

**DIRECTORS' REPORT
ON ACTIVITIES OF
THE ALUMETAL S.A. CAPITAL GROUP
FOR THE YEAR 2017**



Kęty, 9 April 2018

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I. Issuer and Capital Group corporate data

1. Organisation of the ALUMETAL S.A. Capital Group

As at 31 December 2017, the organisation of the ALUMETAL S.A. Capital Group (hereinafter referred to as the "Alumetal Group" or the "Group") is as follows:

A. Issuer corporate data

Name and legal form:	ALUMETAL Spółka Akcyjna [joint stock company]
Registered office:	ul. Tadeusza Kościuszki 111, 32-650 Kęty
Telephone number:	+48 (33) 47 07 100
Fax number:	+48 (33) 47 07 101
Website:	www.alumetal.pl
E-mail address:	alumetal@alumetal.pl
KRS:	0000177577
Statistical number, REGON:	357081298
Tax identification number, NIP:	5492040001

ALUMETAL S.A. (hereinafter: the „Company”, „Issuer”) was incorporated in 1999 and entered in the Register of Entrepreneurs on 19 October 2001 as limited liability company (*spółka z ograniczoną odpowiedzialnością*) operating under the name „Alumetal” sp. z o.o. On the basis of resolution of the Shareholders' Meeting of „Alumetal” sp. z o.o. of 5 September 2003, the Company was transformed into a joint stock company ALUMETAL S.A. The transformation was registered with the competent registry court on 28 October 2003.

ALUMETAL Spółka Akcyjna is registered in the Register of Entrepreneurs maintained by the District Court for Kraków-Śródmieście in Cracow, 12th Economic Department of the National Court Register, Entry No. KRS 0000177577. The Company was incorporated for an indefinite period of time. The Company operates based on the provisions of the Code of Commercial Companies and other legal regulations binding the commercial-law companies, as well as based on the provisions of its Statutes and of other internal regulations.

The Company's scope of business is defined in § 4 of its Statutes, being in particular:

Head office and holding operations, except for financial holdings (PKD 70.10.Z).

The issued capital of the Company amounts to PLN 1 547 949.30 (in words: one million five hundred forty seven thousand nine hundred forty nine zloty thirty groszy) and is divided into 15,479,493 shares with a nominal value of PLN 0.10 each, of which:

- 9,800,570 shares are ordinary bearer shares, series A;
- 1,507,440 shares are ordinary bearer shares, series B;
- 3,769,430 shares are ordinary bearer shares, series C;
- 150,770 shares are ordinary bearer shares, series D;
- 150,770 shares are ordinary bearer shares, series E; and
- 100,513 shares are ordinary bearer shares, series F.

In the event of Company liquidation, the above shares are not preference shares as regards voting right, right to dividend or distribution of assets.

The Management Board of the Stock Exchange in Warsaw (WSE) passed on 11 July 2014 a Resolution No. 802/2014 on admittance to public trading on the main market of the WSE of the ALUMETAL S.A.'s shares, series A, B and C. Following that, the Management Board of the WSE, based on the Resolution No. 811/2014 of 16 July 2014, resolved that as of 17 July 2014 the Company's ordinary (bearer) shares will be introduced to public trading in the ordinary procedure, and on that date the first quotation of the Company took place.

As part of the realization of the Incentive Program adopted based on Resolution No. 5 of the Extraordinary Annual General Meeting of the Company of 28 May 2014, in the years 2015 – 2017, the Company issued:

- in 2015 - 150,770 registered, non-transferrable subscription warrants, series A, in exchange for which 150,770 ordinary bearer shares, series D, with a nominal value of PLN 0.10 (in words: ten groszy) each, were taken up. The ordinary, D-series bearer shares were introduced to public trading on the main market of the WSE on 1 June 2015 (Current report No. 21/2015 dated 28 May 2015);
- in 2016 - 150,770 registered, non-transferrable subscription warrants, series B, in exchange for which 150,770 ordinary bearer shares, series E, with a nominal value of PLN 0.10 (in words: ten groszy) each, were taken up. The ordinary, E-series bearer shares were introduced to public trading on the main market of the WSE on 20 July 2016 (Current report No. 20/2017 dated 15 July 2016);
- in 2017 – 100,513 registered, non-transferrable subscription warrants, series C, in exchange for which 100,513 ordinary bearer shares, series F, with a nominal value of PLN 0.10 (in words: ten groszy) each, were taken up. The ordinary, F-series bearer shares were introduced to public trading on the main market of the WSE on 21 July 2017 (Current report No. 22/2017 dated 19 July 2017).

Given the above, the majority of the assumptions of the Incentive Program were fulfilled and the Program was terminated.

B. Subsidiary companies

Presented below is basic information on related companies, which are direct subsidiaries of the Company.

ALUMETAL Poland sp. z o.o.

The Company holds 100% shares in the issued capital of ALUMETAL Poland sp. z o.o., which give it the right to exercise 100% votes at the shareholders' meeting of this company.

Corporate information:

Name and legal form:	Alumetal Poland spółka z ograniczoną odpowiedzialnością [limited liability company]
Registered office:	ul. Przemysłowa 8, 67-100 Nowa Sól
Issued capital:	PLN 164 981 300
Main scope of business activities:	Production of aluminium casting alloys, master alloys and aluminium for steel de-oxidation.

T + S sp. z o.o.

The Company holds 100% shares in the issued capital of T+S sp. z o.o., which give it the right to exercise 100% votes at the shareholders' meeting of this company.

Corporate information:

Name and legal form:	T + S spółka z ograniczoną odpowiedzialnością [limited liability company]
Registered office:	ul. Tadeusza Kościuszki 111, 32-650 Kęty
Issued capital:	PLN 350 000
Main scope of business activities:	Production of fluxes and salts, which are supplementary materials in the casting industry.

ALUMETAL Kęty sp. z o.o.

The Company holds 100% shares in the issued capital of ALUMETAL Kęty sp. z o.o., which give it the right to exercise 100% votes at the shareholders' meeting of this company. At the date of the preparation of the Company's financial statements, ALUMETAL Kęty sp. z o.o. did not commence operational activity, and the Company considers disposal of all shares in this entity.

Corporate information:

Name and legal form:	Alumetal Kęty spółka z ograniczoną odpowiedzialnością [limited liability company]
Registered office:	ul. Tadeusza Kościuszki 111, 32-650 Kęty
Issued capital:	PLN 5 000
Main scope of business activities:	No operational activity conducted

ALUMETAL Group Hungary Kft.

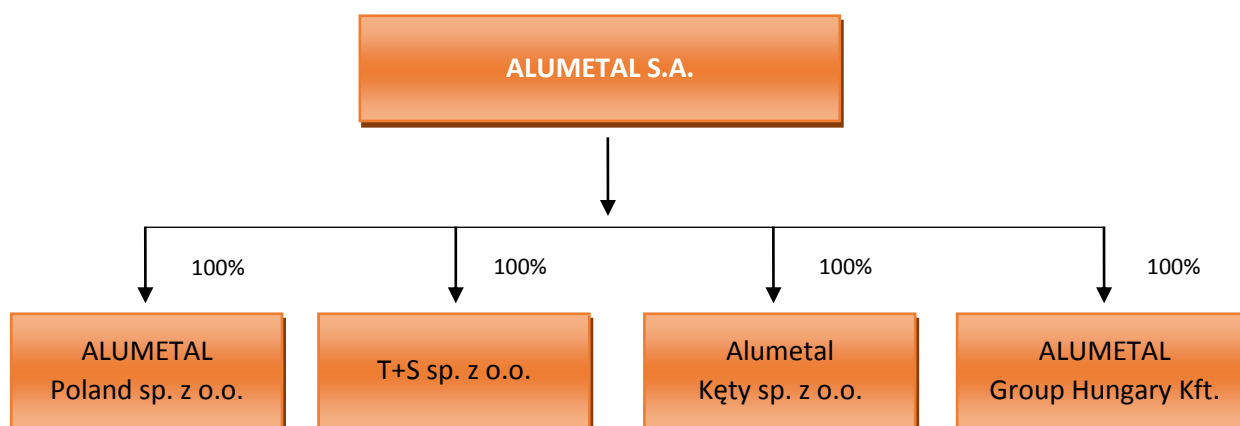
The Company holds 100% shares in the issued capital of ALUMETAL Group Hungary Kft., which give it the right to exercise 100% votes at the shareholders' meeting of this company.

Corporate information:

Name and legal form:	ALUMETAL Group Hungary Kft.
Registered office:	2903 Komárom, Irinyi Janos u.10., Hungary
Issued capital:	HUF 5 500 000 000
Main scope of business activities:	Casting of light metals

As at 31 December 2017, the organizational structure of the Alumetal Group was as follows:

Organizational structure of the ALUMETAL S.A. Capital Group



			% share held by ALUMETAL S.A. in the issued 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 operational activity	100%	100%
ALUMETAL Group Hungary Kft.	Komarom, Hungary	Production	100%	100%

ALUMETAL S.A. is the holding company rendering management, trading and marketing, development-investment, IT, controlling, people advisory services (HR & Payroll) and accounting-financial services to other entities of the ALUMETAL S.A. Capital Group (hereinafter referred to as the “Alumetal Group” or the “Group”).

ALUMETAL Poland sp. z o.o. is the main production company of the Group in Poland that manufactures its main products: aluminium casting alloys and master alloys. ALUMETAL Poland sp. z o.o. owns all three Polish production plants of the Group, which are located in Kęty (Małopolskie Voivodship), Nowa Sól (Lubuskie Voivodship) and Gorzyce (Podkarpackie Voivodship).

T+S sp. z o.o. renders services of support production company (chemical division) which consist in the production of fluxes and salts which are used mainly by the Alumetal Group, but which are also sold to the external clients in the casting and smelting industries.

Alumetal Kęty sp. z o.o. did not conduct operational activity in the reporting period.

ALUMETAL Group Hungary Kft. is a Hungarian-law based company, incorporated to realize the investment of the Alumetal Group in Hungary. The company commenced production and sale of aluminium casting alloys in September 2016.

In the reporting period, none of the companies of the Alumetal Group had self-reporting organizational units within the meaning of article 5 point 4 of the Act on freedom of economic activity.

As at 31 December 2017, the following entities were consolidated:

- ALUMETAL S.A.,
- ALUMETAL Poland sp. z o.o.,
- T+S sp. z o.o., and
- ALUMETAL Group Hungary Kft.
- Alumetal Kęty sp. z o.o.

2. Changes in the organisational structure of ALUMETAL Group

In 2017 and as at the date of the publication of this Directors' Report, the organisational structure of the Group did not change.

3. Organisational and capital relations of ALUMETAL S.A.

The Issuer is related by type of organisation and by capital to the subsidiary companies of the Alumetal Group in the manner specified above, while maintaining the policy of the performance of duties of Group companies' board members by the persons making up the Management Board of ALUMETAL S.A. The exception to this rule is ALUMETAL Group Hungary Kft., as described below.

The Issuer is also related by capital with the entity controlled by Mr Grzegorz Stulgis, Chairman of the Supervisory Board: IPO 30 FIZAN A/S, which as at 31 December 2017 held a total of 5,108,221 shares of ALUMETAL S.A. which translated into a 32.99% share in the issued capital of the Company.

4. Intra-Group transactions

In the reporting period, neither the Issuer, nor its subsidiary companies made any significant transactions with related entities on the terms and conditions other than those prevailing in the arm's length transactions.

II. Statement of Corporate Governance

ALUMETAL S.A. has conducted business in accordance with Polish laws and the Company's Statutes. Pursuant to the provisions of § 11 section 1 point 6 of the Company's Statutes, any change thereto requires separate resolution of the Annual General Meeting, as provided in the Code of Commercial Companies.

1. Principles of management of the ALUMETAL S.A. Capital Group

For many years, the Group has been managed from the level of the parent company, ALUMETAL S.A., which as of 1 January 2014, i.e. after Group reorganization, has remained solely a holding entity.

The expression of the above principle of management is the observing by the ALUMETAL S.A. Capital Group of the policy of the performance of duties of Group companies' board members by the persons making up the Management Board of ALUMETAL S.A., as well as possible appointment to the boards of subsidiary companies of additional persons, as required by business tasks of those subsidiary companies. As part of the compliance with this policy, as of 1 January 2015 the mandate of Management Board Member of ALUMETAL Poland sp. z o.o. and T+S sp. z o.o. has been held by Mr Tomasz Kliś.

The exception is the Hungarian-law based Group company, ALUMETAL Group Hungary Kft., which does not have management board within the meaning of Polish regulations, and the persons authorised to manage and represent this company as at the date of the preparation of this Report are Mr Andrzej Słupski and Mr Robert Ozóg (employees of ALUMETAL S.A.). This exception is the effect of the requirements of Hungarian laws.

The subsidiary companies of the Alumetal Group do not have own supervisory bodies. The sole governing body of this type is the Supervisory Board at ALUMETAL S.A.

The principles of functioning and information about Issuer authorities are presented below.

In the period from 31 December 2016 to 31 December 2017, the principles of management of the Alumetal Group did not change.

2. Authorities of ALUMETAL S.A.

A. Annual General Meeting

The Annual General Meeting operates based on the Company's Statutes and Regulations of Annual General Meetings of ALUMETAL S.A.

The wording of Regulations of Annual General Meetings is presented in the internet website under the tab: Investor relations/Corporate governance/Annual General Meeting.

Pursuant to the provisions of the Company's Statutes, an Annual General Meeting can be ordinary or extraordinary. Resolutions of the Annual General Meeting are adopted by an absolute majority of votes, unless legal regulations or the provisions of the Statutes provide for more rigorous requirements for resolution adoption. One share gives right to one vote at the Annual General Meeting. Resolutions of the Annual General Meeting are adopted for the matters regulated by the provisions of the Code of Commercial Companies, other legal acts or provisions of the Company's Statutes.

Apart from the matters regulated by the provisions of the Code of Commercial Companies, other legal acts or provisions of the Company's Statutes, a resolution of the Annual General Meeting is required for:

- 1) creation and elimination of all types of capital and funds, including special purpose capital and funds,
- 2) Company liquidation,
- 3) re-acquisition of own shares for redemption purposes, cancellation or decrease of the Company's issued capital,
- 4) disposal or lease of the Company's enterprise or an organised part thereof, or establishment of a limited property right thereon (*limited right in rem*), disposal of the Company's interest in subsidiary companies,
- 5) merger with another entity (business combination),
- 6) amendments in the Company's Statutes,
- 7) adoption of Regulations of the Company's Annual General Meeting.

Acquisition or disposal of real property, right of perpetual usufruct (RPU) or interest in real property do not require resolution of the Annual General Meeting.

On 16 May 2017, the Ordinary Annual General Meeting passed resolutions regarding the following:

- appointment of the Chairman of the Ordinary Annual General Meeting,
- adoption of meeting agenda,
- approval of Directors' Report on activities of ALUMETAL S.A. for 2016,
- authorization of the financial statements of ALUMETAL S.A. for the year ended 31 December 2016,
- approval of Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year ended 31 December 2016,
- authorization of Consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2016,
- approval of the Report of Supervisory Board for 2016,
- approval of the Report on activities of Supervisory Board in 2016,
- approval of the Assessment of Alumetal Group's situation prepared by the Supervisory Board as well as of other assessments and information relating to certain defined aspects of the functioning of the Company set forth in the *2016 Code of Best Practice for WSE Listed Companies*,
- appropriation of profit for 2016, determining dividend date and dividend payment date,
- acknowledgment of the fulfilment of duties by Members of the Company's Management Board in 2016,
- acknowledgment of the fulfilment of duties by Members of the Company's Supervisory Board in 2016.

The Company made available to the public the full contents of resolutions of the Ordinary Annual General Meeting in its current report No. 10/2017 of 16 May 2017.

On 7 November 2017, the Extraordinary Annual General Meeting passed resolutions in the following matters:

- appointment of a chairman of the Extraordinary Annual General Meeting,
- adoption of an agenda for the Extraordinary Annual General Meeting,
- conditional increase in the issued capital of the Company and issuance of subscription warrants, excluding in full the rights issue of the shareholders with respect to the subscription warrants and shares issued under conditional increase in the issued capital or change in the Company's Statutes,
- amendments to the Company's Statutes,
- development of a uniform wording of the Company's Statutes and authorization of the Company's Supervisory Board to determine uniform wording of the Statutes in connection with the issuance of shares under contingent capital.

The Company made available to the public the full contents of resolutions of the Extraordinary Annual General Meeting in its current report No. 49/2017 of 7 November 2017.

B. Supervisory Board

As at 31 December 2016 and 31 December 2017, the composition of the Supervisory Board of ALUMETAL S.A. was as follows:

- Mr Grzegorz Stulgis,
- Mr Frans Bijlhouwer,
- Mr Marek Kacprowicz,
- Mr Tomasz Pasiewicz,
- Mr Emil Ślęzak.

In 2017 and in the period to the date of this Directors' Report, the composition of the Supervisory Board presented above did not change.

The Supervisory Board carries out continued monitoring and supervision of the activities of the Company in all aspects of its business. Members of the Company's Supervisory Board are appointed and removed by the Annual General Meeting. The Supervisory Board may be composed of 5 (in words: five) to 7 (in words: seven) members elected for a common term of office. The term of office for Supervisory Board Members is 3 (in words: three) years. At least 2 (in words: two) members of the Supervisory Board should fulfil the criterion of being independent of the Company and of the entities with significant relations with the Company.

The Supervisory Board acts based on the Work Regulations of the Supervisory Board adopted by the Supervisory Board and authorized by Annual General Meeting; current contents of these Regulations are available on the Company's website under the tab: Investor relations /Corporate Governance/Supervisory Board.

The Supervisory Board holds its meetings at least once in a quarter.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the case of a voting tie, the casting vote is that of the Chairman of the Supervisory Board.

The powers of the Supervisory Board include, in particular:

- 1) authorization of Work Regulations of Management Board;
- 2) authorization of the Company's annual capital-financial plans, budget and strategic plans submitted by the Management Board;

- 3) issuance of consent for the formation of branches, plants, representative offices, enterprises and other establishments at home and abroad, in the tax-free zones, acceding to the already incorporated companies with Polish and foreign capital, Company's participation in the economic organizations operating in the territory of Poland and abroad, as well as acquisition of interest in other commercial-law based entities and formation of new companies;
- 4) appointment or change of an entity authorised to perform statutory audit of the Company's financial statements and to render financial audit (revision) services for the Company;
- 5) concluding by the Company or by its subsidiary companies of a non-regular business scope agreement (including a loan or credit agreement, or agreements regarding realization of new investments and/ or issuance of sureties or guarantees, or other collateral for third party liabilities, excluding subsidiary companies within their ordinary scope of business) with a view to acquisition or disposal of a property item, incurring a liability or disposing a right with a value exceeding PLN 1 000 000.00 (in words: one million zloty) or its foreign currency equivalent, as part of one or a series of related transactions;
- 6) consenting to concluding by the Company of a significant contract with a related entity within the meaning of appropriate Regulation of the Minister of Finance, except for routine (performed as part of the Company's operating activity) transactions concluded on the arm's length basis with the subsidiary, in which the Company holds majority interest;
- 7) disposal or lease of subsidiary company's enterprise or an organised part thereof, or establishment of a limited property right thereon (*limited right in rem*), disposal of the Company's interest in subsidiary companies;
- 8) appointment, removal or suspension from the management board of individual or all Management Board Members and delegating members of the Supervisory Board to temporarily perform the duties of members of the Management Board, as well as determining the number of Management Board members;
- 9) drafting and submitting to the Ordinary Annual General Meeting of the Company of a concise assessment of the Company's position, including the assessment of the internal control and material risks management systems;
- 10) considering and providing opinions on the matters which are to be the subject of resolutions of Annual General Meeting;
- 11) authorization of the policies, procedures and bylaws developed by the committees operated by the Company.

Pursuant to the regulations of the „2016 Code of Best Practice for WSE Listed Companies” implemented by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015, the Supervisory Board of ALUMETAL S.A., on its meeting of 7 April 2017, passed resolutions in the following matters:

- assessment of the Directors' Report on activities of ALUMETAL S.A. for the year 2016 and of the financial statements of ALUMETAL S.A. for the year ended 31 December 2016, assessment of Management Board's proposal regarding 2016 profit appropriation, and assessment of the Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2016 and of the consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2016;

- acceptance of the report of ALUMETAL S.A.'s Supervisory Board on the assessment of Directors' Report on activities of ALUMETAL S.A. for the year 2016 and of the financial statements of ALUMETAL S.A. for the year ended 31 December 2016, on the assessment of Management Board's proposal regarding 2016 profit appropriation, as well as on the assessment of Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2016 and of the consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2016;
- assessment of the need to establish the internal audit function;
- acceptance of the Report of ALUMETAL S.A.'s Management Board on the assessment of internal control and risk management systems;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. an assessment of the position of the ALUMETAL S.A. Capital Group in 2016;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of the Report on activities of Supervisory Board in 2016;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of the assessment of the manner of fulfilling by the Company of information disclosure obligations regarding application by the Company of rules of corporate governance;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of information on non-pursuing sponsoring, charity or other similar activities;
- providing an opinion on the matters and materials that are to be subject of resolutions of Ordinary Annual General Meeting of ALUMETAL S.A. for the year 2016.

To fulfil the obligation imposed in article 128 section 1 of the act of 11 May 2017 on Certified Auditors, Audit Firms and Public Oversight treating the Company as a public interest entity (PIE), the Supervisory Board established on 4 August 2017 an Audit Committee composed of the following persons: Mr Marek Kacprowicz as Chairman of the Audit Committee and Mr Grzegorz Stulgis and Mr Tomasz Pasiewicz as its members, with the proviso that Mr Marek Kacprowicz and Mr Tomasz Pasiewicz were the independent members.

The powers of the Audit Committee were regulated consistently with the provisions of article 130 para. 1 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight. Detailed description of the tasks of the Audit Committee has been provided in point 7.C. of this Directors' Report.

C. Management Board

As at 31 December 2016, the composition of the Management Board of ALUMETAL S.A. was as follows:

- Mr Szymon Adamczyk – President of the Management Board,
- Mr Krzysztof Błasiak – Vice-president of the Management Board,
- Mr Przemysław Grzybek – Member of the Management Board.

On 10 October 2017, the Supervisory Board of ALUMETAL S.A. appointed Ms Agnieszka Drzyżdzyk as Management Board Member.

As at 31 December 2017, the composition of the Management Board of ALUMETAL S.A. was as follows:

- Mr Szymon Adamczyk – President of the Management Board,
- Mr Krzysztof Błasiak – Vice-president of the Management Board,
- Mr Przemysław Grzybek – Member of the Management Board,
- Ms Agnieszka Drzyżdżyk – Member of the Management Board.

Until the date of the publication of this Directors' Report, there were no changes in the composition of the Company's Management Board.

Pursuant to the provisions of § 12 section 5 of the Company's Statutes, the Company's Management Board is appointed for a common 3-year term of office by the Supervisory Board, which determines the number of Management Board members from one to five persons and appoints President and Vice-president of the Management Board, and which may delegate its own members to temporarily perform the duties of Management Board members. Removal of Management Board Members is executed in accordance with the provisions of the Code of Commercial Companies.

The powers of the Management Board comprise, in particular:

- a) timely convening of Annual General Meetings,
- b) appointing persons authorised under a power of attorney (proxies), issuance and cancellation of the power of attorney, preparation of financial statements and of other financial documents of the Company,
- c) submitting to the Annual General Meeting and Supervisory Board annual reports on activities of the Company for the prior financial year,
- d) submitting to the Annual General Meeting and Supervisory Report proposals regarding profit appropriation or loss absorption,
- e) developing and submitting to the Supervisory Board strategies and long-term plans of the Company and ensuring implementation of the above,
- f) preparing annual and periodic financial plans and strategic plans of the Company and ensuring their implementation,
- g) adopting Work Regulations for the Management Board and applying for their authorization to the Supervisory Board,
- h) determining organizational policies and organizational structure of the Company, including establishment of departments, divisions, plants and other separate organizational units at the Company,
- i) adopting Work Regulations and other principles, policies and instructions regulating operating Company's business.

Meetings of the Company's Management Board are not less frequent than once a month and take place in the Company's registered office or, if all Management Board Members agree, in another place in the territory of Poland.

Resolutions of the Management Board are adopted by an absolute majority of votes. In the case of a voting tie, the casting vote is that of the President of the Management Board. Resolutions of the

Management Board may also be taken with the use of the writing procedure or through the use of the means of distance communication.

The Management Board is authorized to make advance dividend payment towards expected year-end dividend, if the Company has sufficient funds to realize such payment. Advance dividend payments are to be authorised by the Supervisory Board.

The Company's Management Board is *not* authorised to take decisions on share issue or share re-acquisition.

The scope of rights and obligations of the Management Board, as well as its operating arrangements are defined in the Work Regulations of the Management Board. Current contents of these Regulations are available on the Company's website under the tab: Investor relations /Corporate Governance/Management Board. In the reporting period, no agreements were concluded between the Company and the members of the Management Board regarding compensation for their resignation or removal for no important reason, or where their removal was justified by Company's merger through acquisition.

3. Shareholding structure

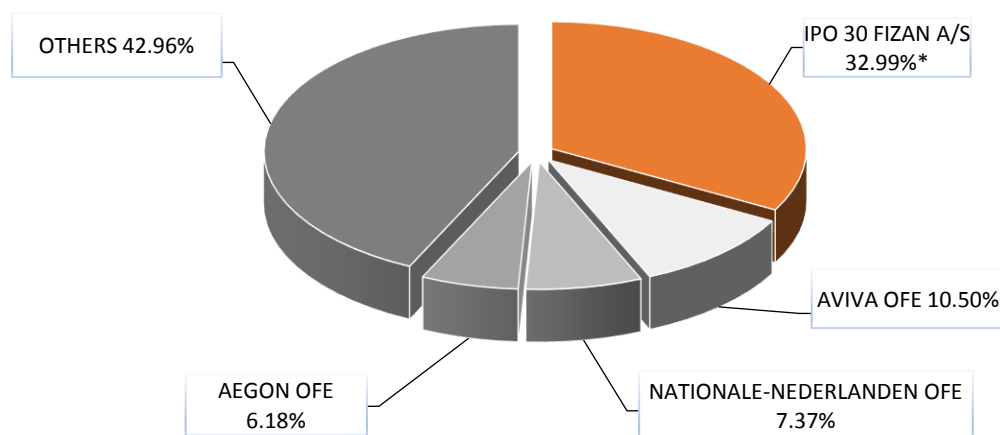
A. Shareholders of ALUMETAL S.A. with material blocks of shares

As at 31 December 2017, the Company had below information on the shareholders holding, directly or indirectly through subsidiary companies, at least 5% of the total number of votes at the Annual General Meeting of ALUMETAL S.A.

Shareholders holding, directly or indirectly through subsidiary companies, at least 5% of the total number of votes at the Annual General Meeting of ALUMETAL S.A. as at 31 December 2017				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
IPO 30 FIZAN A/S*	5 108 221	32.99	5 108 221	32.99
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	1 625 112	10.50	1 625 112	10.50
Nationale-Nederlanden Otwarty Fundusz Emerytalny	1 140 650	7.37	1 140 650	7.37
AEGON Otwarty Fundusz Emerytalny	956 216	6.18	956 216	6.18
Others	6 649 294	42.96	6 649 294	42.96
Total	15 479 493	100.00	15 479 493	100.00

*entity controlled by Mr Grzegorz Stulgis

Shareholding structure of ALUMETAL S.A. as at 31 December 2017



*entity controlled by Mr Grzegorz Stulgis

In the reporting period, the entities directly controlled by the President of the Supervisory Board of ALUMETAL S.A., Mr Grzegorz Stulgis - IPOPEMA 30 FIZAN and 30 FIZAN A/S (formerly Ipopema 30 FIZAN A/S) made transactions, as a result of which the participating interest of individual funds in the issued capital of ALUMETAL S.A. changed as described below:

- IPOPEMA 30 FIZAN sold all held shares, which as at 31 December 2016 counted at 4,530,754 pieces. As at 31 December 2017, the this fund did not hold any shares 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 the transactions referred to above in the 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.

On 7 September 2017, the Company was informed about exceeding in total the 5% threshold in the total number of votes by 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, exceeding the set threshold related to the assumption by Aegon Powszechnie Towarzystwo Emerytalne S.A. on 1 September 2017 of the management function over Nordea Otwarty Fundusz Emerytalny. Prior to the above function 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 and accounting for approx. 3.11% share 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 and accounting for approx. 3.07% of shares in the total number of votes at the Annual General Meeting of the Company. As a result of the above, Aegon Powszechnie Towarzystwo Emerytalne S.A. exercises control over 956,216 shares in the Company which give right to 956,216 votes at the Annual General Meeting of the Company and which account for approx. 6.18% of shares in the total number of votes at the Annual General Meeting of ALUMETAL S.A. Public notification about the above event was provided in the current report No. 31/2017.

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

Aviva Otwarty Fundusz Emerytalny BZ WBK increased its participating interest in the issued capital of ALUMETAL S.A. to more than 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.

To the best of Directors' knowledge, as at 9 April 2018, the shareholding structure of ALUMETAL S.A. covered by regulatory disclosure requirement with respect to considerable blocks of shares did not change.

B. Share issue and re-acquisition of own shares

As part of the realization of the Incentive Program II adopted based on Resolution No. 5 of the Extraordinary Annual General Meeting of the Company of 28 May 2014, the Company issued and awarded, as appropriate, 150,770 ordinary bearer shares, series D, 150,770 ordinary bearer shares, series E and 100,513 ordinary bearer shares, series F, with a nominal value of PLN 0.10 (in words: ten groszy) each, with the proviso that:

- a) D-series shares were admitted to public trading on 1 June 2015,
- b) E-series shares were admitted to public trading on 20 July 2016, and
- c) F-series shares were admitted to public trading on 21 July 2017.

Detailed information regarding realization of Incentive Program are presented in section 6 *Incentive Programs* of this Report.

In addition, the Company hereby informs that ALUMETAL S.A. does not offer shares with the attached special control rights.

C. Special powers and restrictions on transfer of ownership right to the shares of ALUMETAL S.A. and exercising voting right

In the reporting period, the Company did not obtain any information on the existence of special powers or restrictions on the transfer of ownership right to the shares of ALUMETAL S.A. or execution of voting rights from those shares.

D. Agreements between shareholders

In the reporting period the Company did not receive any information about the agreements material to its business that were concluded between shareholders.

E. Agreements that in the future may cause changes to the current shareholding and bondholding structure

During the reporting period and in the period to the date of the preparation of this Directors' Report, the Company did not receive any information about the agreements, which in the future may result in changes to the current shareholding structure.

4. Blocks of shares held by members of Management and Supervisory Boards

Shares in ALUMETAL S.A. held by members of Issuer's Management and Supervisory Boards as at 31 December 2017				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
Grzegorz Stulgis, directly or through IPO 30 FIZAN A/S	5 108 231	32.99	5 108 231	32.99
Krzysztof Błasiak	401 000	2.59	401 000	2.59
Szymon Adamczyk	276 333	1.79	276 333	1.79
Przemysław Grzybek	167 386	1.08	167 386	1.08
Agnieszka Drzyżdzyk	7 783	0.05	7 783	0.05
Frans Bijlhouwer	0	0	0	0
Marek Kacprowicz	0	0	0	0
Tomasz Pasiewicz	0	0	0	0
Emil Ślężak	0	0	0	0

In 2017, the Company was notified about a change in the number of shares held by management or supervisory board members in connection with the issuance of F-series shares and their taking up in exchange for the C-series subscription warrants, about which the Company informed the public in its current report No. 17/2017.

During the reporting period, the Company received also information on the transactions executed on regulated market by Mr Szymon Adamczyk, Mr Krzysztof Błasiak, Mr Przemysław Grzybek and by the entities controlled by Mr Grzegorz Stulgis, about which the Company informed the public in its current reports Nos. 1/2017, 3/2017, 4/2017, 14/2017, 15/2017, 24/2017, 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, 46/2017 i 53/2017.

On 14 February 2018, Mr Krzysztof Błasiak, in a transaction on the WSE regulated market, sold 2,000 shares, about which the Company informed the public in its current report No. 3/2018 of 15 February 2018.

Given the transaction referred to above, presented in the table below is information on the number of shares held in ALUMETAL S.A. by the members of Management and Supervisory Boards of the Company as at the date of the publication of this annual report:

Shares in ALUMETAL S.A. held by members of Issuer's Management and Supervisory Boards as at 9 April 2018				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
Grzegorz Stulgis, directly or through IPO 30 FIZAN A/S	5 108 231	32.99	5 108 231	32.99
Krzysztof Błasiak	399 000	2.58	399 000	2.58
Szymon Adamczyk	276 333	1.79	276 333	1.79
Przemysław Grzybek	167 386	1.08	167 386	1.08
Agnieszka Drzyżdżyk	7 783	0.05	7 783	0.05
Frans Bijlhouwer	0	0	0	0
Marek Kacprowicz	0	0	0	0
Tomasz Pasiewicz	0	0	0	0
Emil Ślęzak	0	0	0	0

5. Emoluments of the members of Management and Supervisory Boards

Remuneration of Supervisory Board Members		Year ended 31 December 2017	Year ended 31 December 2016
Grzegorz Stulgis	Chairman of the Supervisory Board	-----	31 500.00*
Frans Bijlhouwer	Member of the Supervisory Board	36 000.00	36 000.00
Marek Kacprowicz	Member of the Supervisory Board	36 000.00	36 000.00
Tomasz Pasiewicz	Member of the Supervisory Board	36 000.00	36 000.00
Emil Ślęzak	Member of the Supervisory Board	36 000.00	36 000.00
Total remuneration paid		144 000.00	175.500.00

*Mr Grzegorz Stulgis has not been remunerated since 1 August 2016 for his performing the function of Chairman of the Supervisory Board

Members of the Supervisory Board did not receive any remuneration for their functions in the authorities of other Group companies.

Remuneration of Issuer's Management Board Members at the parent and in subsidiary companies		Year ended 31 December 2017	Year ended 31 December 2016
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 Director	1 422 750.99	1 774 725.14
Przemysław Grzybek	Member of the Management Board, Financial Director	702 333.79	859 998.30
Agnieszka Drzyżdżyk*	Member of the Management Board, Trade Director	71 317.66	-----
Short-term employee benefits (payroll and surcharges), total		3 619 153.43	4 409 448.58

*Ms Agnieszka Drzyżdżyk was appointed as Management Board Member on 10 October 2017

Management Board Members have also continued to be covered by the Incentive Programs described in point 6 of this Report.

Members of the Management Board did not receive any remuneration for their functions in the authorities of other Group companies.

The Alumetal Group does not operate retirement benefits or similar programs dedicated to the members of its management or supervisory boards.

6. Incentive Programs

A. Incentive Program II for the years 2014-2016

In the reporting period covered by this Directors' Report, the Company operated the Incentive Program II dedicated to the members of the Management Board and the key personnel of the Company ("Eligible Persons").

Introduction to public trading on 21 July 2017 of the F- series share issue marked termination of the incentive scheme realised as part of the conditional increase in the issued capital determined by the Resolution No. 5 of the Extraordinary Annual General Meeting of the Company dated 28 May 2014 („Incentive Program"). The assumptions underlying the Incentive Program provided for a conditional increase in the Company's issued capital through the issue of free-of-charge, non-transferable subscription warrants in three tranches (series A, B and C) and the matching three tranches of the Company's shares (series D, E and F) with a total nominal value not exceeding PLN 45 231.

Following realization of the provisions of the Incentive Program Policy, as adopted by the Company's Supervisory Board on 12 December 2014, the Company issued in the years 2015-2017 the three series of shares, i.e. D, E and F, awarded in exchange for the subscription warrants, series A, B and C.

Shares of all series were issued in dematerialised form, as provided in article 7 of the act on trading in financial instruments. The D-series shares (150,770 pieces) were awarded, based on filed statements, to 27 persons on 1 June 2015, the E-series shares (150,770 pieces) – to 25 persons on 20 July 2016, while the F-series shares (100,513 pieces) – to 23 persons on 21 July 2017. All shares (402,053 pieces in total) were taken up at the issue price of PLN 29.75 and were introduced to public trading at the Warsaw Stock Exchange in the ordinary procedure, as described in point I.1. of this Directors' Report.

The Company informed the public about termination of this Incentive Program in its current report No. 26/2017 of 3 August 2017.

Presented below in the cost of the Program and value of capital arising from the incentive scheme at subsequent reporting dates.

Value of capital and cost of incentive programs	Year ended 31 December 2017	Year ended 31 December 2016
Capital under Incentive Program II	0.00	817 473.00
Cost of Incentive Program II	89 505.00	432 520.97

B. Incentive Program III for the years 2018-2020

On 7 November 2017, the Extraordinary Annual General Meeting of the Company passed a resolution on a conditional increase in the issued capital of the Company and on subscription warrants issuance, excluding in full the shareholders' rights issue with respect to the subscription warrants and shares issued under conditional capital increase, and on changes to the Company's Statutes.

The conditionally increased issued capital of the Company, based on the Resolution No. 3 of the Extraordinary Annual General Meeting of ALUMETAL S.A. is not to exceed the amount of PLN 46 438.20

(in words: forty six thousand four hundred thirty eight zloty twenty groszy) through the issuance of not more than:

- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) ordinary bearer shares, series G, with a nominal value of PLN 0.10 (in words: ten groszy) each („G-series Shares”);
- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) ordinary bearer shares, series H, with a nominal value of PLN 0.10 (in words: ten groszy) each („H-series Shares”);
- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) ordinary bearer shares, series I, with a nominal value of PLN 0.10 (in words: ten groszy) each („I-series Shares”, and together with the G-series and H-series Shares referred to as „Incentive Shares 3”).

Pursuant to the above Resolution of the Extraordinary Annual General Meeting of the Company, the issue price of the Incentive Shares 3 was set at PLN 48.60 (in words: forty eight zloty sixty groszy). The adoption of a conditional increase in the issued capital of the Company equates the adoption of a new Incentive Program („Incentive Program III”). The right to take up the G-, H- and I-series Shares will have only the holders of the subscription warrants, series, as appropriate, D, E and F; this right will have to be exercised not later than by 31 December 2022 on the terms and conditions defined in the above Resolution and in the Incentive Program Policy („Incentive Program III Policy”) adopted by the Supervisory Board based on the Resolution No. 2 on 14 December 2017. The issue of Incentive Shares 3 will exclude, in full, the rights issue of the current Company's shareholders. The Company informed the public in detail on this issue and provided justification for rights issue exclusion in its current report No. 48/2017.

The Company applied for registration of a conditional increase in the issued capital on 9 November 2017, and the conditional increase was registered by the Court on 23 November 2017, about which the Company informed the public in its current report No. 52/2017 on 7 December 2017.

As at the date of the preparation of this Directors' Report, valuation of the Incentive Program has not yet been completed.

In the reporting period, the Company did not operate employee share incentive schemes and therefore no underlying controls operated.

7. Diversity policy

The Alumetal Group has not developed any diversity policy with respect to the members of the Company's management and supervisory bodies due to stable composition of these bodies and due to rather inconsiderable number of key management positions.

Despite the absence of a formalised policy, the Alumetal Group strives to apply the principles of diversity as demonstrated by the increased participation of females as white-collar employees in the overall employment structure and higher number of females in management roles at the Group (including, among others, appointment of Ms Agnieszka Drzyżdzyk as Management Board Member).

8. Rules of best practice and corporate governance

A. Best practice and corporate governance in 2017

During the reporting period, the set of the rules of corporate governance called „The Code of Best Practice for WSE Listed Companies 2016” („Best Practice 2016”), representing an Appendix to the Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated 13 October 2015, were in effect.

In 2017, the following Rules (Recommendations) for Best Practice 2016 for WSE Listed Companies *were not* complied with by the Company:

I.Z.1.10. *financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation*

The Management Board of ALUMETAL S.A., having read the opinion of the Supervisory Board expressed in the Assessment of the financial position of the ALUMETAL S.A. Capital Group, resolved not to prepare any financial projections for 2017. The Company neither prepared, nor published any financial projections in the last 5 years.

I.Z.1.20. *an audio or video recording of a general meeting*

The Management Board of ALUMETAL S.A. decided not to observe the above Rule (Recommendation) for economic reasons. In the opinion of the Company's Management Board, technical costs of audio or video registration of annual general meetings are not justified by the current shareholding structure of the Company, and may be incommensurable with prospective benefits of such solution, if any. In addition, the Management Board believes that there are no threats arising from the non-compliance with this Rule due to the fact that the Company informs the public, in the form of current reports, and posts on its website all legally required information and documents, thus enabling the investors and analysts inspect the matters being the subject of annual general meeting.

II.Z.10.1. *In addition to its responsibilities laid down in the legislation, the supervisory board should prepare and present to the ordinary general meeting once per year the following: an assessment of the company's standing including an assessment of the internal control, risk management and compliance systems and the internal audit function; such assessment should cover all significant controls, in particular financial reporting and operational controls*

The assessment of the ALUMETAL S.A. Capital Group prepared by the Supervisory Board on 7 April 2017 does not cover the assessment of the compliance system or the internal audit function due to the fact that the compliance and internal audit functions were not separated at the ALUMETAL S.A. Capital Group. The assessment of the ALUMETAL S.A. Capital Group as regards its internal control and risk management functions was prepared based on the rules of the „The Code of Best Practice for WSE Listed Companies 2016”.

III.Z.4. *The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in Rule III.Z.1 a relevant report.*

The Supervisory Board of ALUMETAL S.A. received in April 2017 an assessment report of the Management Board on the efficiency of functioning of the internal control and risk management systems in 2016 due to non-separation of the compliance and internal audit functions in said period. This Management's report was drafted based on the rules of the „The Code of Best Practice for WSE Listed Companies 2016“.

III.Z.5 *The supervisory board should monitor the efficiency of the systems and functions referred to in Rule III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to Rule II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in Rule III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.*

The assessment of the ALUMETAL S.A. Capital Group drafted by the Supervisory Board of ALUMETAL S.A. on 7 April 2017 does not cover the assessment of the compliance and internal audit functions as these functions were not separated at ALUMETAL S.A. The assessment of the ALUMETAL S.A. Capital Group was prepared based on the rules of the „The Code of Best Practice for WSE Listed Companies 2016“ and relates to the internal control and risk management systems only.

V.Z.6 *In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.*

The Supervisory Board of ALUMETAL S.A. assessed that it was necessary that analysis was made of all Company-operated procedures referred to in Rule V of the „The Code of Best Practice for WSE Listed Companies 2016“ for the Company's obligation to operate transparent procedures on preventing conflicts of interest, concluding related-party transactions in the circumstances of possible conflict of interest, on identification of such situations, their disclosure and management. Following such analysis, in 2017 Work Regulations of the Management Board were modified to include issues relating to handling conflicts of interest.

VI.Z.4 *In its activity report, the company should report on the remuneration policy including at least the following:*

- 1) general information about the company's remuneration system;*
- 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;*

3) information about non-financial remuneration components due to each management board member and key manager;

4) significant amendments of the remuneration policy in the last financial year or information about their absence;

5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

The Company does not apply the above Rule due to the fact that no uniform remuneration policy has been developed. In its Directors' reports on activities, the Company provides a list of emoluments paid to the Management and Supervisory Board Members, in the scope defined by legal regulations.

B. Information on the lack of policy for pursuing sponsoring activities

As regards Recommendation I.R.2. of Best Practice 2016, which states that „where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report”, the Management Board of the Company hereby presents the following summary:

The Alumetal Group has cooperated with the local communities of the sites, in which the production plants of ALUMETAL Poland sp. z o.o. and the ALUMETAL Group Hungary Kft. are located, and directly with respective local government units. For many years now, the Alumetal Group has been involved in numerous aid programs at local level, mainly through the financial support which is directed to the didactic-educational centres, as well as to independent associations and social systems, cultural facilities, sports clubs, and directly to the organization of cultural events.

The Group provides financial assistance to local kindergartens, schools, supports construction of playgrounds and sports facilities (mainly for children and young people).

In the case of natural disasters or other unforeseeable circumstances, the Alumetal Group organizes material aid to employee sufferers and their families.

The Alumetal Group does not operate any special sponsoring policy. The decision on the form of assistance is made by the Management Board on an individual basis.

C. Internal control system and risk management

The Management Board of the parent is responsible for the internal control system of the entire Group and for its efficiency during the process of preparation of periodic reports, separate and consolidated accounts, prepared and published in accordance with the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and on the conditions for recognition as equivalent the information required by laws of non-EU member states (the “Decree on current and periodic information”).

The supervision function over financial statements and periodic reports preparation process carried out mainly by the finance division of the Group is realised by the Financial Director of ALUMETAL S.A. – Member of the Management Board (CFO).

The main method to ensure efficiency of the internal control and risk management systems with respect to the process of separate and consolidated accounts preparation is that of ensuring adequacy, truth and fairness, and correctness of the financial information disclosed in periodic reports and in financial accounts, and that of ensuring confidential information privacy and security.

The internal control and risk management systems operated by the Group in the process of financial reporting were created mainly owing to the following:

- operating a Group-wide, authorised and uniform (consistent) accounting policy,
- clear segregation of duties, and well-defined work organization and supervision in the financial reporting process, as provided in the procedures, instructions and regulations, and included in the following documents:
 - Warehouse instructions,
 - Instructions on hard close and financial statements close process (FSCP),
 - Instructions on registration of data in the integrated IT management system,
 - Physical count instructions,
 - Regulations on circularization of confidential information,
 - Procedures for preparation of periodic reports,
 - Internal ESPI regulations,
- application of integrated IT management system which considerably limits the risk of data inconsistency and irregularity (minimization of technical-type risk),
- results and control reports analysis by Group's internal specialists at individual stages of reports preparation (minimization of substantial-type risk),
- financial results and financial ratios analysis at each level of business by appropriate control units, at the level of a subsidiary and the parent,
- regular cooperation with financial-accounting, tax and legal advisors to ensure correct (consistent with binding accounting policies and legal regulations) recognition and disclosure of individual business operations and business events in periodic reports and annual accounts,
- audit of financial statements by a certified auditor.

The Supervisory Board is the body that has the capacity to appoint an audit firm, in accordance with the *Policy for the selection of an entity authorised to audit statutory financial statements of the Company and of the Capital Group* („*Polityka wyboru podmiotu uprawnionego do badania ustawowego sprawozdań finansowych Spółki i Grupy Kapitałowej*”) of 10 October 2017 and of the *Procedure for the selection of an entity authorised to audit the financial statements of the Company and of the Capital Group* of 10 October 2017, which accounts for the recommendation of the Audit Committee in this matter. On 4 August 2017, the Supervisory Board established an Audit Committee which is composed of three members of the Supervisory Board, whose tasks comprise, in particular:

1. monitoring of the following:
 - a. financial reporting process at the Company;
 - b. efficiency of the internal control and risk management systems, and of the internal audit and the compliance system, if operated at the Company;
 - c. performance of financial audit activities, especially of the audit performed by an external audit firm, while observing all conclusions and factual findings of the Audit Supervision Committee (*Komisja Nadzoru Audytowego*) arising from the control of an audit company.
2. controlling and monitoring of independence of a certified auditor and the entity authorised to audit financial statements, especially where services other than attest services are rendered to the Company;
3. informing Supervisory Board about audit results and explaining how the performed audit contributed to the truth and fairness of the financial reporting at the Company, and what was the role of the Audit Committee during the course of the audit;
4. assessing independence of certified auditor and consenting to his rendering of allowed non-audit services;

5. developing selection procedure for an audit firm authorised to audit financial statements;
6. developing a policy for rendering by an audit firm and by a member of audit firm network of allowed non-audit services;
7. defining procedures for audit firm selection by the Company;
8. presenting to the Supervisory Board recommendations referred to in article 16 para. 2 [of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities], in accordance with the policies referred to in point 5 and 6 above;
9. forwarding recommendations aimed at ensuring truth and fairness of the reporting process at the Company;
10. during the process of audit firm selection, presenting to the Supervisory Board the recommendations referred to in article 130 para. 2 and 3 of the Act [of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight].

III. Representations concerning non-financial reporting

These „*Representations concerning non-financial reporting by the ALUMETAL S.A. Capital Group*” (hereinafter the „*Representations*”) cover the non-financial reporting on the ALUMETAL S.A. Capital Group for the period from 1 January 2017 to 31 December 2017 and were prepared based on own policies, among others, based on the contents of the Announcement of the European Commission of 5 July 2017 – *Guidelines of the European Commission on non-financial reporting* (methodology for non-financial reporting), 2017/C 215/01, and the provisions of the Act of 29 September 1994 on accounting (the „*Accounting Act*”).

The selection and description of policies, and of the presented in the Representations efficiency ratios, were made based on the materiality criterion, while considering the internal and external factors concerning Alumetal Group operations. The main factors considered for materiality assessment were: industry, in which the Group operates, its business profile, market environment, scope of impact on local community and natural environment, as well as expectations of identified stakeholders. Data presented in the Representations will be verified and updated in annual reporting periods and regularly published together with annual reports for the ensuing financial years.

1. Description of the Group and its business model and main non-financial parameters for Group operations

A. Group description

The Alumetal Group is one of the biggest in Europe modern and dynamically developing manufacturer of secondary aluminium casting alloys. Apart from production of secondary alloys, the Alumetal Group specializes in the production of master alloys, so called aluminium master alloys, aluminium for steel de-oxidation and also fluxes and salts, which are produced by T+S sp. z o.o. Over 90% of our customers come from the automotive market sector.

We cooperate with the biggest automotive consortiums both at home and abroad, such as the VW Group, Nemak Group, Federal Mogul Group and many other and we comply with the highest quality requirements of that market segment.

Close cooperation with our customers, primarily with those from the automotive industry, results in ongoing development, improvement of work standards and creation of long-term partnerships.

People are the main asset of each company, therefore we offer to our customers services provided by our highly qualified and well-coordinated team composed of the employees with many-years' experience and the younger ones who demonstrate creative and fresh perspective, who jointly accomplish the goals and objectives of the Alumetal Group, but first of all – through being close to the customers – adjust to their needs.

The parent company of the Group is ALUMETAL S.A., which renders management, trading and marketing, development and investment, IT, controlling, HR & payroll and financial-bookkeeping services to other Group entities. Apart from ALUMETAL S.A., the Group is composed of the following manufacturing companies: ALUMETAL Poland sp. z o.o., T+S sp. z o.o. and ALUMETAL Group Hungary Kft.

The main source of sales revenue for the Group are casting alloys whose sales accounted for approx. 97% of sales revenue of the Group in 2017 and it is this particular segment that has the greatest impact on the Group's financial result.

B. Group business model and key non-financial performance indicators

Aluminium is the most popular non-ferrous metal as regards its use. Over the last 40 years, global production and consumption of aluminium has increased more than four times. Owing to its unique features (lightweight, durability, strength, resistance to corrosion, and thermal and electrical conductivity) as well as due to re-cycling features, aluminium has been used in such industry sectors such as transport, construction, energy, packaging or machine industry. Due to aluminium lightweight, compared to other alternative raw materials, demand for aluminium has continued to grow also in the automotive industry, mainly as a result of the need to reduce CO₂ emissions.

The Alumetal Group has been dealing with the production of secondary aluminium casting alloys using obtained competences, acquired experience and competitive advantages. Secondary aluminium casting alloys are manufactured in the process of aluminium scrap recycling. The key advantage of aluminium recycling is the fact that in order to produce a fully-fledged raw material – the secondary aluminium – only 5% of the energy required for the production of primary aluminium is needed, which – in turn – reduces CO₂ emissions. Due to falling production levels of primary aluminium in the European Union (as a result of high costs of energy and natural environment protection), the share of secondary aluminium in total aluminium production in the EU has continued to grow. Production of secondary aluminium is becoming the only alternative for reducing the EU's dependence on primary aluminium imports from non-EU partners.

Aluminium scrap used in the recycling process is mainly technological post-production scrap such as scobs and swarf, waste from sheets and profiles production, or fully depreciated scrap such as alloys, profiles from buildings demolition, alloy wheels, beverage cans, foils etc.

The recycling process to which aluminium scrap is subjected does not bear negative impact on the quality or chemical/ physical properties of aluminium produce and allows to manufacture proper aluminium products, and aluminium as a raw material can be recycled several times while retaining its original properties.

The process of secondary aluminium production is realized in the following stages:

- mechanical preparation of scrap, covering pollutants identification and separation,
- sorting of scrap metals,
- thermal removal of enamel coatings and organic pollutants,
- re-melting of scrap metals and their modification to achieve a target chemical structure ,
- purification and casting.

One of the main customers of secondary aluminium in Europe is automotive industry. The Alumetal Group delivers almost 90% of its production to this industry sector. The concrete customers are leading manufacturers of vehicles and vehicle components in Europe with considerable production capacity and high quality norms. Apart from the automotive customers, the Alumetal Group has delivered its products to the construction industry, white goods manufacturers, to the machine and steel industry.

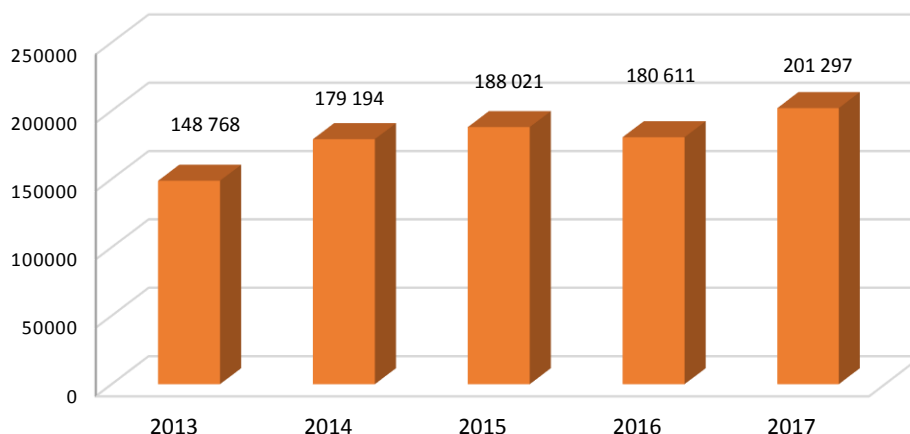
Another competitive advantage of the Alumetal Group is the fact that for many years now a trend has been observed in the automotive industry to transfer vehicle and vehicle components production to the CEE5 countries (Poland, Czech Republic, Slovakia, Hungary and Romania). The importance of this particular region on the map of European automotive industry has systematically grown. According to OICA, production of motor vehicles in the CEE5 countries increased to more than 20% of total EU vehicle production. The process of automotive industry relocation still continues. This phenomenon is sales- and development-friendly for the Alumetal Group.

Over the past several years, the scale of the process of professional recycling of aluminium scrap and production of aluminium casting alloys at the Group has increased several times. This dynamic development was possible owing to a systematic growth of Group's production capacity, achieved through the construction and development of other production plants in Poland (Kęty, Gorzyce, Nowa Sól) and in Hungary (Komárom). The main non-financial effects of these activities are:

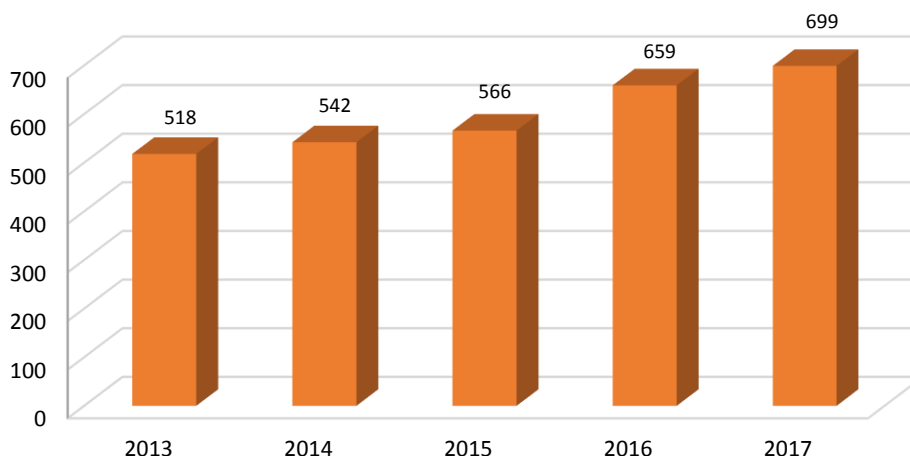
- a) systematic growth of the range of professional and ecological processing of aluminium scrap, and
- b) employment growth in the Alumetal Group.

The charts below show Group development in these areas over the last 5 years.

Amount of scrap metals processed in the years 2013-2017 (tons)



No. of employees at the Alumetal Group in the years 2013-2017* (persons)



*at the end of the period

It should be emphasized that the Alumetal Group has processed scrap metals in accordance with binding regulations for environmental protection and in accordance with the Best Available Techniques or Best Available Technology (BAT). BAT Reference Documents (BREFs), as a tool supporting identification and promotion of best available techniques introduced by the European Union, serve as technical-economic assessment of raw materials or media pollution or usage in the given industry and the method for metals use limitation or pollution prevention. These are auxiliary documents used with a view to determining benchmark levels for a correct defining of BAT requirements for a given installation.

Over the last couple of years, the Group has realised numerous investment projects of development, modernization and environment-friendly character, and some of them were financed from the EU grants, inclusive of some pro-ecological programs.

2. Policies relating to the issues of social environment, employment, natural environment protection, respecting human rights and combating corruption, inclusive of related risk identification and risk management

A. Social environment

The Alumetal Group has actively supported local communities, among others, by engaging in social initiatives in such areas as education, culture and sporting activities. Cooperation with local communities as well as direct cooperation with self-governments are important elements of business operations of all plants within Alumetal Group. Good relations with the local community contribute to the development of mutual confidence between the company and the local community and help in working jointly over various projects. For many years now, the Alumetal Group has been engaged in many support projects at the local level, mainly through provision of the financial aid. Providing financial assistance is a collective decision of the Management Board, after each application or request for such assistance has been considered individually.

In the years 2016-2017, aid in such form was granted, among others, to the following institutions and organizations:

- education institutions such as nursery schools, primary schools and grammar schools;
- cultural centres;
- sports clubs;
- social service centres;
- foundations, associations and parishes operating in the location of Group's individual production plants.

During the reporting period, the Group did not have any formalised policy regarding social matters.

As regards social issues, no significant risks have been identified that could have impact on the Alumetal Group's operations.

B. Staff-related issues

Employees with their experience and qualifications are Alumetal's greatest assets. The successes and current position of the Group wouldn't be possible without the engagement of all persons working with the company.

Here at Alumetal Group we greatly value a good atmosphere at work and the long-lasting relations with our employees. All our employees enjoy equity in training system, promotion opportunities and opportunities to pursue individual competences. Employees participate both in training on work safety and hygiene, in specialised training dedicated to concrete employees, as well as in training dedicated to a larger group of staff of a given division or plant. In 2017, the number of clock hours assigned for training per one employee was 17.69 compared to 12.46 clock hours in 2016.

On 1 March 2018, *The rules of ethics and professional conduct at the Alumetal Group (Zasady etyki i postępowania w Grupie Alumetal)* were adopted which cover all rules of employee professional conduct and such issues as diversity, tolerance, non-discrimination and prohibition to employ young workers.

As regards possibility of employees associating, as at 31 December 2017 two trade unions operated in ALUMETAL Poland Sp. z o.o. in the production plant in Kęty and in ALUMETAL S.A.: Niezależny Samorządny Związek Zawodowy „Solidarność” of the Kęty Group with 83 members and Międzyzakładowy Związek Zawodowy Pracowników of the Kęty S.A. Group with 27 members. There were no company or inter-company collective bargaining agreements at the Group.

B.2 Recruitment policy

The recruitment policy at the Alumetal Group depends on current personnel needs. The activities of the recruitment policy at Alumetal Group focus on securing optimum levels of employment appropriate to execution of Group's business objectives, and are based on the two key aspects: internal and external recruitment.

As regards internal recruitment, the Alumetal Group continued to apply the rule of employee vertical or horizontal promotion. Vertical promotions consist in promoting employees upwards in the posts hierarchy, by extending the scope of their accountability and increasing teams of subordinated employees of a newly promoted person. Horizontal promotion consist in extending employee tasks, developing employee qualifications, experience and specialist knowledge of the given discipline.

External recruitment policy is aimed at attracting already experienced top class specialists, whose knowledge and competences, when coupled with the experience of the current employees, will ensure continuity and the best possible realization of business processes of the Group.

B.3 Structure of employment

As at 31 December 2017, the Group had 699 employees working based on an employment contract which account for 100% of posts (similar statistics for 2016).

Staff headcount at the Alumetal Group, by company

Company	31 December 2017	31 December 2016
Alumetal S.A.	61	55
Alumetal Poland sp. z o.o.	501	491
T+S sp. z o.o.	6	7
Alumetal Group Hungary Kft.	131	106
Total	699	659

Staff headcount at the Alumetal Group, by gender

Gender	31 December 2017	31 December 2016
Females	72	71
Males	627	588
Total	699	659

Staff headcount at the Alumetal Group, by type of work

Type of work	31 December 2017	31 December 2016
White-collar employees	136	124
Blue-collar employees	563	535
Total	699	659

White-collar posts at the Alumetal Group, by gender

White-collar posts, by gender	31 December 2017	31 December 2016
White-collar employees-females	66	56
White-collar employees - males	70	68
Total	136	124

Executive and management posts at the Alumetal Group, by gender

Executive and management posts, by gender	31 December 2017	31 December 2016
Females	10	8
Males	36	33
Total	46	41

As at 31 December 2017, 89.7% of all Group employee posts were occupied by males compared to 10.3% occupied by females, which is mainly due to the character of conducted business activities (relatively difficult working conditions of blue-collar posts typical for the casting industry). Managerial and executive posts accounted for 6.6% in 2017 and for 6.2% in 2016 of all posts at the Group. 80.5% of all employees are the blue-collar employees.

B.4 Professional development and training

Depending on the length of service, occupied position, needs and strategy of the Group and the plans of individual departments, Group employees participate in:

- adaptation training – part of the program is a one-day training during which employees with longer period of service at the Group share their knowledge on the matters related to the functioning and working at the Group. The new employee receives material information on employee-related matters, learns about binding rules and regulations, about used systems and used basic technologies,
- all-Group projects – in the form of, for example, training relating to communication and client servicing or management skills,
- individual specialist training – in the form of, for example, training relating to project or finance management, or issues resulting from labour law requirements,
- computer training – in the form of applications required to perform work in certain departments (e.g. Microsoft Excel),
- language training (English language),
- training enhancing qualifications and permissions of blue-collar employees.

In 2017, the Group continued with the cycle of executives training with a view to strengthening employee competences and shaping business culture of the Group. The training cycle will continue through 2018.

In 2017, the number of clock hours assigned for training per one employee was 17.69 compared to 12.46 clock hours in 2016.

B.5 Labour hygiene and safety

Labour or occupational hygiene and safety (OHS) at each employee position are the main priority at the Alumetal Group.

Steps are taken to ensure safety at work. To this end, not only the activities required directly by legal regulations are executed as a minimum, but additional training is provided to improve all employee awareness of the importance of occupational safety.

Risks are identified at particular workstations and occupational hazards are defined. The Group strongly emphasizes safety and hygiene at work not only of its own employees but also of the outside workers carrying out their works in the company facilities. Every effort is taken to provide healthy and safe work conditions in all Group plants. Actions are taken to prevent accidents at work and health hazards. The OHS area at the Group is managed with the use of the BS OHSAS 18001:2007 norm.

Occupational accidents at the Alumetal Group

Type of accident	2017	2016
Non-serious accident	14*	3
Serious accident	0	0
Total	14	3

**a significant increase in occupational accidents in 2017 is mainly the result of short professional experience of some employees in the newly operated Hungarian production plant of the Group (12 non-serious accidents)*

In 2017, a total of several hundred employees of the Alumetal Group participated in the OHS (occupational health and safety) training (both obligatory i.e. preliminary and cyclical, and advanced training). In addition, training was provided to several dozen persons from other entities who performed repair work on the premises of Group production plants. The conducted OHS initiatives increased workplace safety and improved working conditions of Group employees.

Risks identified in the area of staff-related matters:

- the risk of lack of employee resources relating to current market situation i.e. low unemployment coupled with good economic conditions both in Poland and in the whole CEE area;
- the risk of leaving the company by qualified management with specialist knowledge and considerable professional experience;
- the risk of occupational accidents and hence the potential liability of the Alumetal Group arising from claims for compensation;
- the risk of occupational diseases due to operating work places featuring harmful and onerous factors/ conditions which may originate additional costs to the Alumetal Group.

Methods of identified risks management:

- organization of "open days" at individual production plants of the Group;
- cooperation with higher, intermediate and vocational schools with the curriculum of light metals industry;

- participation of the Group in work fairs;
- operating employee incentive programs;
- possibility of promotion for pre-eminent employees and care for good working conditions;
- systematic development and investments in new technologies;
- investments in and modernization of the area of occupational safety and health;
- systematic OHS training for all Alumetal Group employees that increase their awareness in this area;
- operating and developing the OSH management system based on the BS OHSAS 18001 norm;
- ensuring better and better solutions and tools in the area of employee personal safety;
- significant and pro-active role of OSH inspectors at individual production plants.

C. Respecting human rights and counteracting corruption

The Alumetal Group has conducted its business operations while respecting human rights and dignity, and especially observing employee civil rights, political rights, economic, social, religious and culture rights. To formalize the rules and customs binding at the Group in this area, on 1 March 2018 *The rules of ethics and professional conduct at the Alumetal Group (Zasady etyki i postępowania w Grupie Alumetal)* were adopted, under which all employees should be treated equally, irrespective of employee race, nationality, religion, gender, age, sexual orientation, biological fitness or political view. The integral part of *The rules of ethics and professional conduct at the Alumetal Group* are also *The anti-corruption and anti-mobbing policies (Polityki: antykorupcyjna i antymobbingowa)*.

As part of *The Anti-corruption policy*, a uniform code of conduct was defined to apply in the event of identification of incidents of corruption or fraud. The objective of this policy is to prevent and counteract corruptive behaviours or other acts of fraud undertaken to the detriment of the Group, and to ensure the approach of transparency of the Alumetal Group towards its business partners. Pursuant to the provisions of the *Anti-corruption policy*, employees are offered whistleblowing solutions to report incidents of corruption or fraud.

The anti-mobbing policy contains the rules that prevent acts of mobbing at the work place, among others, by fostering activities that contribute to building positive relations between employees in the Group and by offering employees training on mobbing. The objective of this policy is to counteract mobbing, among others, by non-acceptance of any and all behaviours associated with mobbing. *The anti-mobbing policy* provides for the manner of reporting of mobbing incidents by employees, which are afterwards considered by the Anti-Mobbing Committee. The result of the work of the Anti-Mobbing Committee is a protocol covering all factual findings gathered during the course of the work, inclusive of the assessment of incident reporting justification and possible recommendations to eliminate identified irregularities and to prevent occurrence of mobbing incidents in the future.

Risks identified in the area of respecting human rights and counteracting corruption:

- the risk of claims for compensation in the event of violating human rights, inclusive of mobbing incidents ascertained by appropriate state authorities;
- the risk of loss of reputation in connection with anti-corruption measures undertaken by employees;
- the risk of property damage in the event of employee corruption or fraud activities.

Methods of identified risks management:

- implementation of *The anti-mobbing policy* with a view to effective counteracting incidents of infringing human rights;
- zero acceptance stance on the part of the executives and management board of the Group for the behaviour violating human rights;
- promoting the culture of observing human rights among all employees of the Group;
- implementation of *The Anti-corruption policy* with a view to effective counteracting corruptive or fraudulent behaviour;
- operating the system of control and authorization of realised transactions and processes at all organizational levels in the Group.

D. Environmental protection

Here, at the Alumetal Group we perceive the protection of natural environment and its resources, and the impact of operating our plants on natural environment as an important issue and this standpoint results not only from the necessary compliance with legal requirements. The environmental policy of the Group is directed to clean production understood as making effort to reduce resource consumption, to reduce harmful emissions and to efficiently prevent damage. In autumn 2017, a supervisory audit was carried out in all Polish production plants of the Alumetal Group as a result of which they were certified according to the new issue of the ISO14001:2015 norm.

Due to the nature of conducted business activities, the Alumetal Group production plants are subject to the *Environment Protection Law, Waste Management Law* and other laws and regulations on environment protection. Each our production plant operates in accordance with the obtained, separately for each location, Integrated Permit, which define rigorous requirements for conducting business in accordance with the BAT (Best Available Technology) and impose appropriate limits for production plants in the matter of their impact on natural environment. The Alumetal Group for many years has operated its environment protection management system in accordance with the ISO 14001 norm. Reduction of natural resource consumption is executed through the use of aluminium scrap obtained from the market. More than 90% of raw materials for the production of aluminium casting alloys are re-cycled scrap raw materials. The ongoing optimization process is carried out with a view to using other types of scrap metals with the concurrent aim of reducing gas or energy consumption.

The companies filed their environmental statements/ reports and paid environmental fees on time. Also, the required measurements and analyses of environment quality were performed in a timely manner. The results of said measurements and analyses performed by accredited testing lab confirmed that the Group companies complied with binding legal requirements, including with the requirements of Integrated Permits.

The controls conducted by government bodies (*WIOŚ- Voivodship Inspectorate for Environmental Protection*) did not identify any irregularities and no financial penalties or other sanctions were imposed for breach of environmental laws or regulations.

Management of waste produced at the Alumetal Group plants is performed in accordance with the EU and national regulations that ensure natural environment protection. The produced waste is selectively collected and its quantitative and qualitative records are maintained. Waste not managed by the Group is transferred over to the entities which hold appropriate waste neutralisation permits and licenses. No environmental limits defined in the Integrated Permit were breached.

The Company has not received any complaints for violating environmental norms, laws and regulations.

In the years 2016 – 2017, apart from the construction of a modern production plant in Komarom in Hungary, the following investment projects were realised in the production plants of the Alumetal Group with a view to improving the level of environmental protection:

- in 2016, a modern filtering system was installed together with the elements of outgoing ventilation for induction furnaces in the casting alloys production part of the Gorzyce plant,
- in the years 2016 – 2017, modernization was carried out of dust extraction system for technological facilities in the production part of Kęty plant to improve facility performance and functional efficiency.

The production plants of the Alumetal Group carry out proper waste management, in accordance with binding legal regulations and the obtained permits.

Gathered waste in the form of scrap metals and metal compounds are recycled using special installations and processes so that the raw material can be re-used while considerably reducing harmful impact on natural environment.

Risks identified in the area of environmental protection:

- the risk of change in binding legal regulations, including the risk of introducing more stringent requirements which may lead to the necessity of incurring adjusting costs or carrying out necessary investments;
- the risk of unexpected events as a result possible contamination or actual contamination of natural environment in connection with conducted business activities by Group plants (malfunctions, force majeure).

Methods of identified risks management:

- ongoing monitoring of environmental regulations at the early stage of change process to plan the adjustment process and to assess impact on Group's activities;
- operating the System of Environment Protection Management in accordance with the ISO 14001 norm;
- making investments in modern environment-friendly technologies;
- ongoing control of the level of impact of operations of individual production plants on natural environment.

IV. Characteristics of business activities of the ALUMETAL S.A. Capital Group and of ALUMETAL S.A. as the parent company

1. ALUMETAL Group products

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

A. 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 (*alumiowe 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 Nowa Sól, Kęty and Gorzyce production plants. Apart from solid cast 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 2017 amounted to 173.0 thousand tons per year (2016 - 165.0 thousand tons).

At the end of September 2016, the Alumetal Group started the production of aluminium alloys in the newly constructed production plant in Komárom, Hungary, which caused that the real production capacity of the Group raised to 233 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 tailored to individual customer needs and complies with the currently valid global, European and Polish standards.

Aluminium alloys are delivered mainly to the customers of the automotive industry (in 2017 – more than 87% of the volume sold), and to other industry segments such as construction, metallurgical, machine, smelting and other sectors.

B. 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 (*zасыпки izolacyjne*) and casting binders (*spoiwa odlewnicze*). The production capacity of the Kęty production plant in the recent years was 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. for the production of such goods as steel, cast steel (*staliwo*), cast iron, copper, aluminium and other non-ferrous metals.

C. 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.

Segment results are monitored by the Company's Management Board at the level of gross sales and operating profit before administrative expenses.

Detailed data are presented below:

THE ALUMETAL S.A. CAPITAL GROUP
Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2017

2017	Casting alloys	Fluxes 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>	1 273	2 636	7 407	-	-11 316	-
Of which:						
Volume of goods (tons), of which:	177 164	2 737	4 591	-	-8 460	176 032
- <i>inter-segment sales</i>	1 273	2 597	4 591	-	-8 460	-
Volume of raw materials, scrap and services (tons), of which:	-	152	25 777	-	-2 855	23 074
- <i>inter-segment sales</i>	-	39	2 817	-	-2 855	-
Volume of goods for resale (tons), of which:	-	-	770	-	-	770
- <i>inter-segment sales</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>	10 481 456.90	5 556 214.58	47 252 584.04	-	-63 290 255.52	-
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>	5.8%	29.4%	8.8%	-	-	6.2%
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>				-	-	6.7%
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

THE ALUMETAL S.A. CAPITAL GROUP
Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2017

2016	Casting alloys	Fluxes and salts	Other	Unallocated items	Consolidation exclusions	Total
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

V. Assessment of the situation of the ALUMETAL S.A. Capital Group

1. Basis of preparing financial statements and information on the entity authorised to audit financial statements

The consolidated financial statements for 2017 as well as the comparative data for the prior financial year have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and the related interpretations issued in the form of regulations of the European Commission.

The entity authorised to audit the financial statements and the consolidated financial statements of the Company is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its registered office in Rondo ONZ, 01-124 Warsaw, based on the audit contract dated 8 August 2014.

On 1 February 2018, the Supervisory Board of the Company re-appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa to audit the financial statements of the Company and the Group for the years 2018 and 2019. Current audit contract will be extended for the following two years and will expire after the audit of the Company's financial statements for 2019. In the case of ALUMETAL Group Hungary Kft., the entity authorised to audit separate financial statements is Ernst & Young Konyvvizsgalo Kft.

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 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

In addition, fee for the statutory audit of the financial statements of the ALUMETAL Group Hungary Kft. for 2017 performed by Ernst & Young Konyvvizsgalo Kft. was EUR 12 000.00 EUR (for 2016 – EUR 10 500.00) while for the half year review in 2017 - EUR 4 500.00.

2. Market situation

A. Sales market

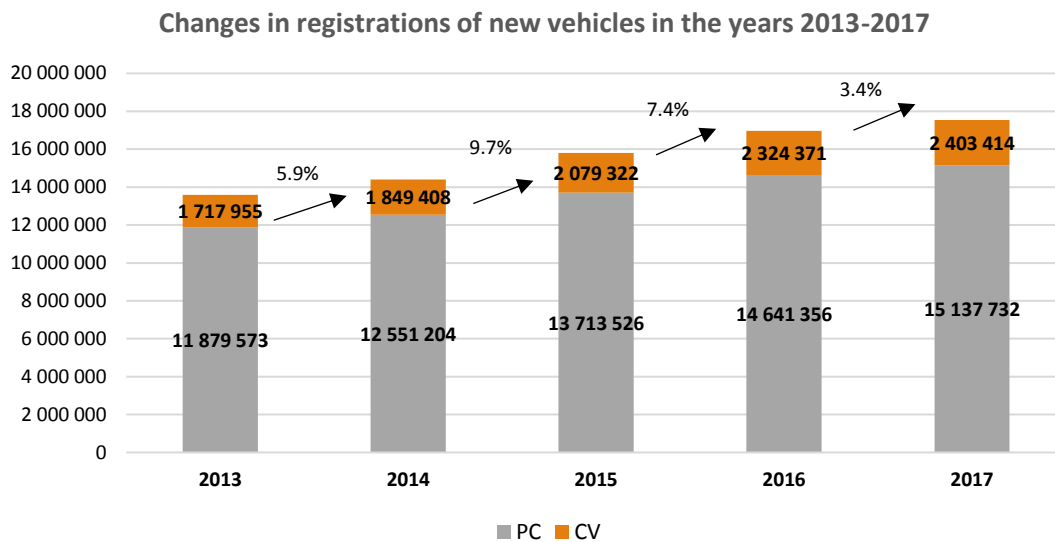
In 2017 the production of motor vehicles in the European Union counted at 18.77 million pieces, compared to 18.61 million pieces in 2016, which translated into a 0.9% increase (source: OICA; data for said years do not include commercial vehicles manufactured in Germany, because as of July 2017 Germany ceased to report the production levels of these vehicles). The EU region stood the second, after China, biggest manufacturing centre of motor vehicles and accounted for 20% share in the global production.

It should be noted that the significant production centre in the European Union has continued to be the CEE5 region (Poland, Czechia, Slovakia, Hungary and Romania), which in 2017 accounted for 20.2% of the EU's entire production. The CEE5 region and Germany account for 51.3% of the entire EU motor vehicle production. Relocation process of motor vehicle production facilities to the CEE5 countries has continued as exemplified by the construction of a car manufacture plant by Jaguar Land Rover in Slovakia or the construction of an engine production plant by Daimler in Poland.

As regards registration of new vehicles (passenger cars and commercial vehicles), 2017 was the fourth successive year that marked raising trend in the European Union. 15.14 million vehicles were registered in 2017, which marked a 3.4% increase compared to the prior year. In the same period, commercial vehicle market showed a 3.2% y/y increase which caused that registration of new vehicles in this segment exceeded the level of 2.4 million pieces (source: ACEA). In analysing jointly the registration of new passenger cars (PC) and commercial vehicles (CV) in 2017, a 3.4% increase was recorded to the level of 17.54 million pieces.

In 2017, the biggest European markets, except for Great Britain suffering from the results of Brexit decision, recorded sales increases. The largest EU market, Germany, saw an increase in registration of new vehicles by 2.7% (3.81 million pieces). France recorded a 5.1% registration increase (2.61 million pieces), Italy - a 6.8% increase (2.19 million pieces), while Spain – a 8.5% increase (1.46 million pieces) (source: ACEA).

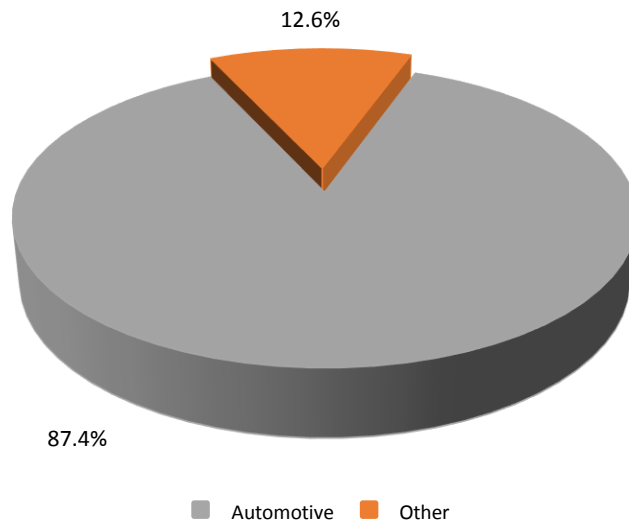
Presented below is the chart showing trends in the registration of passenger cars and commercial vehicles in the years 2013-2017.



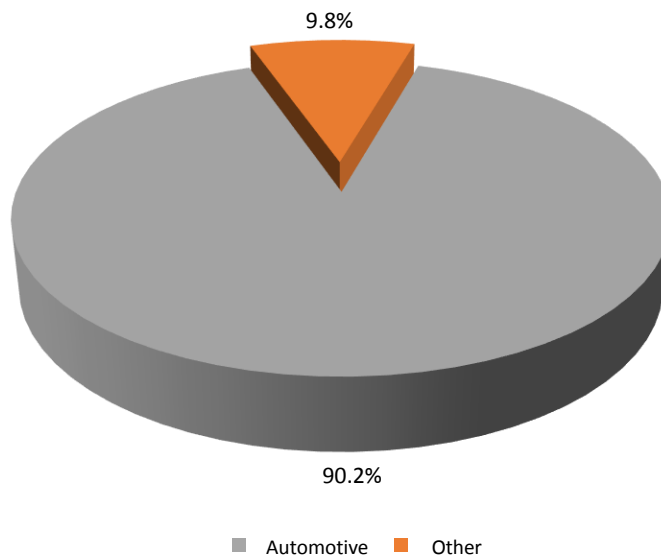
Higher demand for motor vehicles in the EU in 2017 directly translated into higher demand for secondary aluminium alloys, which, however, did not translate into sales profitability.

As regards 2017 sales structure by client industry, the automotive industry continued to be in lead in the Alumetal Group, however, with noted gradual diversification of sales directions to other sectors, which translated into drop of sales to the *automotive* customers in total sales by nearly 3 percentage points, compared to 2016

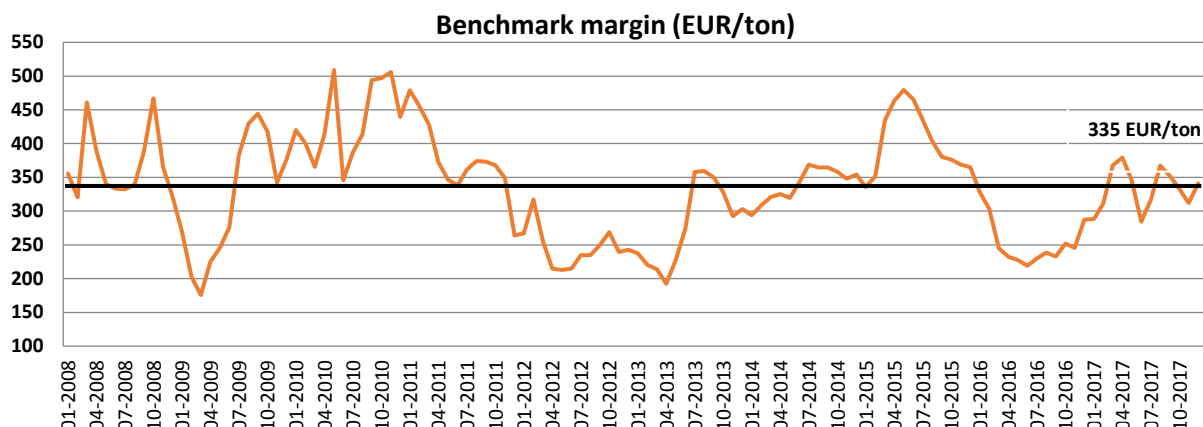
Sales in 2017 of finished goods of the Alumetal Group, by industry



Sales in 2016 of finished goods of the Alumetal Group, by industry



The analysis of market price index i.e. of the spread between the price of standard aluminium alloy (alloy 226) and the price of appropriate metal scrap used to produce this alloy shows that 2017 was characterized by considerable volatility. On average, the margin analysed for that period was 333 EUR/ton and approximated the average long-term margin (average margin from the beginning of the analysis i.e. from 2008 to the end of 2017 was 335 EUR/ton). The minimum margin for the analysed period of 12 months was 285 EUR/ton (June), while the maximum margin stood at 379 EUR/ton (April). Such considerable differences in short periods did not facilitate sales margin optimization and had negative impact on the achieved financial results.



In 2017, the Alumetal Group reported sales revenues of PLN 1 456.241 million. The achieved result was 14.5% higher compared to 2016.

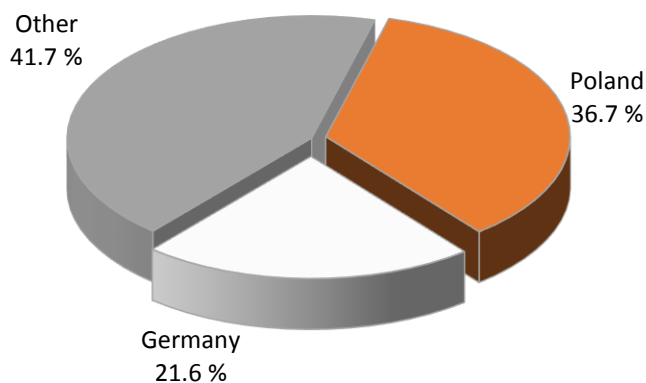
In the whole 2017, the share of exports in total sales was more than 63.3% compared to 58.5% in 2016 which was due to sales expansion from the Hungarian plant.

The Alumetal Group sales structure, by geographical area	2017	2016
Polish market	36.7%	41.5%
Other markets	63.3%	58.5%

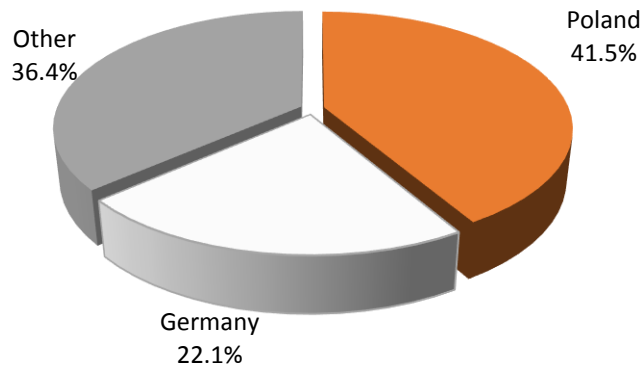
In 2017, the policy of sales diversification was continued by acting proactively in the area of obtaining new customers. In 2017, the Alumetal Group acquired 57 new customers, including the customers for both the Group's aluminium alloy products and for chemical products.

The below charts show the geographical structure of the Group's sales for the years 2017 and 2016 (data as per delivery location of Group customers).

Geographical structure of sales in 2017



Geographical structure of sales in 2016



In 2017, sales to each of the following entities exceeded 10% of total annual sales of the Group:

- the Volkswagen Group
- the Federal-Mogul Group.

In 2017, the share of sales to the three largest customers of the Group (the Volkswagen Group, the Federal-Mogul Group and the Nematik Group) accounted for 36.8% of total sales, compared to 44.0% in the prior year, which effectively marked another phase of diversification and decrease in the share of those three customers in the sales structure of the Group. None of the above customers was related by capital or by organizational structure to the Alumetal Group.

B. Supply market

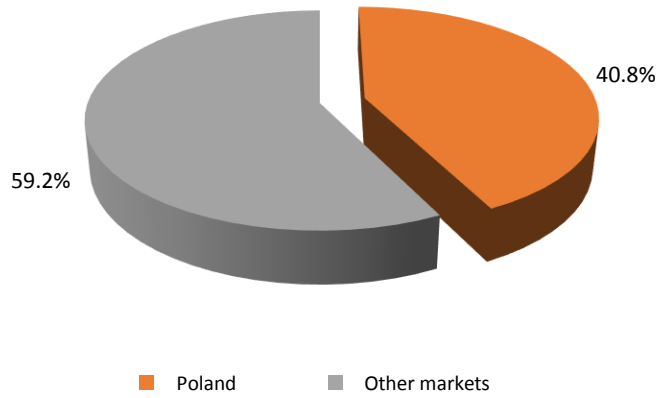
In 2017, scrap exports from Poland increased by 7.3% compared to 2016 i.e. from 218 thousand tons in 2016 to 234 thousand tons (forecast) in 2017, while scrap imports fell by 5.8% i.e. from 243 thousand tons in 2016 to 229 thousand tons (forecast) in 2017. Consequently, Poland became again a net exporter of scrap at the level of 5 thousand tons in 2017 compared to net imports of 25 thousand tons in 2016.

In the period from December 2016 to November 2017, scrap imports to the EU increased by 5.4% (from 404 thousand tons in 2016 to 426 thousand tons in 2017), while exports fell by 2.1% (from 941 thousand tons in 2016 to 921 thousand tons in 2017), which means that the net exports decreased by 7.8% (from 537 thousand tons in 2016 to 495 thousand tons in 2017). The share of exports to China and India fell from 64% in 2016 to 59% in 2017.

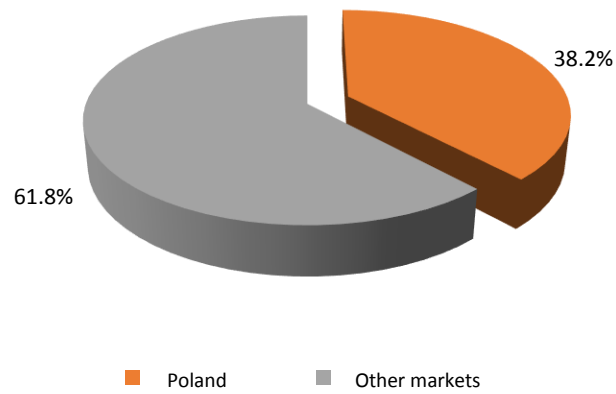
In 2017, the Alumetal Group acquired 201 566 thousand tons of aluminium scrap, which means a 11.2% increase compared to 2016. The reason behind higher volume of purchase was higher demand for scrap by the Hungarian plant. Despite greater consumption of raw materials scrap by the production plant in Komarom (Hungary), the share of purchase of aluminium scrap from countries other than Poland fell from 61.8% in 2016 to 59.2% in 2017.

In the reporting period, the Alumetal Group acquired 45 new suppliers of scrap.

Geographical structure of purchases in 2017



Geographical structure of purchases in 2016



3. Financial results, ratios and financial position of the ALUMETAL Group

The table below shows summarized consolidated data of the Alumetal Group for 2017 and the comparative data for 2016.

ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME & STATEMENT OF CASH FLOWS	In PLN thousand		In EUR thousand	
	12 -month period of 2017	12 -month period of 2016	12 -month period of 2017	12 -month period of 2016
Volume of sold goods – in tons	176 032	159 342	176 032	159 342
Net sales	1 456 241	1 271 836	343 073	290 661
Operating profit	68 868	92 708	16 224	21 187
EBITDA	96 973	115 915	22 846	26 491
EBITDA – unit in PLN/ ton	551	727	130	166
Profit before tax	67 517	93 821	15 906	21 441
Net profit	70 685	89 944	16 653	20 556
Net cash flow from operating activities	40 207	85 863	9 472	19 623
Net cash flow from investing activities	-45 132	-108 677	-10 633	-24 837
Net cash flow from financing activities	-36 306	13 227	-8 553	3 023
Total net cash flow	-41 231	-9 587	-9 714	-2 191
Basic net earnings per share attributable to equity holders of the parent (in PLN / EUR)	4.57	5.88	1.08	1.34
Diluted net earnings per share attributable to equity holders of the parent (in PLN / EUR)	4.57	5.86	1.08	1.34

THE ALUMETAL S.A. CAPITAL GROUP
Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2017

ITEMS OF THE STATEMENT OF FINANCIAL POSITION	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Total assets	841 828	743 353	201 834	168 027
Non-current assets	382 034	367 149	91 595	82 990
Current assets	459 794	376 204	110 239	85 037
Shareholders' equity	503 811	479 635	120 792	108 417
Issued capital	1 548	1 538	371	348
Non-current liabilities	59 076	66 297	14 164	14 986
Current liabilities	278 940	197 421	66 878	44 625
Number of shares	15 479 493	15 378 980	15 479 493	15 378 980
Basic carrying amount per share (PLN/EUR)	32.55	31.34	7.80	7.05
Diluted carrying amount per share (PLN/EUR)	32.55	31.25	7.80	7.02
Declared or paid dividend per share (PLN/EUR)	2.92*	2.92	0.70*	0.66

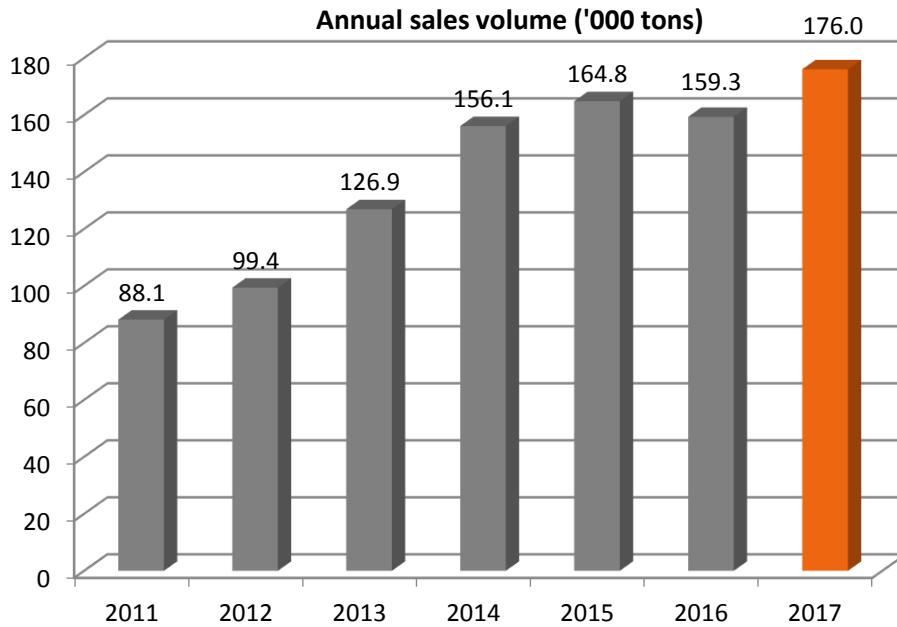
* dividend declared

The above financial data for 2017 and 2016 were translated into EUR in the following manner:

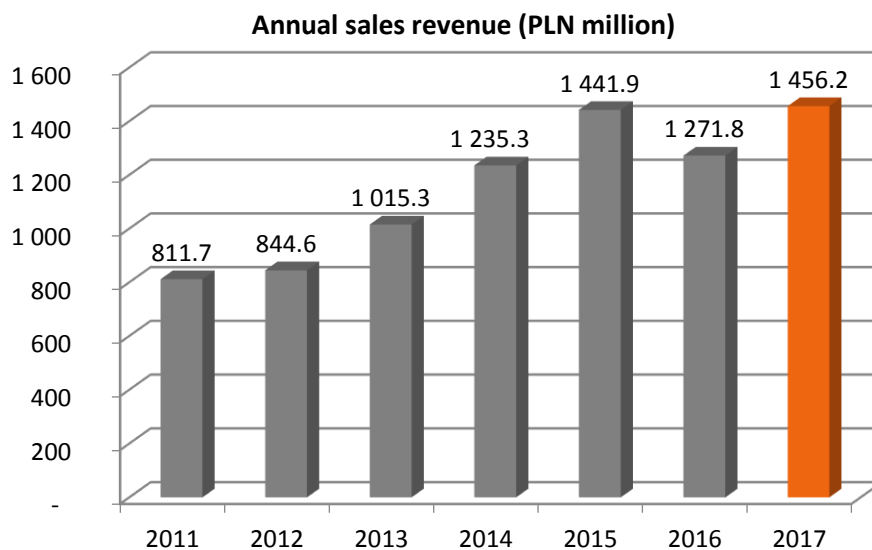
- components of assets and liabilities – at the average NBP exchange rate prevailing as at 31 December 2017 i.e. EUR/PLN 4.1709, and 31 December 2016 i.e. EUR/PLN 4.4240
- components of the statement of comprehensive income and the statement of cash flow – at the exchange rate being the mathematical average of the NBP exchange rates prevailing at the last days of the month: for 12 months of 2017 - EUR/PLN 4.2447 and for 12 months of 2016 - EUR/PLN 4.3757.

Due to the fact that sales of the *Casting alloys* segment account for approx. 97% of total sales revenue of the Group in 2017, it is this particular segment that decides about the overall results of the Group. Nevertheless the results of other segments (*Fluxes and salts and Other*) are also positive, and detailed information on the profitability of each segment was included in point III.1 of this Directors' Report.

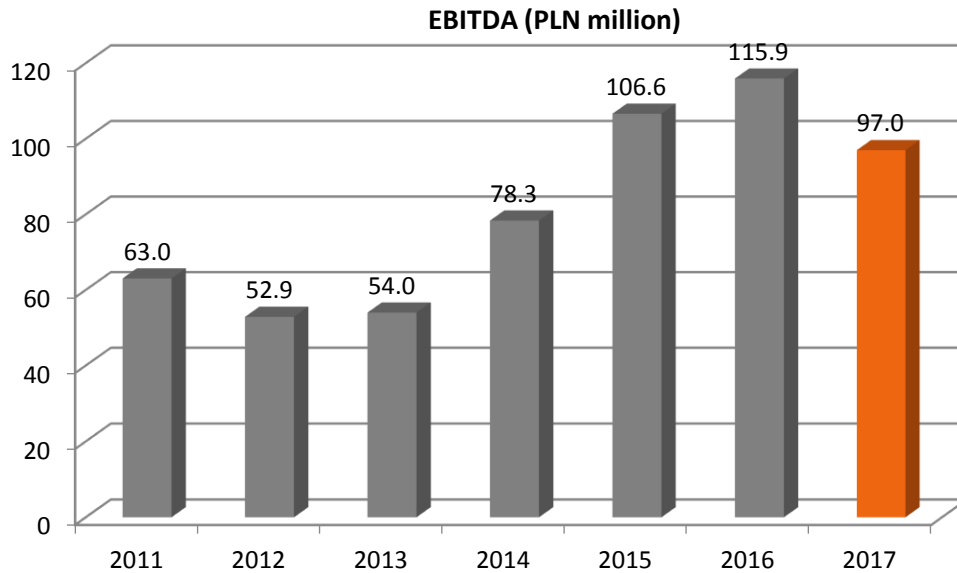
Owing to good situation in the automotive industry and availability of new production capacities in the Hungarian plant, sales volume of the Group increased by 10% in 2017. Compared to 2011, sales volume increased by 100%.



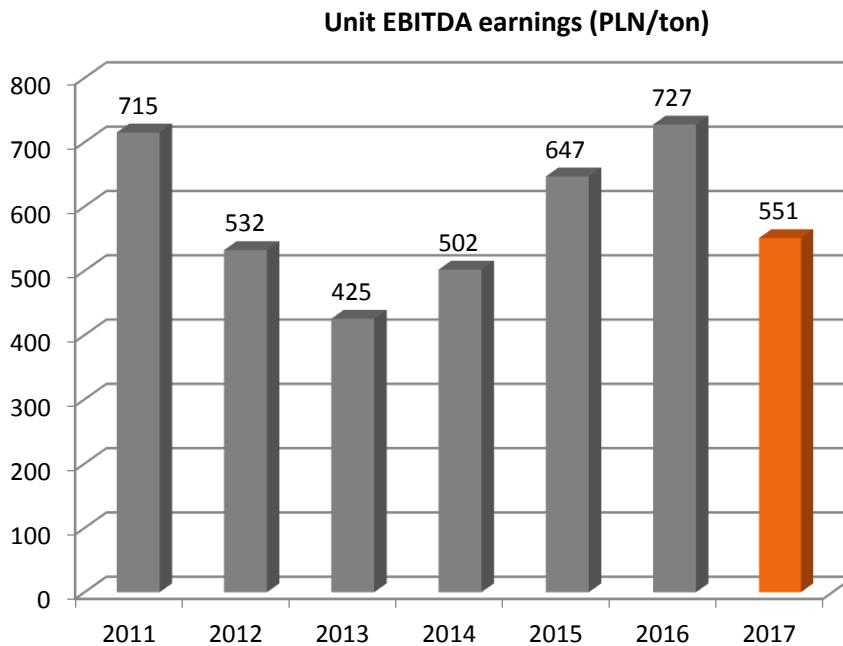
Revenue of the Alumetal Group increased in 2017 by 14%, which was due to the increase in sales volume referred to above and to a 5% increase in average selling price of goods compared to the prior year. Sales revenue for 2017 was the highest in the history of the Alumetal Group and compared to 2011, sales revenue increased by 79%.



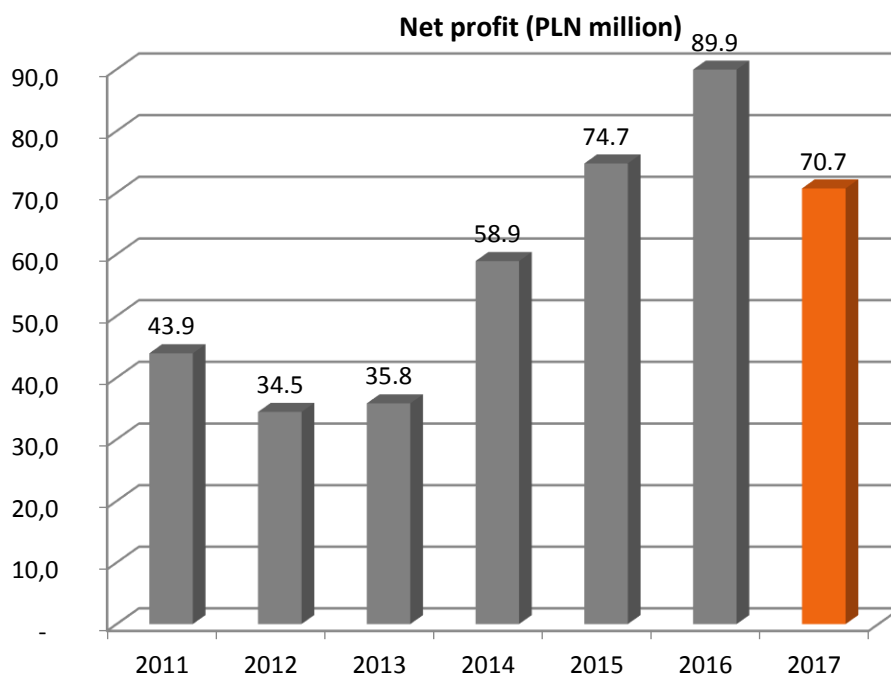
The EBITDA earnings amounted in 2017 to PLN 97 million and were 16% lower compared to 2016. The main factors which had negative impact on the 2017 EBITDA result were considerable volatility of market prices for sale of finished goods and purchase of raw materials, and slower than planned operational development of the production plant in Hungary. Despite EBITDA decrease in 2017, it was still the third highest result in the history of the Alumetal Group.



The unit EBITDA ratio in 2017 was PLN 551/ton, and was 24% lower compared to 2016, but the achieved result was still comparable to the long-term historical average results of the Group.



The reported net profit for 2017 amounted to PLN 70.7 million, which means that it was 21% lower compared to 2016. Compared to 2011, net profit increased by 61%.



In view of the recommendation of the Polish Financial Supervision Authority (PFSA), the Management Board decided to recognise a deferred tax asset (DTA) calculated based on the available pool of public aid arising from the obtained SEZ licenses in Poland and in Hungary, which made it possible to remove qualification from the Auditor's opinion for 2016.

Valuation of deferred tax asset arising from partial exemption from corporate income tax increased equity in 2014 and brought about slightly negative impact on the net profit for 2015 and 2016. In 2017, this impact was positive as qualified investment expenditure built up the DTA in the form CIT exemption quicker than the use of DTA against earned results.

In the ensuing years, the impact of DTA on the net profit may be positive (if investment expenditure will be incurred at an amount that creates income tax exemption) or negative (if the right to use income tax exemption is utilised).

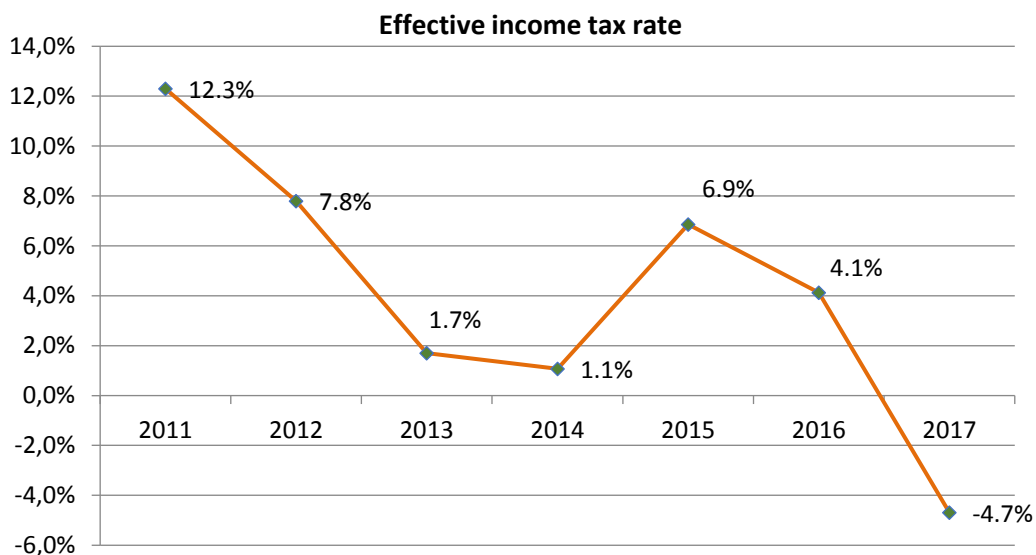
The table below shows the effect of valuation of CIT - exemption related DTA on the results for the years 2015 - 2017 and on the closing balance for 2014.

Item	2014	2014	2015	2016	2017
	with no DTA valuation	with DTA valuation			
Shareholders' equity	324 793	368 216	-	-	-
Valuation of DTA relating to income tax exemption	-	43 422	40 502	38 360	40 517
Reported net profit			74 733	89 944	70 685
Exclusion of DTA valuation on net profit			2 921	2 142	-3 155
Normalised net profit			77 654	92 086	67 530

The table below shows the factors that affected change in the deferred tax asset relating to partial income tax exemption in the years 2015-2017:

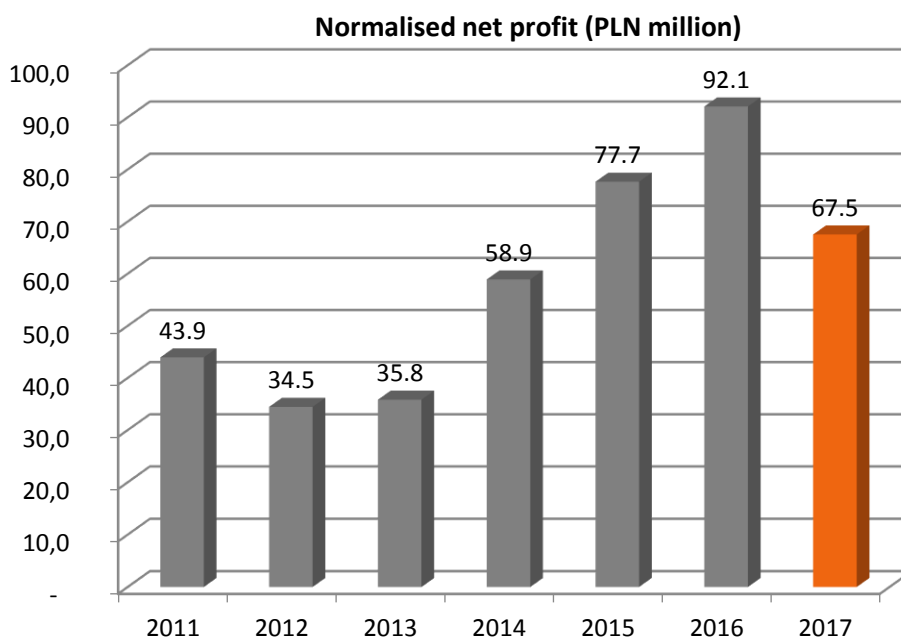
Factors with impact on change in deferred tax asset	2015	2016	2017
Utilisation of income tax exemption (tax credit) in the given year	-13 371	-16 942	-14 318
Increase in the income tax exemption (tax credit) due to qualified expenditure incurred in the given year	10 450	14 800	17 473
Total	-2 921	-2 142	3 155

The effective income tax rate of the Alumetal Group fell in 2017 due to higher tax exemption following incurring qualified investment expenditure in this period.



Following valuation of deferred tax asset originating from income tax exemption, the Alumetal Group reported normalised profit (i.e. the reported profit adjusted for the effect of valuation of deferred tax asset from income tax exemption), and - starting from 2017 profit appropriation - modified its dividend policy by modelling paid dividend level on normalised profit.

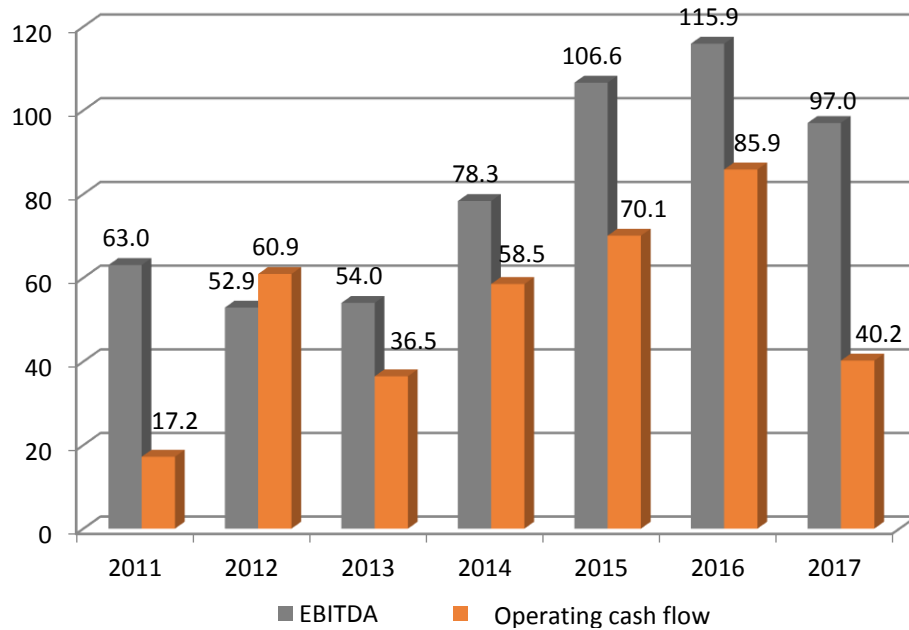
The chart below shows normalised net profit i.e. net profit, net of the effect of valuation of deferred tax asset relating to income tax exemption. Normalised consolidated net profit for 2017 was 27% lower than in 2016.



The Company informed the public about the impact of DTA valuation in its current report No. 6/2017 dated 5 April 2017.

In the entire 2017, the difference between EBITDA earnings and operating cash flows amounted to PLN 56.8 million. The main factors that had impact on the level of conversion of EBITDA into operating cash flow were higher production and sales of the Hungarian production plant with payment maturity dates longer than the current average in the Alumetal Group as well as higher average selling prices. The above factors resulted in a considerable employment of working capital measured in absolute values.

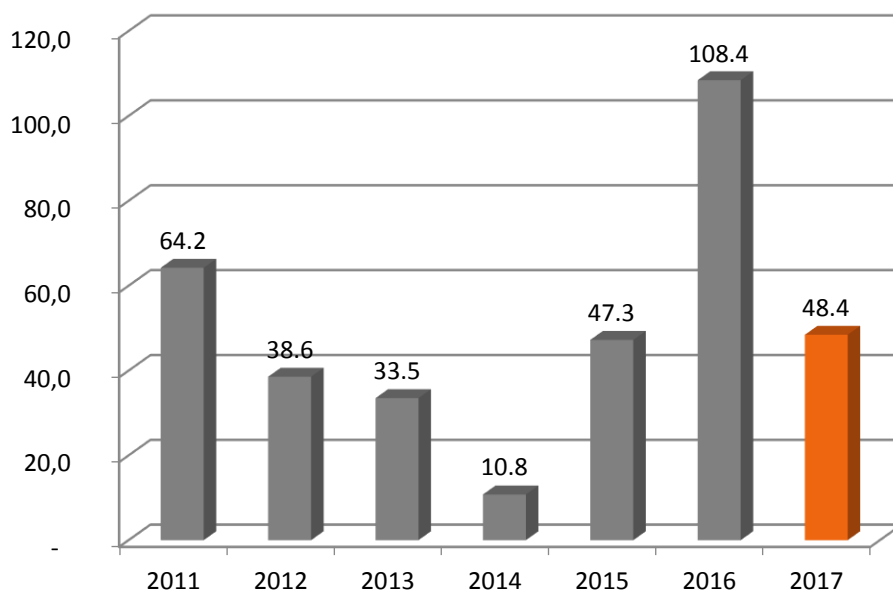
Cash flow from operating activities vs EBITDA (PLN million)



In 2017, capital expenditure amounted to PLN 48.4 million and was 55% lower compared to the record level in 2016. Lower investment expenditure was caused by realization in 2016 of the fundamental phase of the construction of a new production plant in Hungary. The structure of capital expenditure in 2017 was as follows:

- PLN 37.8 million for product mix and production capacity development
- PLN 8.3 million for replacement and retrofitting
- PLN 2.3 million for metal management.

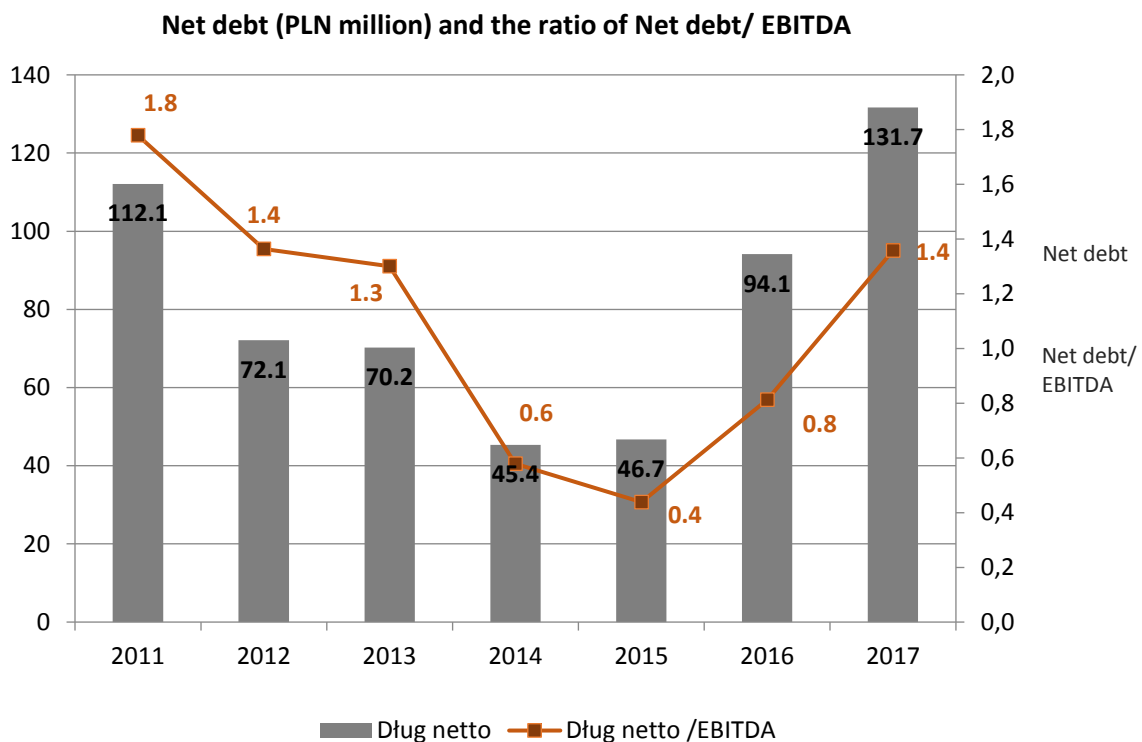
Capex (PLN million)



At the end of 2017, the net balance of interest due and payable was PLN 131.7 million i.e. was 40% higher than at the end of 2016 due to the following reasons:

- incurring significant capital expenditure – PLN 48.4 million;
- dividend payment – PLN 44,9 million;
- higher need for net current assets mainly in connection with increasing production capacity by the Hungarian production plant – PLN 44.4 million.

Given the above factors, the ratio of Net debt /EBITDA at the end of 2017 remained at a safe level of 1.4.



The table below shows the listing of the most significant financial ratios that facilitate comprehensive assessment of the profitability, efficiency of operations, liquidity position and indebtedness of the Group.

These ratios demonstrate good or very good efficiency of the operations of the Group at the level of EBITDA margin and net profit margin in the long-term perspective.

Apart from sales profitability, the ratios of return on assets (ROA) and return on equity (ROE) remained at a satisfactory level, while noticeable fluctuations in these parameters are of moderate value.

Liquidity I ratio remained at a stable satisfactory level, while Working Capital Days ratio, despite some fluctuations in the successive years, also did not materially change in the long-term perspective.

The structure of the Group's assets showed that over the last six years the ratio of capital immobility did not change (despite certain fluctuations arising from variable rhythm of investment processes) and remained relatively low, which means that the Alumetal Group retained the relatively high flexibility of its non-current assets despite dynamic growth in production capacity.

The structure of the Group's liabilities, owing to appropriate securing of development needs, showed good level of Stability of financing. Also, the overall Debt ratio has remained for a considerable period of time at a stable and relatively low and safe level.

Debt ratios show relatively low levels of Group's indebtedness, as well as considerable potential of the Group to finance its further development and to realize the adopted dividend policy.

Financial ratio	Ratio description	2017	2016	2015	2014	2013	2012
EBITDA margin (%)	EBITDA/Net sales	6.7%	9.1%	7.4%	6.3%	5.3%	6.3%
Net profit margin (%)	Net profit/Net sales	4.9%	7.1%	5.2%	4.8%	3.5%	4.1%
Return on assets (ROA) (%)	Net profit/Total assets	8.4%	12.4%	12.4%	11.0%	7.4%	8.0%
Return on equity (ROE) (%)	Net profit/Shareholders' equity at the beginning of the period	14.7%	21.9%	20.5%	20.6%	14.4%	16.1%
Liquidity I (multiplicity)	Total current assets/Current liabilities	1.6	1.9	2.0	1.8	1.7	1.7
Working Capital Days (days)	Inventory days + Debtors days – Creditors days	70	65	51	60	66	74
Capital immobility ratio (multiplicity)	Total non-current assets /Total current assets	0.83	0.98	0.76	0.61	0.77	0.83
Stability of financing (%)	(Shareholders' equity + Non-current liabilities)/Total equity and liabilities	66.9%	73.4%	72.0%	64.5%	65.9%	67.5%
Debt ratio (%)	(Total equity and liabilities – Shareholders equity)/Total assets	40.2%	35.5%	31.0%	39.4%	40.9%	42.4%
Net debt/EBITDA (multiplicity)	(Bank loans and borrowings – cash)/EBITDA	1.4	0.8	0.4	0.6	1.3	1.4

Margins realised by the Group show considerable stability, interest due and payable is low, working capital ratio is high and financial liquidity good, which all cause that the perspective of timely repayment by ALUMETAL S.A. and subsidiary companies of their liabilities is safe.

This assessment was confirmed by an independent external rating agency, EuroRating sp. z o.o., which on 28 January 2015 assigned ALUMETAL S.A. the "BBB investment credit rating". The EuroRating sp. z o.o. is registered as a rating agency in the European Union in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, and is subject to direct supervision of the European Securities and Markets Authority (ESMA).

The EuroRating sp. z o.o. rating agency has therefore the status of ECAI (External Credit Assessment Institution) in accordance with article 4 paragraph 1 point 98 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

The rating assigned by this agency describes enterprise financial credibility and its capacity to service short- and long-term liabilities in the perspective of up to 3 years.

The assessment of the Alumetal Group considered specificity of its business, development plans of the Group, and applied dividend policy, as well as potential threats arising from a relatively high market cyclicity and customer concentration, great volatility of working capital employment, planned increase in bank debt and possible temporary decrease in business profitability. All these factors and threats did not prevent the agency from assessing the perspective of ALUMETAL S.A.'s rating as "stable".

During 2017, the awarded rating was updated on 7 June and on 10 October, and after the reporting date i.e. on 11 January 2018 and was upheld at the original level. These re-assessments did not change either the awarded rating or the assessed perspective.

4. Significant and non-routine events, significant agreements and factors with impact on 2017 results

A. Receipt of another instalment of overdue receivables from CIMOS d.d.

On 26 April 2016 and 27 October 2016, the Group recorded payment of another two instalments by Cimos d.d. in the amount of EUR 92 415.60 each. As a result, the Group reversed an impairment write-down against this receivable and recognized it, as appropriate, in the Q1 2017 and Q3 2017 result in the amount of the two funds transfer received.

B. Realization and completion of corporate recovery program of the Arche Group

ALUMETAL Poland sp. z o.o. received in 2017, i.e. on 16 January, 21 February, 23 March, 20 April, 17 May, 6 July, 27 July, 5 September, 29 September, 31 October and on 30 November, the subsequent cash payments from SIFA Technologies Société anonyme in the amount of EUR 34 983.00 each. These payments are consistent with the provisions of the Protocol of Settlement included in the corporate recovery plan validated on 24 November 2016 by the Commercial Court in Paris.

The instalment paid on 30 November 2017 was the last instalment paid under the corporate recovery program conducted based on the French law with respect to SIFA Technologies Société anonyme (French-law based company, hereinafter referred to as "SIFA") with its registered office in Orleans Cedex 2 (France), operating as part of the Arche Capital Group. The repayment of the above instalments together with the first instalment paid on 8 December 2016 exhausts the provisions of the Protocol of Settlement concluded between SIFA and ALUMETAL Poland sp. z o.o. (Issuer's subsidiary company), which provided for the repayment of 50% of the total amount of debt towards ALUMETAL Poland sp. z o.o. being in total EUR 839 610.86 (i.e. the equivalent of PLN 3 526 366 as at 1 December 2017).

Due to the execution of debt repayment in accordance with the provisions of the Protocol of Settlement, ALUMETAL Poland sp. z o.o. wrote-off the remaining 50% of the total amount of debt covered by said corporate recovery program (this cost was accounted for in the 2016 results of the Alumetal Group when appropriate receivables impairment write-down was recognised).

C. *Doubtful debts from JN Metal*

On 5 June 2017, ALUMETAL Poland sp. z o.o. filed with the District Court in Cracow, 9th Economic Department, a lawsuit against JN Metal Jerzy Nykiel for payment for delivered goods in the amount of PLN 1 503 048.87, and recognised an impairment write-down for this amount in the 1Q 2017 results. On 29 June 2017, the matter was directed to the writ-of-payment procedure. As at 31 December 2017, following balances set-off, the amount of overdue receivables decreased to PLN 1 266 471.77. On 7 March 2018, court hearing took place following which the parties undertook to initiate talks on settlement agreement. The court set the next hearing at 25 April 2018. As at the date of the preparation of this Directors' Report, the balance of outstanding receivables did not change and was PLN 1 266 471.77.

D. *Decision to continue and modify the policy of receivables insurance*

Due to its further trade expansion and positive experience from the first year of collaboration in the matter of receivables insurance, the Company decided to continue with this policy for another year. The verification will continue to cover the entire sales to non-related entities, except for the sales to the three largest customers of the Alumetal Group. At the same time, a decision was taken to take out concurrent insurance policy, which additionally improved the Group's need for the coverage of same risks as regards awarded insurance limits.

E. *Successive tranches of cash subsidy pre-financing*

ALUMETAL Group Hungary Kft. received in 2017 the following pre-financing of cash subsidy from the Hungarian Investment Promotion Agency in the total amount of HUF 545 085 232 (being the equivalent of PLN 7 330 851.29) at the following dates and in the following amounts:

- a) HUF 154 511 670 on 20 March,
- b) HUF 59 609 726 on 20 June,
- c) HUF 63 894 918 on 21 July,
- d) HUF 139 506 710 on 31 July,
- e) HUF 101 039 459 on 18 August,
- f) HUF 26 522 749 on 21 November.

The total amount of nine advance payments towards cash subsidy received in the years 2016-2017 amounted to HUF 1 329 885 632 (being the equivalent of PLN 18 493 852.18).

F. Change of the bank financing current operations of the Alumetal Group and extending other agreements for another year

Following negotiations carried out in 2Q 2017, a decision was taken to terminate cooperation with one of the banks financing current operations of the Alumetal Group. As a result, in June 2017 the short-term loan from Alior Bank S.A. was repaid using the facility funds of PLN 46 million and an agreement for a short-term facility to the amount of PLN 40 million agreement was signed with DNB Bank Polska S.A., thus increasing the value of the loan agreement with Bank Handlowy w Warszawie S.A. by PLN 6 million to the amount of PLN 54 million. At the same time, a roll forward was made for another year of the loan agreement with ING Bank Śląski S.A. with a value of PLN 36 million. In addition, in 3Q 2017 the ALUMETAL Group Hungary Kft. extended for another year its agreement for a short-term facility (two-currency overdraft facility in EUR and HUF with a value of EUR 1 875 000) with the maturity date of 16 August 2018.

Signing of the two agreements means full coverage of the Group's needs in the area of financing of its operating activities.

G. Payment of dividend for 2016

On 5 April 2017, the Management Board of ALUMETAL S.A. proposed to the Supervisory Board and to the Ordinary Annual General Meeting that the net profit of the Company for 2016 in the amount of PLN 77 453 188.25 (in words: seventy seven million four hundred fifty three thousand one hundred eighty eight zloty twenty five groszy) was appropriated in the following manner:

1. PLN 44 906 621.60 (in words: forty four million nine hundred six thousand six hundred twenty one zloty and sixty groszy) – to payment of dividend to the Company's shareholders i.e. PLN 2.92 (in words: two zloty ninety two groszy) per share,
2. PLN 55 000.00 (in words: fifty five thousand zloty zero groszy) – to transfer to the Company's Social Fund,
3. the remaining amount of PLN 32 491 566.65 (in words: thirty two million four hundred ninety one thousand five hundred sixty six zloty and sixty five groszy) – to transfer to the Company's reserve capital.

The Management Board recommended setting dividend date at 24 May 2017 and dividend payment date – at 7 June 2017.

Pursuant to the provisions of article 382 § 3 of the Code of Commercial Companies, this application was filed with the Supervisory Board of the Company to obtain its opinion. The Supervisory Board of the Company approved Management Board' proposal regarding 2016 profit appropriation. The Ordinary Annual General Meeting of the Company at its meeting on 16 May 2017 of ALUMETAL S.A. concurred with the recommendation of the Management Board regarding dividend payment in the amount proposed by the Management Board and established dividend date at 24 May 2017 and dividend payment date at 7 June 2017.

The Company informed the public on the Resolution of the Annual General Meeting of ALUMETAL S.A. regarding profit appropriation and dividend payment in its current report No. 11/2017 dated 16 May 2017.

H. Termination of Incentive Program II

The completion on 21 July 2017 of the issuance of F-series shares marked termination of the incentive scheme realised as part of the conditional increase in the issued capital determined by the Resolution No. 5 of the Extraordinary Annual General Meeting of the Company dated 28 May 2014 („Incentive Program”). The assumptions underlying the Incentive Program provided for a conditional increase in the Company's issued capital through the issue of free-of-charge, non-transferable subscription warrants in three tranches (series A, B and C) and the matching three tranches of the Company's shares (series D, E and F) with a total nominal value not exceeding PLN 45 231.

In accordance with the Incentive Program Policy, as adopted by the Company's Supervisory Board on 12 December 2014, the Company issued in the years 2015-2017 the three series of shares, i.e. D, E and F, awarded in exchange for the subscription warrants, series A, B and C.

Shares of all series were issued in dematerialised form, as provided in article 7 of the act on trading in financial instruments. The D-series shares (150,770 pieces) were awarded, based on filed statements, to 27 persons on 1 June 2015, the E-series shares (150,770 pieces) – to 25 persons on 20 July 2016, while the F-series shares (100,513 pieces) – to 23 persons on 21 July 2017. All shares (402,053 pieces in total) were taken up at the issue price of PLN 29.75 and were introduced to public trading at the Warsaw Stock Exchange in the ordinary procedure, as described in point I.1. of this Directors' Report.

The Company informed the public about termination of this Incentive Program in its current report No. 26/2017 of 3 August 2017.

I. Establishment of Audit Committee

To fulfil the obligation imposed in article 128 section 1 of the act of 11 May 2017 on Certified Auditors, Audit Firms and Public Oversight treating the Company as a public interest entity (PIE), the Supervisory Board established on 4 August 2017 an Audit Committee composed of the following persons: Mr Marek Kacprowicz as Chairman of the Audit Committee and Mr Grzegorz Stulgis and Mr Tomasz Pasiewicz as its members.

J. Launch of second production facility in the production plant in Hungary

ALUMETAL Group Hungary Kft. made, in a close cooperation with the supplier of machines and equipment, an investment in additional fitting of the second production line in the Komarom production plant; as a result, satisfactory improvement was recorded in technological performance and regular production using this production facility commenced in 2017. This allowed the ALUMETAL Group Hungary Kft increase its production capacity and thus increase the overall production capacity of the entire Group.

K. Development of Master Alloy Plant in Gorzyce

In its current report No. 25/2016 of 29 July 2016, the Company informed the public about Management Board's decision in the matter of execution of a Project called *Development of Master Alloy Plant in Gorzyce*.

Some of the construction work commenced at the beginning of July 2017. At the same time, tender proceedings were terminated as regards the performance of the remaining construction work, which commenced in November 2017. Currently, said works are in progress and the phase of individual machines and technological equipment assembly has commenced.

In 2017, investment expenditure incurred for project realization amounted to PLN 20.6 million, and cumulatively from the beginning of the investment process – to PLN 29.0 million. At present, project works are carried out according to schedule (commencement of the production in the 1st half of 2018) and account for the risk of exceeding its budget following changes to the scope of the investment and higher market prices for construction services. Consequently, the Supervisory Board of ALUMETAL S.A., at its meeting on 14 December 2017, consented to increasing the maximum pool of investment expenditure assigned for this project by the amount of PLN 4.7 million to the amount of PLN 63.2 million by way of adopting appropriate resolution in this matter.

L. Filing application for change in cash subsidy contract

On 11 October 2017, the ALUMETAL Group Hungary Kft. applied for a change in the contract for cash subsidy concluded on 21 October 2015 with the Hungarian Ministry of Foreign Affairs and Trade concerning subsidy for the project called „Construction of a production plant in Hungary”. The requested change related to the extension of final deadline for investment project completion from 31 December 2017 to 31 December 2018, reducing the obligatory number of minimum headcount at the ALUMETAL Group Hungary Kft. and changing the adopted security for this contract from the surety issued by ALUMETAL S.A. to a mortgage collateral established on the property belonging to the ALUMETAL Group Hungary Kft. (AGH).

The Company informed the public about the course of conduct in the matter of changing the provisions of the contract for cash subsidy in its current reports No. 39/2017 of 11 October 2017 and No. 51/2017 of 29 November 2017.

M. New Incentive Program

On 7 November 2017, the Extraordinary Annual General Meeting of the Company passed a resolution on a conditional increase in the issued capital of the Company and on subscription warrants issuance, excluding in full the shareholders' rights issue with respect to the subscription warrants and shares issued under conditional capital increase, and on changes to the Company's Statutes.

The conditionally increased issued capital of the Company, based on the Resolution No. 3 of the Extraordinary Annual General Meeting of ALUMETAL S.A., is not to exceed the amount of PLN 46 438.20 (in words: forty six thousand four hundred thirty eight zloty twenty groszy) through the issuance of not more than:

- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) ordinary bearer shares, series G, with a nominal value of PLN 0.10 (in words: ten groszy) each („G-series Shares”);
- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) ordinary bearer shares, series H, with a nominal value of PLN 0.10 (in words: ten groszy) each („H-series Shares”);
- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) ordinary bearer shares, series I, with a nominal value of PLN 0.10 (in words: ten groszy) each („I-series Shares”, and together with the G-series and H-series Shares referred to as „Incentive Shares 3”).

Pursuant to the above Resolution of the Extraordinary Annual General Meeting of the Company, the issue price of the Incentive Shares 3 was set at PLN 48.60 (in words: forty eight zloty sixty groszy). The adoption of a conditional increase in the issued capital of the Company equates the adoption of a new Incentive Program („Incentive Program III”). The right to take up the G-, H- and I-series Shares will have only the holders of the subscription warrants, series, as appropriate, D, E and F; this right will have to be exercised not later than by 31 December 2022 on the terms and conditions defined in the above Resolution and in the Incentive Program Policy („Incentive Program III Policy”) adopted by the Supervisory Board based on the Resolution No. 2 on 14 December 2017. The issue of Incentive Shares 3 will exclude, in full, the rights issue of the current Company’s shareholders. The Company provided the public with details of this issue and with justification for rights issue exclusion in its current report No. 48/2017.

The Company applied for registration of a conditional increase in the issued capital on 9 November 2017, and the conditional increase was registered by the Court on 23 November 2017, about which the Company informed the public in its current report No. 52/2017 on 7 December 2017.

N. Appointment of a new Management Board Member

On 10 October 2017, the Supervisory Board of ALUMETAL S.A. appointed Ms Agnieszka Drzyżdzyk (*formerly* Sales Director of ALUMETAL S.A.) as Management Board Member.

The Company informed the public about appointment of a new Management member in its current report No. 37/2017 of 10 October 2017.

O. Implementation of quality system to IATF 16949 specification

2017 was the year of the implementation of a quality system to the IATF 16949 specification at ALUMETAL Poland sp. z o.o., ALUMETAL Group Hungary Kft. and at ALUMETAL S.A. In September 2017, the Hungarian company as the first Group’s company was awarded this certificate.

5. Post-reporting date significant and non-routine events, significant agreements and factors with impact on 2017 results

A. Signing annex to cash subsidy contract

On 11 October 2017, the ALUMETAL Group Hungary Kft. applied for a change in the contract for cash subsidy concluded on 21 October 2015 with the Hungarian Ministry of Foreign Affairs and Trade concerning subsidy for the project called „Construction of a production plant in Hungary”. The requested change related to the extension of final deadline for investment project completion from 31 December 2017 to 31 December 2018, reducing the obligatory number of minimum headcount at the ALUMETAL Group Hungary Kft. and changing the adopted security for this contract from the surety issued by ALUMETAL S.A. to a mortgage collateral established on the property belonging to the ALUMETAL Group Hungary Kft. (AGH) This Annex was signed in January 2018, and its effective date will be upon effective mortgage establishment. To this end, on 3 April 2018 an agreement was signed with the Hungarian Ministry of Foreign Affairs and Trade on establishment of a mortgage on the plot of land in Komarom, as the new security for the subsidy for AGH in exchange for the current surety of ALUMETAL S.A.

B. Extension of auditor contract for another two years

The Supervisory Board of ALUMETAL S.A. acting based on article 66 paragraph 4 of the Accounting Act and paragraph 20 section 3 point 4) of the Statutes of ALUMETAL S.A. appointed on 1 February 2018 Ernst & Young Audyt Polska sp. z o.o. sp.k. with its registered office in Warsaw, Rondo ONZ 1, as an audit firm to perform the following:

- a) audit of the financial statements of ALUMETAL S.A. and of the Capital Group of ALUMETAL S.A. for the year 2018 and 2019,
 - b) review of the interim (condensed) financial statements of ALUMETAL S.A. and of interim (condensed) consolidated financial statements of the ALUMETAL S.A. Capital Group prepared for the period of 6 months ended 30 June 2018, and 30 June 2019,
- and authorised the Company's Management Board to extend the audit contract with said audit firm in the scope described above, pursuant to the provisions of paragraph 1 section 2 of the Procedure for the selection of entity authorised to audit the financial statements of the Company and of the Capital Group.

The Company informed the public about the selection of audit firm in its current report No. 2/2018 dated 1 February 2018.

C. Extending loan agreement with ING Bank Śląski SA to include ALUMETAL Group Hungary Kft.

To make the financial policy of the Group more flexible and to secure the financial needs of the subsidiary company, ALUMETAL Group Hungary Kft., a decision was taken to include this company in the list of Alumetal Group companies having right to use the short-term facility at ING Bank Śląski S.A. The appropriate annex was signed with Bank ING on 5 February 2018. The total limit of short-term credit facilities available to the Alumetal Group remained unchanged and amounted to the equivalent of PLN 138 million.

D. Another pre-financing for cash subsidy to the Group Hungarian entity

ALUMETAL Group Hungary Kft. received on 20 March 2018 another instalment (tranche) of cash subsidy pre-financing from the Hungarian Investment Promotion Agency (HIPA) in the amount of HUF 116 454 833 (being the equivalent of PLN 1 580 641.45 translated at the exchange rate prevailing at the date of funds inflow). The total value of all ten subsidy instalments paid to date amounted to HUF 1 446 340 465 (being the equivalent of PLN 20 074 493.63).

E. Continued implementation of IATF 16949- based quality system

In 1Q 2018, the Alumetal Group continued to implement the IATF 16949 – based quality system. In September 2017, ALUMETAL Group Hungary Kft. as the first Group's company was awarded this certificate. In 1Q 2018, ALUMETAL S.A. and the production plants in Kęty, Gorzyce and Nowa Sól were also awarded this certificate.

VI. Realised investments and development work

1. Information on major research and development achievements

In 2017, the value of investment expenditure incurred for the purchase of property, plant and equipment and intangible assets in the Alumetal Group was as follows:

Total expenditure (PLN thousand)	01.01.2017 – 31.12.2017	01.01.2016 - 31.12.2016
	48 446.23	108 413.92*

* after considering movements on the collateral manager account (the effect of escrow or trust construction services resulting from Hungarian regulations)

The investment projects carried out in 2017 related to the tasks in the following areas:

- product mix and production capacity development – PLN 37.8 million,
- replacement - retrofitting type investment projects – PLN 8.3 million,
- metal management – PLN 2.3 million.

2. Project called *Construction of a production plant in Hungary*

The most significant events relating to the project called *Construction of a production plant in Hungary* ("*Budowa Zakładu na Węgrzech*"), which were realised in 2017 are as follows:

- in the 1st half of 2017, optimization was performed of the operational efficiency of the first production line thus achieving the assumed efficiency; also, optimization was carried out of metal management processes,
- on 16 November 2017, ALUMETAL Group Hungary Kft. signed Final Acceptance Tests for the main item of the second production line; after providing additional equipment and fitting, second production line achieved satisfactory improvement in technical efficiency,
- on 1 December 2017 (letter dated 28 November 2017), the Company received a consent from the Hungarian Ministry of Foreign Affairs and Trade to the modification of the contract for cash subsidy. Contract change related to the extension of the date of formal completion of the investment to 31 December 2018, reducing the required level of headcount at the plant and change in form of contract security. The above information was provided to the public in the Company's current report No. 51/2017 of 29 November 2017. Appropriate annex to the contract was signed in January 2018.
- In 2017, project-related investment expenditure amounted to PLN 12.6 million, and cumulatively from the onset of the investment project to the end of 2017 amounted to PLN 133.0 million.

3. Project called *Development of Master Alloy Plant in Gorzyce*

- after obtaining appropriate permits, in July 2017, construction and electrical works were commenced, as well as construction of technological installations,
- in October 2017, an agreement was signed and the REACH procedure was started (permit to introduce chemical substances to trading) in connection with planned production,

- in December 2017, an application was filed with Urząd Marszałkowski in Rzeszów for a change in the decision concerning integrated permit,
- on 14 December 2017, the Supervisory Board of ALUMETAL S.A. authorized an increase in the investment expenditure by the amount of PLN 4.7 million to the total amount of PLN 63.2 million (due to a change in the scope of the investment process and increase in prices of construction services),
- in 4Q 2017, Project-related investment expenditure amounted to PLN 10.9 million, and cumulatively from project onset - to PLN 29.0 million. Currently, the Project has been executed to deadlines set forth in project timetable (commencement of the production in the first half of 2018) and to the verified budget (PLN 63.2 million),
- as at the date of the preparation of this Directors' Report, Project completion in the construction phase reached 65%, while in the technological part of the assembly of machines and equipment – 35%.

4. Financing the development of ALUMETAL Group

The Alumetal Group companies concluded a number of contracts with a view to securing finance for the project *Construction of a production plant in Hungary* in the following order:

- an investment loan of 15 October 2015 between ALUMETAL S.A. and ING Bank Śląski S.A. taken out with a view to granting a loan to the subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of a production plant, in the amount of EUR 10 million with the maturity date set at 14 October 2022; at the end of 2017, repayment of this loan commenced in the form of 60 monthly instalments,
- contract of 21 October 2015 for cash subsidy between ALUMETAL Group Hungary Kft. and the Hungarian Ministry of Foreign Affairs and Trade,
- a long-term loan agreement of 26 October 2015 between ALUMETAL S.A. and the subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of the production plant, in the amount of EUR 10 million with the maturity date set at 14 October 2022; at the end of 2017, repayment of this loan commenced in the form of 60 monthly instalments,
- in 2Q 2017, the Alumetal Group extended its short-term loan agreements with ING Bank Śląski S.A. and with Bank Handlowy w Warszawie S.A. for another year (increasing the loan limit to PLN 6 million), and ALUMETAL Group Hungary Kft. extended in 3Q 2017 its agreement with Citibank Europe plc Hungarian Branch Office for a short-term bank loan of EUR 1.875 million,
- at the same time, the Alumetal Group repaid in June 2017 its short-term loan in Alior Bank S.A. (formerly BPH S.A.) in the amount of PLN 46 million and commenced cooperation with DNB Bank Polska S.A. by activating a credit facility with a value equating to PLN 40 million which caused that the total short-term loan limit of the Alumetal Group remained unchanged at the equivalent of PLN 138 million.

The financial resources of the Alumetal Group allow to fully discharge its current and future liabilities relating to current development plans. Given the above, the Group decided to finance the project *Development of Master Alloy Plant in Gorzyce* from current financial surpluses.

5. Structure of main capital deposits or main capital investments made in the Issuer capital group in the financial year

In 2017, the Alumetal Group did not make any capital deposits or capital investments.

6. Development directions of the ALUMETAL Group

The objective of the Group is to build value for the shareholders by increasing sales volume of Group's products and maximizing the Group's profitability with simultaneous maintenance of the Company's dividend policy.

The elements of the strategy of the Group that are to ensure the achievement of the above objectives cover:

A. Increase in sales volume of ALUMETAL Group products

The strategic objective of the Group is to realize systematic growth in sales volumes from approx. 127 thousand tons in 2013 to approx. 210 thousand tons in 2018, which translates into expected increase in the share of the European market of secondary aluminium casting alloys from 5% in 2013 to 7.5% in 2018.

The key activities that are to contribute to the increase in the sales volume of the Group cover:

- increase in the efficiency (productivity) of the current production capacities,
- business development through product offer extension,
- increase in sales of products with higher added value,
- development of production capacities, among others, through the commencement of production in a new production plant in Hungary as of 4Q 2016.

As at the date of the preparation of this Directors' Report, the real aggregate production capacity of the four production plants of the Group amount to 233 thousand tons per year. To maximize utilisation of the existing production capacity at each of the four plants, the Group intends to continue to intensify collaboration with current customers by increasing volumes of secondary alloys currently sold to these customers and by profiting from the expected higher demand for secondary aluminium alloys in the forthcoming years, and [intends] to attract new customers. These activities are to also ensure seamless utilisation of the production capacity of the newly constructed production plant in Hungary by securing production and sales orders. At the same time, the Group has systematically worked, with positive effect, on productivity increase of the operated production lines.

In addition, the Group intends to focus on product offer extension and on increase in sales volumes of the products with higher added value. In the first half of 2015, the Group started delivery of aluminium alloys in the liquid form from the Nowa Sól production plant. The Group also plans to further increase sales of master alloys in the form of waffle plates (wafers). In addition, in 2016, the Group commenced realisation of the investment consisting in increasing production capacities in the area of production of master alloys, as well as extending product offer in this segment.

B. Maximization of ALUMETAL Group profitability

As part of its business strategy, the Group intends to focus on the improvement of its profitability measured using the ratio of EBITDA earnings per 1 ton of sold goods through the following activities:

- development of the preparation system and further optimization of raw materials management in the production process (metal management) and maximization of metal yield,
- product offer optimization (e.g. through higher sales of master alloys),
- streamlining unit production cost through the increase of production output of operated production lines.

The Group intends to maintain its cost efficiency by optimizing production costs, including the costs of energy and transport. Positive contribution to maintaining costs efficiency should have further increase in the production volume, which is expected to reduce the share of fixed costs in the operating expenses. The Group made investments in Hungary and in the Nowa Sól plant in relatively large and modern furnaces with high production capacity and efficiency (with low energy consumption and less intensive use of labour).

VII. Quality

All production plants of the Alumetal Group maintain the highest and reproducible quality of products. The increasing requirements of the customers of the automotive industry, to which the Alumetal Group delivers the majority of its production determine the necessity of ongoing advancement and widely understood quality improvement. These changed and higher requirements result mainly from the new IATF 16949 Standard.

In 2017, Group customers performed 10 audits, including 4 audits authorizing the production in the ALUMETAL Group Hungary Kft. production plant, and all ended with positive results.

2017 was the year of the implementation of a quality system to the IATF 16949 specification at ALUMETAL Poland sp. z o.o., ALUMETAL Group Hungary Kft. and at ALUMETAL S.A. In September 2017, the Hungarian company as the first Group's company was awarded this certificate, and in January, February and March 2018 – ALUMETAL S.A. and the production plants in Kęty, Gorzyce and Nowa Sól, as appropriate.

In 2017, collaboration was continued with the customers at home and abroad in the area of delivery of liquid-form alloys.

Currently, preparatory works are underway to start production of a new product at the Alumetal Group - master alloy in the form of wire that is to be used, among others, to modify aluminium ductile alloys, which – in turn – will be the basis for the production of sections (*kształtowniki*), sheets and aluminium foil. These goods need to fulfil stringent quality norms.

The highest and reproducible quality of all goods at the Alumetal Group is ensured by the use of modern technology of production, the most up-to-date research methods and experienced personnel.

VIII. Loans and borrowings, and other financial agreements

1. Interest-bearing loans and borrowings

	Available limit	Currency*	Maturity date	Utilised limit as at 31 December 2017	Utilised limit as at 31 December 2016
<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

2. Loans granted

In 2017, ALUMETAL S.A. or its subsidiary company issued the following loans and borrowings:

- increase from PLN 30 thousand to PLN 35 thousand of a short-term, PLN-based loan issued by ALUMETAL S.A. to the related company, ALUMETAL Kęty sp. z o.o., with an interest rate of 1M WIBOR and maturity date set at 30 June 2018;
- issuance on 26 October 2015 of a long-term loan by ALUMETAL S.A. to its subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of a production plant in Hungary, in the amount of EUR 10 million and with the maturity date set at 14 October 2022. As at 31 December 2017, the value of the loan disbursed was EUR 9 833 000.

3. Other financial agreements

- Factoring agreement of 15 September 2014 with Bank UniCredit Luxembourg S.A. on full factoring of Euro-based receivables from one of the customers of the Alumetal Group i.e. at the risk of this customer and with no recourse to the Alumetal Group, and with no limit (limited in practice by the scale of cooperation with the given customer);
- Agreement of 28 June 2011 (with subsequent amendments) between ALUMETAL Poland sp. z o.o. and Bank Handlowy w Warszawie S.A. on collaboration between the parties in the area of acquiring by the Bank, based on separate agreements, of trade liabilities of ALUMETAL Poland sp. o.o. towards its business partners, with a total limit of PLN 7 million (full factoring for suppliers executed at their cost).
- 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 support agreement became finally effective on 2 February 2016; As at the reporting date the amount of advance payment under this agreement amounted to HUF 1 329 885 632, while as at the date of the preparation of this Directors' Report – HUF 1 446 340 465 (being the equivalent of PLN 20 074 493.63).

IX. Contingent assets and contingent liabilities, sureties and guarantees and off-balance sheet liabilities

1. Court and litigation proceedings

As at 31 December 2017, neither the Company nor any of its subsidiary companies was a party to litigation proceedings with a value equating or exceeding, in whole or in part, 10% of the shareholders' equity of the Company.

2. Sureties

- on 7 January 2016, ALUMETAL S.A. issued a surety to the ALUMETAL Group Hungary Kft. in connection with a Contract for cash subsidy of 27 October 2015 concluded with the Ministry of Foreign Affairs and Trade of Hungary, in case the ALUMETAL Group Hungary Kft. was obligated to return the received public aid and the related interest and did not discharge this obligation, as provided in this Contract; the surety was issued to the amount not exceeding 120% of the received public aid. As at the reporting date, a total of 9 (nine) tranches of cash subsidy pre-financing (advance payment) were paid out for the total amount of HUF 1 329 885 632 (the equivalent of PLN 18 493 852.18), while at the date of the preparation of this Directors' Report a total of 10 (ten) tranches of cash subsidy were paid out in the total amount of HUF 1 446 340 465 (the equivalent of PLN 20 074 493.63).
- 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 the equivalent of PLN 2 498 154.42.

3. Contingent liabilities

Based on a contract with the National Fund for Environmental Protection and Water Management (*Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej*) on financial compensation under the operational program *Infrastructure and Environment 2007-2013* („Infrastruktura i Środowisko 2007-2013”) for the execution of the investment project called *Construction of a plant for the scrap and aluminium waste processing and production of casting alloys – Phase I* („Budowa zakładu przerobu złomów, odpadów aluminiowych i produkcji stopów odlewniczych – etap I”) with a value of PLN 20 000 000.00, ALUMETAL Poland sp. z o.o. is required to fulfil contractual obligations (covenants), including those relating to project durability over the entire term of the project defined in the contract. The security for the fulfilment of the obligations under project financial compensation contract (*umowa o dofinansowanie projektu*) is an *in blanco* promissory note.

Apart from the above contingent liability, as at 31 December 2017, the Company and its subsidiary companies had no other contingent liabilities with a total or individual value of at least 10% of the Company's issued capital.

X. Financial risk management objectives and policies

The main type of business activity of the Company is conducting operations of a holding company. As part of these operations, the Company manages the financial risk of the companies of the ALUMETAL S.A. Capital Group. The main types of risk described in detail in the consolidated financial statements of the ALUMETAL S.A. Capital Group prepared for the year ended 31 December 2017 are the following:

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

The financial risk management objectives and policies did not change compared to those valid as at 31 December 2016.

By way of conducting its holding activities, the Company has also managed capital of the companies belonging to the ALUMETAL S.A. Capital Group.

The objectives and policies of financial risk management cover the risks described below:

1. Interest rate risk

The Alumetal Group is exposed to interest rate risk arising from the financial instruments used 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 – on BUBOR (HUF) and LIBOR (for USD).

The Alumetal Group does not hedge against interest rate risk because the instruments used are, in the majority of cases, of short-term character. As regards long-term loans, the 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 of those instruments, and therefore they were not used to hedge against interest rate risk also in this area.

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 by Group companies in the currencies other than their measurement currency. The ALUMETAL S.A. 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 mainly 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.

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.

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 customer financial standing (based on the financial data made available by customers 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.

Given 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. Verification of trade receivables covered the entire balance of sales to non-related entities, except for the sales to the three largest customers of the Alumetal Group (the Federal Mogul Group, 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 take out concurrent insurance policy, which additionally improved the Group's need for the coverage of same risks as regards awarded insurance limits. As a result, the credit risk of the Company became considerably limited (the Group plans to continue to insure its receivables in the ensuing years). However, one should note that pursuant to the policies operating in this type contracts, part of receivables of each customer is not insured due to the so-called "own share" of the policy holder; in addition, the Company's Management Board, given the wording of the insurance contract,

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.

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.

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 borrowings, and by 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.

XI. Risk factors with possible impact on Group financial results

In the opinion of the Management Board of ALUMETAL S.A., the most significant factors that may have impact on the financial results of the Alumetal S.A. Capital Group are:

1. Geopolitical and macroeconomic situation in Europe

The activities of the Group are affected by macroeconomic conditions relating to Polish, German, Central European and European economy, economic policy of individual governments, tax systems, GDP, unemployment rate, interest rates, currency exchange rates, inflation rate, consumption levels, investment expenditure and the amount of budget deficit. Fluctuations in the market prices of secondary aluminium have direct impact on the prices of Group products and, to a limited extent, on the margins earned. Market prices of secondary aluminium depend on the supply and demand as well as on other factors, on which the Group has no or only limited influence, such as general macroeconomic conditions, situation in the industry sectors that are the key consumers of secondary aluminium alloys, prices of primary aluminium and prices of aluminium scrap. Deterioration of general economic conditions in Europe, and especially in Poland, Germany, Hungary or in the Central and Eastern Europe may have adverse impact on the activities, financial position, financial results or business perspectives of the Alumetal Group by the end of 2018. Geopolitical situation may also have indirect impact on the results of the Group.

2. Situation of automotive industry

Group structure of consumers of secondary aluminium casting alloys is strongly focused on the automotive industry. In consequence, business activities of the Group are sensitive to trend changes in the automotive industry. The economic situation of automotive industry depends on general economic conditions, including on the level of consumer appetite and expenditure for motor vehicles.

During economic recession or during the periods of low economic growth, it is the automotive industry that usually suffers from shrinking business. In the period from 2005 to the mid of 2013, the EU saw a declining trend in motor vehicles production and sale. Despite considerable recovery of the automotive industry since the mid of 2013, one may not, however, exclude the possibility of raising trend reversal in the near future, which could have unfavourable impact on demand volumes or margin levels realized by manufacturers of secondary aluminium casting alloys. The activities of the Group may be affected by the potential shrinking of automotive industry exports outside Europe (e.g. to Asia or to Northern America). In addition, the financial results of the producers of secondary aluminium alloys, including the Alumetal Group, may be affected by the economic situation of individual automotive companies (e.g. problems at the Volkswagen Group).

3. Relation between purchase price of aluminium scrap and other main raw materials used for production, and selling price of secondary aluminium alloys

In principle, the prices of secondary aluminium casting alloys which are the key product of the Group are strongly related to the long-term quotations of aluminium (LME HG) or aluminium alloys (LME AA) on the London Metal Exchange. However, in the short-term this correlation may be subject to fluctuations and thus may not fully reflect the long-term trends.

The key item of operating expenses of the Group is the cost of purchase of raw materials. The main raw material used in the production of Group's products is aluminium scrap. In addition, the Group uses pure raw materials, inclusive of non-alloyed aluminium for recasting in the form of ingots, silicon metal, cathode nickel, manganese, titanium and magnesium. Scrap and pure raw materials account for the largest part of the cost of production (85-90%).

The prices of secondary aluminium casting alloys, aluminium scrap and of other raw materials used by the Group in the production process are subject to material fluctuations and depend on a number of factors outside the control of the Alumetal Group, including on general economic conditions, supply and demand for metals as a raw material and for semi-finished goods made of those raw materials on the European or global markets. Increase in prices of aluminium scrap may *not* be accompanied by the corresponding increase in prices of alloys produced by the Alumetal Group, which – in turn – may translate into lower margins realized on sold goods and into deteriorated financial results of the Group in the near future. Similar risk may take place in the circumstances of reduced prices of alloys not accompanied by the corresponding reduction in the prices of aluminium scrap.

4. Limited availability of raw materials scrap in Europe

The main raw material used in the process of production is aluminium scrap (Al scrap). The Group purchases aluminium scrap mainly from the entities trading in aluminium scrap, trade intermediaries and from producers of aluminium goods (as post-production waste).

Despite the fact that the Group uses diversified database of external suppliers of aluminium scrap, one may not completely exclude the possibility of the occurrence of a limited availability of this raw material in the near future. Al scrap availability and prices depend on the number of factors outside the control of the Alumetal Group, including on the amount of Al scrap available on the market, demand for the Al scrap by secondary aluminium producers, volume of exports of metals scrap from Europe to other continents, especially to Asia, differences in prices quoted in Europe and in other continents, or on unfavourable weather conditions hindering scrap collection. Lower availability of scrap metals on the European market, higher exports of scrap metals from Europe to other continents or higher regional demand may result in a limited availability or higher prices of aluminium scrap.

5. Potential disruptions in utilities supply to ALUMETAL Group production plants

The results of the Alumetal Group may be materially and adversely affected by restrictions in the utilities supply (electric energy or gas fuels), if of mid- or long-term character.

6. Higher competition on the market of secondary aluminium alloys

Emergence of new entities or stronger market position of present competitors - secondary aluminium alloys producers, or a potential increase of production capacity or development plans of domestic or international competitors of the Group may result in higher market competition. It cannot be certain that in the future, Group competitors will not intensify development of their business and will not conduct aggressive product and price policy against present or potential suppliers and customers of the Alumetal Group.

The above factors may have considerable unfavourable impact on the financial results of the Alumetal Group in the near future.

7. The risk of necessity to return public aid in whole or in part

Another risk to the financial results of the Group may pose the fact that the ALUMETAL Group Hungary Kft. has received cash subsidy and will use the investment tax relief (tax credit). Should it transpire in the future that this company does not meet its obligations arising from the obtained public aid, 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.

8. The risk of „trade war”

The Company is unable to predict the impact on its financial results of the 10% duty on primary aluminium or aluminium semi-products introduced by the US in March 2018. Currently, this duty does not directly affect the EU member states, yet, in the Company's opinion, it is possible that the following risks will materialize in the future:

- fall in exports of aluminium semi-finished goods from the EU to US due to lower product competitiveness,
- increase in the imports of primary aluminium and aluminium semi-finished goods to the EU from the countries, which to date exported primary aluminium and aluminium semi-finished goods to the US, for example, from Russia, Middle East or China, which may cause price reductions in the European Union,
- „trade war” aggravation, for example, through the introduction of duties by the EU on US products, which – in turn – may lead to “retaliation measures” by the US and introduction of duties on other products.

The Company does not, however, have trade relationship with the United States and since the production and consumption of secondary aluminium alloys in the EU (as the main product of the Alumetal Group) is of regional character, the imports from/ exports to the EU are relatively inconsiderable.

9. Other accidental, unfavourable one-of events

Other unforeseen and unexpected one-off events may also have material unfavourable impact on the financial results of ALUMETAL S.A. and the Alumetal Group.

XII. Standpoint of the Management Board as regards forecast results of ALUMETAL S.A. and the ALUMETAL S.A. Capital Group

The Management Board of the Company has decided not to publish any forecast results of the Company or of the entire Capital Group.

Szymon Adamczyk
President of the
Management Board

Krzysztof Błasiak
Vice-president of the
Management Board

Przemysław Grzybek
Board Member

Agnieszka Drzyżdżyk
Board Member