which were described in detail in Note 8.22. The non-fulfilment by the Group of the license-based obligations and requirements may cause that it will be required to return the already utilised tax relief (tax credits) and may not be able to benefit from similar tax relief in the future. As at the date of the preparation of these consolidated financial statements, the Group believes that there is no risk of its non-fulfilment of the obligations defined in the obtained licenses.

The contingent liabilities relating to the subsidies received were presented in Note 28.3.

31. Related party disclosures

As at 31 December 2017, the Group reported in its statement of financial position a receivable of PLN 35 000.00 under the loan granted to the related company, Alumetal Kęty sp. z o.o. (as at 31 December 2016 - PLN 30 000.00).

31.1. Terms and conditions of related party transactions

Related party transactions are concluded on the arm's length basis.

31.2. Director's loan

In the year 2017 and 2016, the Group did not extend any loans to the members of its Management Board.

31.3. Other transactions with Management Board Members

In the year 2017 and 2016, the Group did not conclude any other transactions with Management Board members.

31.4. Executive Board emoluments

	<i>Year ended</i> <i>31 December 2017</i>	<i>Year ended</i> <i>31 December 2016</i>
Management Board of the parent and subsidiaries:		
Short-term employee benefits (salaries and surcharges)	3 619 153.43	4 409 448.58
Szymon Adamczyk – President of the Management Board, CEO	1 422 750.99	1 774 725.14
Krzysztof Błasiak - Vice-president of the Management Board, Development and Metal Management Officer	1 422 750.99	1 774 725.14
Przemysław Grzybek – Member of the Management Board, CFO	702 333.79	859 998.30
Agnieszka Drzyżdżyk – Member of the Management Board, Trade Officer	71 317.66	–

In addition, in the analysed reporting periods, Members of the Company's Management Board participated in the operated share incentive schemes described in Note 20.2.

Supervisory Board

Total remuneration, of which:		144 000.00	175 500.00
Stulgis Grzegorz	Chairman of the Supervisory Board	–	31 500.00
Bijlhouwer Franciscus	Member of the Supervisory Board	36 000.00	36 000.00
Kacprowicz Marek	Member of the Supervisory Board	36 000.00	36 000.00
Pasiewicz Tomasz	Member of the Supervisory Board	36 000.00	36 000.00
Ślązak Emil	Member of the Supervisory Board	36 000.00	36 000.00

In 2017, the Group signed an agreement for the purchase of advisory services from IPO 30 FIZAN A/S. The total value of invoices issued in 2017 amounted to EUR 30 000.00 (in 2016 – EUR – 10 000.00).

In addition, the Group received invoices for the advisory services in the process of development and extension of a master alloy plant from Mr Franciscus Bijlhouwer Quality Consultants BV: in 2017 for the amount of EUR 1 562.63 in 2016 for the amount of EUR 12 010.62.

In the period from 2 January 2017 to 28 February 2017, a contract for services with Mr Marek Kacprowicz was in effect. Total value of remuneration under this agreement was PLN 40 000.00, gross.

32. Additional explanations to the Statement of Cash Flow

The balance of the item *Other (including the costs of incentive scheme)* in the cash flow from operating activities in 2017 in the amount of PLN -23 845.69 is composed of the following items:

- cost of incentive scheme in the amount of PLN 89 505.00
- realized gains on forward transactions in the amount of - PLN 3 249 751.41
- cumulative translation differences (from translation of foreign subsidiary operations) in the amount of PLN 3 136 400.72.

The balance of the item *Other (including the costs of incentive scheme)* in the cash flow from operating activities in 2016 in the amount of PLN 975 901.91 is composed of the following items:

- cost of incentive scheme in the amount of PLN 432 520.97
- realized loss on forward transactions in the amount of PLN 695 420.67
- cumulative translation differences (from translation of foreign subsidiary operations) in the amount of PLN 152 039.73.

The balance of the item of *(Purchase)/ sale of other financial assets* in the cash flow from investing activities of the 2016 cash flow statement in the amount of PLN 14 631 940.96 is composed of the following:

- funds utilised from a special bank account of the Alumetal Group Hungary Kft. in connection with the functioning of the escrow construction services which are obligatory for the investment process under the Hungarian law for the payment for services of the General Contractor of the investment project in Hungary in the amount of PLN 14 631 940.96
- acquisition and sale of shares in SKTB in the amount of PLN 894 600.00.

33. Remuneration of certified auditor or entity authorised to audit financial statements

The table below shows remuneration of the entity authorised to audit financial statements, paid or payable for the year ended 31 December 2017 and 31 December 2016, by type of services:

<i>Type of service</i>	<i>Year ended 31 December 2017*</i>	<i>Year ended 31 December 2016*</i>
Statutory audit of consolidated and separate financial statements	105 000.00	105 000.00
Review of interim financial statements	50 000.00	50 000.00
Total	155 000.00	155 000.00

* relates to Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k.

In addition, the fee for statutory audit of separate financial statements of the Alumetal Group Hungary Kft. for 2017 performed by Ernst & Young Konyvvizsgalo Kft. amounted EUR 9,000 (for 2016 - EUR 9,000), while for the half year review in 2017 – EUR 4,000.

34. Financial risk management objectives and policies

The function of financial risk management at the Alumetal SA Capital Group is performed centrally, at the level of the parent of the Group.

The Group's principal financial instruments comprise bank loans (short- and long-term), factoring agreements, reverse factoring for suppliers and short-term deposits.

The objective behind the use of those instruments is to obtain finance to conduct operating and investing activities.

In addition, in connection with the conducted operating activities, the Group has such instruments as trade receivables and trade payables.

Utilisation of the above instruments generates mainly the following types of risk:

- interest rate risk,
- foreign currency risk,
- commodity price risk,
- credit risk,
- liquidity risk.

34.1. Interest rate risk

The Group is exposed to interest rate risk in connection with its use of financial instruments to finance operating and investing activities i.e. short- and long-term loans, factoring services on own receivables and short-term deposits.

The above financial instruments are based on variable interest rate of WIBOR (for PLN), EURIBOR (or LIBOR for EUR) and to the lesser extent – BUBOR (HUF) and LIBOR (for USD).

The table below demonstrates sensitivity of the gross financial result to interest rate fluctuations, with all other variables remaining unchanged, for the most significant interest rates for Alumetal Group i.e. EURIBOR (LIBOR EUR) and WIBOR (LIBOR USD and BUBOR are of marginal importance in the analysed period).

	<i>Increase/ decrease in FX rate</i>	<i>Effect on the gross financial result (in '000 PLN)</i>
Year ended 31 December 2017		
PLN	+ 0.50%	-30
EUR	+0.25 %	-285
PLN	- 0.50%	30
EUR	- 0.25%	285

Year ended 31 December 2016

PLN	+ 0.50%	-55
EUR	+0.25 %	-235
PLN	- 0.50%	55
EUR	- 0.25%	235

The Group does not hedge against interest rate risk because the instruments used are, in the majority of cases, of short-term character. On the other hand, the long-term financial instruments hedging against interest rate risk are based, to a great extent, on the expectations and forecasts, which under the specific market circumstances in the analysed reporting period did not encourage the use those instruments, and therefore also long-term hedging instruments were not used to hedge against interest rate risk.

34.2. Foreign currency risk

The Group is exposed to foreign currency risk in connection with the transactions of current operations. Such exposure arises from the sale or purchase transactions made in the currencies other than its measurement currency.

The Alumetal Capital Group has widely used the so-called natural hedge mechanism, as sale transactions in foreign currencies have been largely balanced by purchase transactions. Nevertheless, as a result of the occasional lack of balance between these two types of business transactions, foreign currency risk is generated.

The Group regularly monitors its EUR/ PLN, USD/ PLN and EUR/HUF currency position, and systematically concludes hedging transactions, in accordance with its hedge accounting policy and using the accepted types of derivative financial instruments. In practice, the Group uses almost exclusively *forward* contracts, and only in the periods of great volatility of exchange rates, the Group applies option strategies as a tool which is more flexible than basic *forward* contracts.

The applied strategy of hedge accounting includes also certain additional elements of natural hedging mechanism i.e. the fact that the Group uses long- and short-term foreign currency loans and borrowings, and the fact that a large portion of the PLN-based purchase and sale transactions is indirectly affected by the EUR/PLN quotations. All these elements cause that the foreign currency risk at the Alumetal Group, especially in the medium and long-term, is materially limited.

The main principle of the Group's hedge accounting strategy is the policy of not entering into speculative transactions. The concluded derivative transactions serve solely to limit the risk resulting from operating activities and to stabilize the financial results.

As at 31 December 2017, the Group reported open currency forward contracts for sale of Euro in Polish zloty in the total amount of EUR 14 200 000 (as at 31 December 2016 - EUR 14 600 000). In addition, the Group reported open currency forward contracts for the purchase of USD in Polish zloty in the total amount of USD 846 000 (at the end of 2016 – USD 525 000). The maturity analysis of open contracts was 3 months from the reporting date. The maturity dates for open contracts usually fall within 3 months of the reporting date.

Due to the execution of an investment project in Hungary, in 2015 the Group started to incur certain foreign currency risk as regards HUF/PLN, and especially EUR/HUF exchange rates. As at 31 December 2017, the Group had concluded currency forward transactions for the sale of EUR in HUF for the total amount of EUR 3 450 000 (no such transactions were concluded as at 31 December 2016).

The table below demonstrates sensitivity of the gross financial result for individual years (in connection with changes in the value of assets and monetary liabilities) to reasonably possible fluctuations in the exchange rates, with all other variables remaining unchanged.

	<i>Increase/ decrease in FX rate</i>	<i>Effect on the gross financial result (in '000 PLN)</i>
31 December 2017 – EUR/ PLN	+ 5%	4 715
	- 5%	-4 715
31 December 2017 – USD/ PLN	+ 5%	-239
	- 5%	239
31 December 2017 – EUR/ HUF	+ 5%	-4 028
	- 5%	4 028
31 December 2016 – EUR/ PLN	+ 5%	3793
	- 5%	-3793
31 December 2016 – USD/ PLN	+ 5%	-98
	- 5%	98
31 December 2016 – EUR/ HUF	+ 5%	-3801
	- 5%	3801

34.3. Commodity price risk

Selling prices are directly or indirectly related to the quotations on the London Metal Exchange (“LME”) (*Londyńska Giełda Metali*). The quotations with the most significant effect are the quotations of pure aluminium (LME HG) and aluminium alloys (LME AA), while the quotations of several other metals such as nickel or copper are of far lesser importance. The correlation of these quotations with the prices of goods of the Alumetal Group, although relatively strong, is not – however - full, especially in a short period of time. In addition, the mechanism of natural hedging is applied in this area as the prices of purchase of raw materials, which account for approx. 85% -90% of the production costs, are also correlated with LME’s quotations, particularly in a long term. This causes that the risk of LME’s commodity price fluctuations represents rather limited threat to the financial results of the Group. For these reasons, the Group does not use any instruments hedging against fluctuations in LME’s quotations of raw materials.

34.4. Credit risk

The credit risk of the Alumetal Group arises from the concluded trading contracts and the possibility of negative effects of business partner insolvency, partial non-payment or delayed payments of the amounts due.

Until 2015, the policy of the Group in this area assumed regular verification of client financial standing (based on the financial data made available by clients and based on the information obtained from credit bureaus), monitoring of this standing and the ongoing analysis of timeliness of trade debtor payments through the proactive approach of debt recovery team, operating in accordance with Group’s relevant debt collection procedure.

Due to its further trade expansion, the Company decided to change its approach to trade risk management, and in the 1st half of 2016 signed an agreement for receivables insurance. The verification covered the entire sales to non-related entities, except for sales to the three largest customers of the Alumetal Group (the Federal Mogul Group, the Nemak Group and the Volkswagen Group), and the insurance taken covered the period from 1 April 2016. In 2Q 2017, a decision was taken to collaborate with two insurers at the same time, which additionally improved the level of coverage of the Group’s needs in the area of awarded insurance limits. As a result, the credit risk of the Company became considerably limited (the Group intends to continue to insure its receivables in the ensuing years). However, one should note that pursuant to the policies operating in the contracts of this type, part of receivables of each customer is not insured due to the so-called own-share of the policyholder. In addition, as provided in the insurance contract, the Company’s Management Board has the right to take a sale decision that originates receivables from customers in the amount higher than the coverage limit granted by the insurer, which – in turn - causes that the credit risk is higher than in other areas.

The above approach facilitates intensive quantitative and geographical sales development, without increasing the risk of credit activities of the Group. The fact of insuring receivables and the relatively wide and diversified customer portfolio and very good financial standing of the Group cause that the risk of credit exposure is very limited.

Detailed information on the ageing analysis of receivables and receivables impairment write-down was presented in Note 22.

34.5. Liquidity risk

The Group is exposed to the risk of possible liquidity problems, mainly in the case of default payment or potential non-recovery of significant debt balances. An issue of importance for the Group is also its capacity to ensure appropriate finance for further development i.e. the funds required for investment expenditure or the need for higher working capital due to growing sales. Evident short-term price increases may also result in a demand for higher working capital balance. If coupled with materially deteriorated financial results, the Group could suffer from difficulties in securing appropriate amounts of external borrowings.

However, for many years now, the Group has used multi-currency overdraft facility lines which fully match its financial liquidity requirements. To this end, the Group has used services of several banks by taking out short- and long-term loans and borrowing in those banks, and using their factoring services. The above instruments and reported good financial results cause that despite the Group's intensive development (bringing high investment expenditure and higher demand for working capital financing), the risk of the loss of financial liquidity does not occur.

A certain liquidity risk may pose the fact that the Alumetal Group Hungary Kft receives cash subsidy and will use the investment tax relief – should it transpire in the future that this company does not meet its obligations arising from the obtained public aid (described in Note 28.3), it may be required to return the received public aid in whole or in part, and this – in turn – may be a significant burden and threat to the liquidity of the Group. However, the long-standing experience of the Alumetal Group in benefiting from public aid greatly reduces this risk.

The table below shows the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016, based on maturity dates of contract undiscounted payments.

	<i>< 3 months</i>	<i>3 – 12 months</i>	<i>1 - 5 years</i>	<i>> 5 years</i>	<i>Total</i>
31 December 2017					
Trade and other financial liabilities	164 723 267.01	–	–	–	164 723 267.01
Overdraft facilities	–	97 407 976.35	–	–	97 407 976.35
Investment loan	2 786 161.20	6 268 862.70	31 957 435.80	–	41 012 459.70*
31 December 2016					
Trade and other financial liabilities	130 598 776.78	–	–	–	130 598 776.78
Overdraft facilities	–	57 335 499.00	–	–	57 335 499.00
Investment loan	–	1 477 616.00	35 462 784.00	7 299 600.00	44 240 000.00*

*this amount is not directly covered by current liquidity management, because (as stated in Note 26) it represents a long-term liability under the loan taken out to finance the investment project in Hungary.

35. Financial instruments

35.1. Fair value of financial instruments, by class

The table below shows the comparison of carrying amounts and fair values of all financial instruments of the Group, by individual classes of assets and liabilities.

	<i>Category in accordance with IAS 39</i>	<i>Carrying amount</i>	
		<i>31 December 2017</i>	<i>31 December 2016</i>
		<i>Financial assets</i>	
Other financial assets (short-term)	LaR	35 000.00	30 000.00
Trade and other receivables	LaR	256 078 630.77	188 881 723.86
Derivative financial instruments	aFVtPL	632 572.53	–
Cash and cash equivalents	aFVtPL	6 735 406.17	7 444 884.59
Total		263 481 609.47	196 356 608.45

	<i>Category in accordance with IAS 39</i>	<i>Carrying amount</i>	
		<i>31 December 2017</i>	<i>31 December 2016</i>
		<i>Financial liabilities</i>	
Interest-bearing loans and borrowings	OFLaAC	138 420 436.05	101 575 499.00
Trade and other financial liabilities	OFLaAC	164 723 267.01	130 598 776.78
Derivative financial instruments	aFVtPL	–	319 562.73
Total		303 143 703.06	232 493 838.51

The fair value of financial instruments the Alumetal S.A. Capital Group held as at 31 December 2017 and 31 December 2016 *did not* differ materially from their carrying amount presented in the attached financial statements for the following reasons:

- with regard to the short term financial instruments, any possible effect of discount is immaterial;
- these instruments related to the transactions concluded on the arm's length basis;
- with regard to the long-term instruments (investment loan), their interest rate is based on variable interest rates and the margins provided in the loan agreements at each reporting date did not differ from prevailing market margins.

As at 31 December 2017 and 31 December 2016, the Group's financial instruments classified as at fair value through profit or loss (aFVtPL) were derivative financial instruments - currency forward contracts. All these instruments are classified to Level 2 of the fair value hierarchy described in Note 8.2.

35.2. Items of revenues, costs, gains and losses recognised in the Statement of Comprehensive Income, by category of financial instruments

Year ended 31 December 2017

	<i>Category in accordance with IAS 39</i>	<i>Interest income/ (expense)</i>	<i>FX gains/ (losses)</i>	<i>Impairment write-downs reversal/ (recognition)</i>	<i>Valuation gains/ (losses)</i>	<i>Gains/ (losses) on disposal of fin. instr.</i>	<i>Other</i>	<i>Total</i>
Financial assets								
Trade and other receivables	LaR	43 527.58	-10 064 161.22	693 867.78	–	–	–	-9 326 765.86
Derivative financial instruments	aFVtPL	–	–	–	954 201.05	–	–	954 201.05
Cash and cash equivalents	aFVtPL	21 026.35	–	–	–	–	–	21 026.35
Financial liabilities								
Interest-bearing loans and borrowings	OFLaAC	-1 040 555.97	-182 384.71	–	–	–	–	-1 222 940.68
Trade and other financial liabilities	OFLaAC	-16 880.76	5 825 211.12	–	–	–	–	5 808 330.36
Total		-992 882.80	-4 421 334.81	693 867.78	954 201.05	–	–	-3 766 148.78

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Year ended 31 December 2016

	<i>Category in accordance with IAS 39</i>	<i>Interest income/ (expense)</i>	<i>FX gains/ (losses)</i>	<i>Impairment write-downs reversal/ (recognition)</i>	<i>Valuation gains/ (losses)</i>	<i>Gains/ (losses) on disposal of fin. instr.</i>	<i>Other</i>	<i>Total</i>
Financial assets								
Trade and other receivables	LaR	142 232.95	6 543 836.42	762 937.86	–	–	–	7 449 007.23
Derivative financial instruments	aFVtPL	–	–	–	-593 179.59	–	–	-593 179.59
Cash and cash equivalents	aFVtPL	32 082.89	–	–	–	–	–	32 082.89
Financial liabilities								
Interest-bearing loans and borrowings	OFLaAC	-782 118.48	-2 138 176.41	–	–	–	–	-
Trade and other financial liabilities	OFLaAC	-19 790.10	-1 166 244.56	–	–	–	–	-
Total		-627 592.74	3 239 415.45	762 937.86	-593 179.59	–	–	2 781 580.98

35.3. Interest rate risk

Presented in the table below is the carrying amount of the financial instruments of the Group that incur the risk of interest rate, by their maturity dates.

The Group has mainly overdraft facilities which are short-term items with the instalment amounts calculated using variable market indexes of WIBOR, LIBOR USD, LIBOR EUR, EURORIBOR and BUBOR. In addition, the Group reported an investment loan at ING Bank Śląski in Euro with the instalment amounts calculated on the basis of 1M EURIBOR. Detailed information regarding debt balance from individual loan liabilities is presented in Note 28.

31 December 2017

Variable interest rate

	<i><1 year</i>	<i>1–2 years</i>	<i>2-3 years</i>	<i>>3 years</i>	<i>Total</i>
Cash assets	6 735 406.17	–	–	–	6 735 406.17
Overdraft facilities	97 407 976.35	–	–	–	97 407 976.35
Investment loan	9 055 023.90	8 358 483.60	8 358 483.60	15 240 468.60	41 012 459.70
Total	113 198 406.42	8 358 483.60	8 358 483.60	15 240 468.60	145 155 842.22

31 December 2016

Variable interest rate

	<i><1 year</i>	<i>1–2 years</i>	<i>2-3 years</i>	<i>>3 years</i>	<i>Total</i>
Cash assets	7 444 884.59	–	–	–	7 444 884.59
Overdraft facilities	57 335 499.00	–	–	–	57 335 499.00
Investment loan	1 477 616.00	8 865 696.00	8 865 696.00	25 030 992.00	44 240 000.00
Total	66 257 999.59	8 865 696.00	8 865 696.00	25 030 992.00	109 020 383.59

Interest on financial instruments with variable interest rate is re-priced at intervals of less than one year. Interest on financial instruments with fixed interest rate does not change until instrument maturity date. The remaining financial instruments of the Group that are not included in the above tables are non-interest bearing and therefore they are not subject to interest rate risk.

36. Capital management

The primary objective of capital management at the Group is to ensure that the Group maintains strong credit ratings and healthy capital ratios that would support its business, facilitate securing external finance and maximise its value to the shareholders.

The Group monitors capital using the gearing ratio, which is calculated as the ratio of total net debt divided by total capital increased by total net debt. The internal policies of the Group require that the value of this ratio ranged from 60% to 40%. Included in total net debt are all interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the shareholders of the parent.

The Group also monitors the relation of current debt to the EBITDA earned.

	<i>31 December 2017</i>	<i>31 December 2016</i>
Interest-bearing loans and borrowings	138 420 436.05	101 575 499.00
Trade and other financial liabilities	164 723 267.01	130 598 776.78
Less: cash and cash equivalents	-6 735 406.17	-7 444 884.59
Net debt, total	296 408 296.89	224 729 391.19
Shareholders' equity	503 811 264.46	441 275 068.22
Capital and net debt	800 219 561.35	666 004 459.41
Gearing ratio (Shareholders' equity/ Capital and total net debt)	63%	66%

37. Employment structure

The average employment in the Group in the year ended 31 December 2017 and 31 December 2016 was as follows:

	<i>Year ended 31 December 2017</i>	<i>Year ended 31 December 2016</i>
Management Board of the parent company	3	3
Management Boards of other Group companies	4	4
Administration and logistics department	105	89
Trading department	15	14
Production department	568	496
Total	695	606

38. Events after the reporting date

Apart from the events described in these consolidated financial statements, there were no other significant events that were not, but should have been, disclosed in these consolidated financial statements.

These consolidated financial statements comprise:

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Szymon Adamczyk President of the Management Board

Krzysztof Błasiak Vice-president of the Management Board

Przemysław Grzybek Board Member

Agnieszka Drzyżdzyk Board Member

Krzysztof Furtak Chief Accountant

Kęty, 9 April 2018