# THE ALUMETAL S.A. CAPITAL GROUP

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2018
## TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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Kęty, 21 March 2019

| | | |
|---|---|---|
| Marek Kacprowicz | President of the Management Board | ......................... |
| Krzysztof Błasiak | Vice-president of the Management Board | ......................... |
| Przemysław Grzybek | Board Member | ......................... |
| Agnieszka Drzyżdzyk | Board Member | ......................... |
| Krzysztof Furtak | Chief Accountant | ......................... |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## For the year ended 31 December 2018

| | Note | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenues from contracts with customers | 12.1 | 1 655 340 494.91 | 1 456 240 675.54 |
| **Total revenues from contracts with customers** | | **1 655 340 494.91** | **1 456 240 675.54** |
| Cost of sales | 12.2 | -1 509 170 967.37 | -1 340 386 926.13 |
| **Gross profit on sales** | | **146 169 527.54** | **115 853 749.41** |
| Other operating income | 12.5 | 4 750 766.12 | 5 076 225.71 |
| Selling expenses | 12.2 | -31 830 633.14 | -25 708 310.04 |
| Administrative expenses | 12.2 | -27 838 140.02 | -24 270 976.18 |
| Other operating expenses | 0 | -411 407.51 | -2 082 559.37 |
| **Operating profit** | | **90 840 112.99** | **68 868 129.53** |
| Finance income | 12.7 | 804 598.16 | 64 553.93 |
| Finance costs | 12.8 | -1 099 256.72 | -1 416 147.33 |
| **Profit before tax** | | **90 545 454.43** | **67 516 536.13** |
| Income tax | 14 | -16 199 875.11 | 3 168 546.22 |
| **Net profit from continuing operations** | | **74 345 579.32** | **70 685 082.35** |
| **Discontinued operations** | | – | – |
| Profit/ (loss) for the year from discontinued operations | | – | – |
| **Net profit/ (loss) for the year** | | **74 345 579.32** | **70 685 082.35** |
| **Other comprehensive income** | | | |
| Cumulative translation differences | 13 | -350 996.12 | -4 681 700.85 |
| **Net other comprehensive income subject to reclassification to profit/ (loss) in subsequent reporting periods** | | **-350 996.12** | **-4 681 700.85** |
| **COMPREHENSIVE INCOME FOR THE YEAR** | | **73 994 583.20** | **66 003 381.50** |

| | *Note* | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|---|
| Profit attributable to: | | | |
| Equity holders of the parent | | **74 345 579.32** | **70 685 082.35** |
| Non-controlling interest | | – | – |
| Comprehensive income attributable to: | | | |
| Equity holders of the parent | | **73 994 583.20** | **66 003 381.50** |
| Non-controlling interest | | – | – |

| | | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|---|
| Earnings per share: | 15 | | |
| - basic from the profit for the year attributable to equity holders of the parent | | 4.80 | 4.57 |
| - basic from the profit from continuing operations for the year attributable to equity holders of the parent | | 4.80 | 4.57 |
| - diluted from the profit for the year attributable to equity holders of the parent | | 4.80 | 4.57 |
| - diluted from the profit from continuing operations for the year attributable to equity holders of the parent | | 4.80 | 4.57 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## As at 31 December 2018

| | *Note* | *31 December 2018* | *31 December 2017* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 16 | 2 509 185.92 | 1 602 921.80 |
| Property, plant and equipment | 17 | 328 901 284.20 | 326 569 537.71 |
| Other financial assets (non-current) | 18.1 | – | 10 000.00 |
| Other long-term receivables | 22 | 890 957.66 | 1 789 232.42 |
| Deferred tax assets | 14.3 | 39 835 127.90 | 52 062 245.31 |
| | | **372 136 555.68** | **382 033 937.24** |
| **Current assets** | | | |
| Inventories | 21 | 176 781 470.86 | 189 638 458.46 |
| Trade and other receivables | 22 | 287 105 677.46 | 262 274 209.09 |
| Other financial assets | 18.1 | – | 35 000.00 |
| Other non-financial assets | 18.2 | 229 485.00 | 400 557.75 |
| Current tax assets | | 341 099.39 | 77 775.00 |
| Derivative financial instruments | 35.1 | 216 634.17 | 632 572.53 |
| Cash and cash equivalents | 23 | 28 946 480.30 | 6 735 406.17 |
| | | **493 620 847.18** | **459 793 979.00** |
| **TOTAL ASSETS** | | **865 757 402.86** | **841 827 916.24** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont.)
## As at 31 December 2018

| | *Note* | *31 December 2018* | *31 December 2017* |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity (attributable to the shareholders of the parent)** | | | |
| Issued capital | 24 | 1 547 949.30 | 1 547 949.30 |
| Reserve capital | 25 | 329 717 688.71 | 301 570 981.51 |
| Capital from revaluation of incentive scheme | | 1 138 998.28 | – |
| Cumulative translation differences | | -2 054 927.06 | -1 703 930.94 |
| Retained earnings/ (unabsorbed losses) | 25.1 | 203 395 017.15 | 202 396 264.59 |
| **Non-controlling interest** | | – | – |
| **Total shareholders' equity** | | **533 744 726.38** | **503 811 264.46** |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 26 | 24 329 400.00 | 31 957 435.80 |
| Provisions | 27 | 879 926.00 | 723 872.56 |
| Deferred tax liability | 14.3 | 196 777.24 | 245 071.15 |
| Accruals and deferred income | 28.3 | 24 791 865.30 | 26 149 909.20 |
| | | **50 197 968.54** | **59 076 288.71** |
| **Current liabilities** | | | |
| Current portion of interest-bearing loans and borrowings | 26 | 119 265 126.07 | 106 463 000.25 |
| Provisions | 27 | 311 715.00 | 134 297.61 |
| Trade and other payables | 28.1 28.2 | 157 636 305.54 | 168 375 126.19 |
| Current tax liabilities | | 14 098.00 | 44 490.00 |
| Derivative financial instruments | 35.1 | – | – |
| Accruals and deferred income | 28.3 | 4 587 463.33 | 3 923 449.02 |
| | | **281 814 707.94** | **278 940 363.07** |
| **Total liabilities** | | **332 012 676.48** | **338 016 651.78** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **865 757 402.86** | **841 827 916.24** |

# CONSOLIDATED STATEMENT OF CASH FLOW

## For the year ended 31 December 2018

| | *Note* | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| **Gross profit** | | **90 545 454.43** | **67 516 536.13** |
| Adjustments for: | | | |
| Depreciation/ amortization | 12.3 | 30 541 276.69 | 28 104 515.58 |
| (Profit)/ loss from investing activities | | -91 364.91 | 38 155.03 |
| FX (gains)/ losses | | 1 577 221.07 | -3 927 600.10 |
| (Increase)/decrease in receivables and other financial and non-financial assets | | -23 861 307.24 | -62 718 946.93 |
| (Increase)/ decrease in inventories | | 12 856 987.60 | -20 677 897.24 |
| Increase/(decrease) in liabilities, except for loans and borrowings | | -11 106 760.79 | 39 131 157.12 |
| Interest, net | | 780 105.42 | 1 018 763.57 |
| Change in prepayments, accruals and deferred income | | -2 667 787.90 | -4 220 141.35 |
| Change in provisions | | 333 470.83 | 215 550.77 |
| Income tax paid | | -4 215 581.63 | -4 249 053.30 |
| Other (including cost of incentive scheme) | 32 | 1 315 168.95 | -23 845.68 |
| **Net cash flow from operating activities** | | **96 006 882.52** | **40 207 193.60** |
| | | | |
| **Cash flow from investing activities** | | | |
| Disposal of property, plant and equipment and intangible assets | | 295 374.01 | 68 699.19 |
| Purchase of property, plant and equipment and intangible assets | | -34 089 738.14 | -48 446 232.38 |
| Disposal of subsidiary company | | 4 000.00 | – |
| Interest received | | – | 766.05 |
| Loans granted | | -5 000.00 | -5 000.00 |
| Realised gains/ (losses) on derivative financial instruments | | -6 784.90 | 3 249 751.41 |
| **Net cash flow from investing activities** | | **-33 802 149.03** | **-45 132 015.73** |

## CONSOLIDATED STATEMENT OF CASH FLOW (cont.)
## For the year ended 31 December 2018

| | Note | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|---|
| **Cash flow from financing activities** | | | |
| Inflow from share issue | | – | 2 990 241.75 |
| Dividends paid to equity holders of the parent | | -45 200 119.56 | -44 906 621.60 |
| Repayment of long-term loans and borrowings (including investment loans) | | -9 245 570.90 | -701 249.70 |
| Interest received | | 164 240.89 | 21 026.35 |
| Interest paid | | -944 346.31 | -1 040 555.97 |
| Subsidies received | | 1 973 758.31 | 7 330 851.29 |
| **Net cash flow from financing activities** | | **-53 252 037.57** | **-36 306 307.88** |
| Net increase/(decrease) in the balance of cash and cash equivalents | | **8 952 695.92** | **-41 231 130.01** |
| FX differences, net | | 18 428.49 | 449 174.24 |
| **Cash and cash equivalents at the beginning of the year** | 23 | **-90 672 570.18** | **-49 890 614.41** |
| **Cash and cash equivalents at the end of the year** | 23 | **-81 701 445.77** | **-90 672 570.18** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 December 2018

| | | *Attributable to equity holders of the parent* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | *Issued capital* | *Reserve capital* | *Capital from revaluation of incentive scheme* | *Cumulative translation differences* | *Retained earnings/ (unabsorbed losses)* | *Total* | *Non-controlling interest* | *Total shareholders' equity* |
| **As at 1 January 2018** | **24, 25** | **1 547 949.30** | **301 570 981.51** | – | **-1 703 930.94** | **202 396 264.59** | **503 811 264.46** | – | **503 811 264.46** |
| Net profit for the year | | – | – | – | – | **74 345 579.32** | **74 345 579.32** | – | **74 345 579.32** |
| Other comprehensive income, net, for the year | | – | – | – | -350 996.12 | – | -350 996.12 | – | -350 996.12 |
| **Comprehensive income for the year** | | – | – | – | **-350 996.12** | **74 345 579.32** | **73 994 583.20** | – | **73 994 583.20** |
| Cost of incentive scheme | | – | – | 1 138 998.28 | – | – | 1 138 998.28 | – | 1 138 998.28 |
| Settlement of incentive scheme | | – | – | – | – | – | – | – | – |
| Transfer to reserve capital | | – | 33 244 647.69 | – | – | -33 244 647.69 | – | – | – |
| Allocation of part of reserve capital to dividend payment | | – | -5 097 940.49 | – | – | 5 097 940.49 | – | – | – |
| Dividend payment | | – | – | – | – | -45 200 119.56 | -45 200 119.56 | – | -45 200 119.56 |
| **As at 31 December 2018** | | **1 547 949.30** | **329 717 688.71** | **1 138 998.28** | **-2 054 927.06** | **203 395 017.15** | **533 744 726.38** | – | **533 744 726.38** |

| | Attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Note* | *Issued capital* | *Reserve capital* | *Capital from revaluation of incentive scheme* | *Cumulative translation differences* | *Retained earnings/ (unabsorbed losses)* | *Total* | *Non-controlling interest* | *Total shareholders' equity* |
| **As at 1 January 2017** | **24, 25** | **1 537 898.00** | **235 749 124.75** | **817 473.00** | **2 977 769.91** | **238 552 492.15** | **479 634 757.81** | – | **479 634 757.81** |
| Net profit for the year | | – | – | – | – | **70 685 082.35** | **70 685 082.35** | – | **70 685 082.35** |
| Other comprehensive income, net, for the year | | – | – | – | -4 681 700.85 | – | -4 681 700.85 | – | -4 681 700.85 |
| **Comprehensive income for the year** | | – | – | – | **-4 681 700.85** | **70 685 082.35** | **66 003 381.50** | **–** | **66 003 381.50** |
| Increase in issued capital | | 10 051.30 | 2 980 190.45 | – | – | – | 2 990 241.75 | – | 2 990 241.75 |
| Cost of incentive scheme | | – | – | 89 505.00 | – | – | 89 505.00 | – | 89 505.00 |
| Settlement of incentive scheme | | – | – | -906 978.00 | – | 906 978.00 | – | – | – |
| Transfer to reserve capital | | – | 62 841 666.31 | – | – | -62 841 666.31 | – | – | – |
| Dividend payment | | – | – | – | – | -44 906 621.60 | -44 906 621.60 | – | -44 906 621.60 |
| **As at 31 December 2017** | | **1 547 949.30** | **301 570 981.51** | – | **-1 703 930.94** | **202 396 264.59** | **503 811 264.46** | – | **503 811 264.46** |

# ACCOUNTING POLICIES AND NOTES

## 1. General information

The Alumetal S.A. Capital Group (the „Group") is composed of ALUMETAL S.A. („parent company", "parent", the „Company" or „Alumetal") and its subsidiary companies (see Note 2). The attached consolidated financial statements of the Group cover the year ended 31 December 2018 and contain the comparative data for the year ended 31 December 2017.

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

The parent company was granted statistical REGON No. 357081298.

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

The main area of business activities of the Group includes:

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

In the year ended 31 December 2018, there were no changes to the scope of business activities of the Group compared to the year ended 31 December 2017.

## 2. Composition of the Group

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

| *Entity* | *Registered office* | *Scope of business activities* | *% in the share capital* | |
|---|---|---|---|---|
| | | | *31 Dec 2018* | *31 Dec 2017* |
| Alumetal Poland sp. z o.o. | Nowa Sól, Poland | Production | 100% | 100% |
| T + S sp. z o.o. | Kęty, Poland | Production | 100% | 100% |
| Alumetal Kęty sp. z o.o. | Kęty, Poland | No operating activities | – | 100% |
| Alumetal Group Hungary Kft. | Komarom, Hungary | Production | 100% | 100% |

On 26 July 2018, the Extraordinary Annual General Meeting of Alumetal Kęty sp. z o.o. resolved to dissolve the company and open winding-up procedure as of 31 July 2018. After that on 5 October 2018, 100% of shares in the liquidated company was sold by Alumetal S.A.

As at 31 December 2018 and 31 December 2017, the Company's share in the total number of votes in the subsidiary companies equated to the Company's' share in the equity of those companies.

# 3. Management Board of the parent

As at 31 December 2018, the composition of the Management Board of the Company was as follows:

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

On 21 August 2018, the Company received from Mr Szymon Adamczyk written resignation letter from the post of the President of the Management Board with effect as at 30 September 2018. The Company informed the public about this fact by publishing current report No. 19/2018 on 21 August 2018.

On 3 October 2018, the Supervisory Board appointed Mr Marek Kacprowicz as President of the Management Board, and the Company informed the public about this fact in its current report No. 27/2018 of 3 October 2018.

During the period from the reporting date to the date of the authorization of these financial statements there were no changes in the composition of the Company's Management Board.

# 4. Authorisation of consolidated financial statements

These consolidated financial statements were authorised for issue by the Management Board on 21 March 2019.

# 5. Professional judgment and accounting estimates

## 5.1. Professional judgment

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

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

***Revenue recognition***

Revenue is recognized to the extent that it is probable that the Group will obtain economic benefits related to the given transaction and the amount of revenue can be reliably measured. Revenue is recognised at the fair value of the consideration received or receivable, less value added tax and discounts/ rebates/ concessions, if any. In revenue recognition, the following criteria are also binding:

- revenue is recognised when the control over goods for resale, products, materials or waste has passed to the buyer and when the amount of the revenue can be measured in a reliable manner;
- with respect to the sale of goods for resale, products, materials or waste, the sale contract contains only one performance obligation – sale of the given goods. Revenue is recognised at a specific point in time i.e. when the customer obtains control of a promised asset (goods for resale).

***Functional currency***

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

***Presentation of overdraft facilities***

Due to the fact that the Management Board of the Company considered overdraft facilities an integral part of cash and cash equivalents management, in accordance with the IFRS Guidelines, for the purpose of preparation of the

consolidated statement of cash flow, the Group presented overdraft facilities as a reduction of the balance of cash and cash equivalents.

## 5.2. Uncertainty of estimates and assumptions

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

***Depreciation/ amortisation rates***

The value of depreciation/ amortisation rates and charges is determined based on the expected useful life of the given item of property, plant and equipment or intangible assets, and estimates regarding residual values of property, plant and equipment. Capitalized overhauls/ periodic repair expenditures are amortised over the period remaining to the expected commencement of the next overhaul or periodic repair of the given item of property, plant and equipment. Group entities perform annual verification of the adopted useful lives of their assets based on current estimates. Verification of assets' useful life performed in 2018 did not have any material effect on the change in the depreciation/ amortization charges in the subsequent years. The applied economic useful life of individual classes of the Company's assets is presented in the table in Note 8.4.

***Receivables and inventories impairment write-downs***

The Group uses a provision matrix to measure the value of expected credit losses on trade receivables. In order to determine the expected credit losses, trade receivables are grouped, based on similar credit risk characteristics. The Group uses its historical data on credit losses, adjusted, where appropriate, by the impact of information relating to the future.

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

***Deferred tax assets***

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

A special title for the deferred tax asset is deferred tax asset relating to possible utilisation of public aid in the form of partial income tax exemption (tax credit), as described in more detail in Note 14.3. The estimation of deferred tax asset from this title (public aid planned to be used in the subsequent years) and recognition of this asset was performed in accordance with IAS 12 *Income Taxes* and detailed regulations governing functioning of partial income tax exemption. In particular, this estimate was performed on the basis of forecasted tax results for the ensuing years. Any deterioration or improvement of realised tax results in the future may have impact on the level of estimated deferred tax asset.

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

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

***Valuation of provisions for employee benefits***

The provisions for employee benefits were estimated using the actuarial methods. In the years 2017 and 2018, except for a change in the retirement age, no significant changes occurred in the assumptions/ estimates with an impact on the Group's financial result or other comprehensive income in those periods. Interest rates fluctuations in the presented periods did not have any significant impact on the said provisions. Detailed information on provisions for employee benefits is presented in Note 20.1 and Note 27.1 to these consolidated financial statements.

***Valuation of provision for litigation***

Based on the accounting policy presented in Note 8.19, the Group creates a provision for litigation.

***Valuation of currency forward contracts***

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

***Valuation of incentive programs***

The fair value of the Incentive Program II is determined using the Monte Carlo simulation model, while that of the Incentive Program III – using the finite difference method (the FDM method) being the numerical method for solving differential equations and the so-called Longstaff-Schwartz method. Detailed information on these programs and their measurement is presented in Note 20.2 to these consolidated financial statements.

***Impairment of assets***

An assessment is made at each reporting date to determine whether there is any objective evidence that an asset may be impaired, and, if such evidence exists, an impairment test is performed. During the course of impairment indicator analysis performed in accordance with IAS 36 *Impairment of assets,* the Management Board of the parent analysed, among others, evidence deriving from the internal reporting as well as the factors obtained from the external sources of information which were described in more detail in Note 8.24.3 to these consolidated financial statements. Given the identified loss indicators, an impairment test was performed for the assets relating to the activities of the subsidiary company, Alumetal Group Hungary Kft. The performed test did not confirm said assets impairment. The test used the forecasts for 5 years (i.e. 2019 - 2023) and for the residual period. Applied in the calculations was a 4.34% discount rate, which according to the Management reflected in the best way the risk and the weighted average cost of capital (WACC) for the industry, in which the Alumetal Group entities operate. For the residual period, the 0% growth rate was adopted. Over the forecast period, the values arise from the adopted long-term production and operating strategy of the Alumetal Group companies basing on such assumptions as future changes in the prices of aluminium, raw materials and energy, future revenues, costs, cash flows, weighted average cost of capital, impact of the prospective and enacted Polish and European regulatory changes as well as the expected macroeconomic situation, which all depend on future market and economic conditions.

The performed sensitivity analysis confirmed a relatively low sensitivity of results to changes in the key parameters listed above.

***Uncertain tax treatment***

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

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

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

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

activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

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

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

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

# 6. Basis of preparing consolidated financial statements

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

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

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

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

## 6.1. Statement of compliance

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

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

Some of the Group's subsidiary companies keep their books of accounts in accordance with the accounting policies specified in the Accounting Act dated 29 September 1994 ("the Accounting Act") with subsequent amendments, and in accordance with the regulations issued based on that Act ("Polish Accounting Standards") and in accordance with Hungarian Accounting Standards ("Hungarian Accounting Standards"). These consolidated financial statements include certain adjustments which are not present in the books of account of Group companies, but which were introduced to achieve the compliance of the financial statements of those companies with the IFRSs.

## 6.2. Functional and presentation currency

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

# 7. Changes in estimates

Changes in estimates in the key areas referred to in Note 5 above, including:
- impairment write-downs of receivables and inventories – Note 21 and Note 22;
- provision for litigation – Note 27.2;
- valuation of incentive scheme – Note 20.2;
- deferred tax asset – Note 14.3

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

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

# 8. Significant accounting policies

## 8.1. Basis of consolidation

These consolidated financial statements comprise the annual financial statements of Alumetal S.A. and annual financial statements of its subsidiaries prepared, in each case, as at 31 December 2018 and for the year then ended.

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

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

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

• power over this entity,

• exposure, or rights, to variable returns from its involvement with the entity, and

• the ability to use its power over the entity to affect the amount of its returns.

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

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

• the size of its holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

• potential voting rights held by the Company, other vote holders or other parties;

• rights arising from other contractual arrangements; and

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

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

## 8.2. Re-measurement to fair value

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

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

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

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

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

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

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

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

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

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

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

## 8.3. Foreign currency translation

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

At the reporting date, monetary assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP rate prevailing for the given currency at the year-end. Exchange differences resulting from translation are recorded, as appropriate, under finance income or finance costs, or – in cases defined in accounting policies – are capitalised in the cost of the assets.

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

The following exchange rates were used for valuation purposes:

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| USD | 3.7597 | 3.4813 |
| EUR | 4.3000 | 4.1709 |
| CZK | 0.1673 | 0.1632 |
| 100 HUF | 1.3394 | 1.3449 |

In 2018, the functional currency of foreign subsidiary company was Hungarian forint (HUF). At the reporting date, assets and liabilities of the foreign subsidiary are translated into Group presentation currency at the exchange rate prevailing at the reporting date, while its statement of comprehensive income is translated at the weighted average rate of exchange for the given reporting period. Any resultant exchange differences are recognized under other comprehensive income and accumulated under separate item of the shareholder's equity *(Cumulative translation differences).* Where a foreign subsidiary is disposed of, the deferred foreign exchange differences accumulated in the shareholders' equity are taken to the profit or loss.

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

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| 100 HUF | 1.3339 | 1.3767 |

## 8.4. Property, plant and equipment

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

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

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

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on de-recognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss for the period in which de-recognition took place.

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

## 8.5. Intangible assets

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

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

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

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

***Research and development costs***

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

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

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

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

***Reach costs***

It is the Group policy to capitalize license-obtaining costs in the Reach system. Along with Reach system product registration, the right is obtained to the production and sale of the products which bring about economic benefits. In addition, assets originating as a result of registration may not be separated from the entity, they rather result from a legal title. Such assets are of non-monetary character and do not have physical form.

Subject to capitalization are the costs directly allocable to the concrete registration. Such costs include, among others, registration fee. The Reach-based costs are recognised in other intangible assets and are amortized over the same period as tangible fixed assets used for underlying product development.

## 8.6. Leases

***The Group as lessee***

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to the ownership of a leased item, are recognized in the statement of financial position at the inception of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned

between finance charges and reduction of the outstanding lease liability so as to produce a constant rate of interest on the outstanding liability. Finance charges are recorded directly in the profit or loss, unless capitalization criteria have been fulfilled.

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

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

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

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

## 8.7. Impairment of non-financial long-term assets

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

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

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

## 8.8. Borrowing costs

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

## 8.9. Financial assets – accounting policy applied starting from 1 January 2018

*Classification of financial assets*

Financial assets are classified into one of the following categories:

- measured at amortised cost,
- measured at fair value through profit or loss,
- measured at fair value through other comprehensive income.

The Group classifies a financial asset based on its business model for managing financial assets and the asset's contractual cash flow characteristics (the so-called SPPI test). The Group re-classifies its investments in debt instruments if, and only, if the model for managing these assets changes.

*Measurement upon initial recognition*

Except for certain trade receivables, upon initial recognition, the Group measures its financial assets at fair value, which – in case of financial assets which are not measured at fair value through profit or loss – is increased by the transaction costs directly attributable to the acquisition of these financial assets.

*De-recognition*

Financial assets are de-recognised, where:

- the rights to obtain contractual cash flows from those financial assets have expired, or
- the rights to obtain contractual cash flows from the financial assets have expired, and the Group transferred substantially all the risk and all rewards arising from the ownership of the assets.

*Measurement after initial recognition*

After initial recognition, financial assets are classified into one of the following four categories:

- debt instruments measured at amortised cost,
- debt instruments measured at fair value through other comprehensive income,
- equity instruments measured at fair value through other comprehensive income,
- financial assets at fair value through profit or loss.

*Debt instruments – financial assets measured at amortised cost*

A financial asset is measured at amortised cost, if both of the following conditions are fulfilled:

a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Classified to the category of financial assets measured at amortised cost are the following items:

- trade receivables,
- loans meeting the requirements of the SPPI test, which in accordance with the business model are held to collect contractual cash flows,
- cash and cash equivalents.

Interest revenue is calculated using the effective interest rate method and is reported in the statement of comprehensive income under „Finance income".

*Debt instruments – financial assets at fair value through other comprehensive income*

A financial asset is measured at fair value through other comprehensive income, if both of the following conditions are met:

a) the asset is held in a business model whose objective is achieved both by collecting contractual cash flows and selling financial asset; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest revenue, FX differences and revaluation gains and impairment losses are calculated in the same manner as in the case of financial assets measured at amortised cost. Other fair value changes are recognised through other comprehensive income. When the asset is de-recognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to financial result.

Interest revenue is calculated using the effective interest rate method and is reported in the statement of comprehensive income under „Finance income".

*Equity instruments – financial assets measured at fair value through other comprehensive income*

Upon initial recognition, the Group may make an irrevocable choice regarding recognition in other comprehensive income of any following changes in the fair value of an investment in equity instrument which is not held for trading and is not a contingent payment recognised by an acquirer in a transaction of business combination, as provided in IFRS 3. Such choice is made separately for each equity instrument. The accumulated gains or losses previously recognised in other comprehensive income are reclassified to the financial result. Dividend income is recognized in the statement of comprehensive income when the shareholder rights to receive the payment are established, unless dividend represents the recovery of some investment costs.

*Financial assets measured at fair value through profit or loss*

A financial asset which does not meet the criteria of measurement at amortised cost or at fair value through other comprehensive income is measured at fair value through profit or loss.

Any gain or loss on re-measurement of debt instruments to fair value is recognised in profit or loss.

Dividend income is recognized in the statement of comprehensive income when the shareholder rights to receive the payment are established,

Where the Group:

- has a legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously;

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

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

## 8.10. Impairment of financial assets – accounting policy applied starting from 1 January 2018

The Group estimates the expected credit losses („ECL") relating to debt instruments measured at amortised cost or at fair value through other comprehensive income, irrespective of whether impairment loss indicators occurred or not.

For trade receivables, simplified approach is applied whereby the expected credit losses are measured in the amount of the life-period expected credit losses using the provisions matrix. Credit loss historical data are used, adjusted, where appropriate, by the impact of information regarding the future.

In the case of all other financial assets, the expected credit losses are measured in the amount of 12-month expected credit losses. Where credit risk relating to the given financial instrument increased materially from the moment of instrument initial recognition, the expected credit losses on that instrument are measured in the amount of instrument's life-period credit losses.

## 8.11. Financial assets – accounting policy applied before 31 December 2017

Financial assets are classified into one of the following categories:

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

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

maturity, other than:

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

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

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

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

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

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

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

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

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

Where the Group:

- has a legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously;

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

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

## 8.12. Impairment of financial assets – accounting policy applied before 31 December 2017

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

### *8.12.1. Assets carried at amortised cost*

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

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

### *8.12.2. Financial assets carried at cost*

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

### *8.12.3. Available-for-sale financial assets*

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

## 8.13. Derivative financial instruments and hedges

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

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

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

## 8.14. Inventories

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

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

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

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

## 8.15. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for the entire life-period's expected credit losses.

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

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

## 8.16. Cash and cash equivalents

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

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

## 8.17. Interest-bearing loans and borrowings and debt securities

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

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

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

## 8.18. Trade and other payables

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including bifurcated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities at fair value through profit or loss are re-measured to fair value, after considering their market value at the reporting date without transaction costs. Any changes in the fair value of these liabilities are recognised in the statement of comprehensive income as finance income or finance cost, except for own credit risk changes for the financial liabilities that were originally classified to the category of instruments measured at fair value through profit or loss, and which as of 1 January 2018 have been recognised in other comprehensive income.

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

A financial liability is derecognized [removed from the statement of financial position] by the Group when the obligation under the liability is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instrument with substantially different terms is accounted for by the Group as an extinguishment of the original financial liability and the recognition of a new financial liability.

Prior to 1 January 2018, any significant modifications to the terms and conditions of an existing financial liability were treated as an extinguishment of the original financial liability and the recognition of a new financial liability with any resultant differences in the respective carrying amounts taken to profit or loss.

As of 1 January 2018, in case of modification to the terms and conditions of an existing financial liability which does not result in discontinuation of recognition of an existing financial liability, any gain or loss has been recognised immediately in the profit or loss. Gain or loss is calculated as a difference between present value of modified and original cash flows, discounted using the original interest rate of liability.

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

## 8.19. Provisions

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

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

## 8.20. Employee benefits

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

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

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

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

## 8.21. Incentive programs

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

### *8.21.1. Transactions settled in equity instruments*

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

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

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

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

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

## 8.22. Allocation of profit for employee purposes and special funds

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

## 8.23. Revenue

### *8.23.1. Revenue from contracts with customers – accounting policy applied starting from 1 January 2018*

The Group applies IFRS 15 *Revenue from contracts with customers* to all contracts with customers, except for lease agreements which are within the scope of IFRS 16 *Leases,* financial instruments, rights and contractual liabilities which are within the scope of IFRS 9 *Financial instruments,* IFRS 10 *Consolidated financial statements,* IFRS 11 *Joint arrangements,* IAS 27 *Separate financial statements and* IAS 28 *Investments in associates and joint ventures.*

The core principle of IFRS 15 is recognition of revenue at the time of transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. This core principle is applied in a five-step model framework:

- the contract with a customer has been identified,
- the performance obligations in the contract have been identified,
- the transaction price has been determines,
- the allocation was made of the transaction price to the performance obligations in the contract,
- revenue was recognised when the entity satisfied a performance obligation.

*Identification of the contract with the customer*

The Group recognises a contract with the customer, if all the following conditions are met:

- the parties to the contract have concluded the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- the Group can identify each party's rights regarding the goods or services to be transferred;
- the Group can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the Group may expect that as a result of the contract its risk, timing or the amount of future cash flows will change); and
- it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or service that will be transferred to the customer.

In assessing whether the collection of the consideration is probable, the Group accounts solely for the capacity and intent of the customer to pay the consideration in the appropriate moment in time. The amount of the consideration to which the Group will be entitled shall not be lower than the price stated in the contract, if the consideration is variable, as the Group may offer price concession to the customer.

*Identification of performance obligations in the contract*

At the inception of the contract, the Group assesses the goods or services that have been promised to the customer and identifies as a performance obligation each good or service (or bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service promised to the customer is distinct if both of the following criteria are fulfilled:

- the customer can benefit from the good or service on its own or in conjunction with other readily available resources, and
- the Group's promise to transfer the good or service to the customer is separately identifiable from other performance obligations in the contract.

*Determining the transaction price*

In determining the transaction price, the Group accounts for the terms of the contracts and its other customary business practices. The transaction price is the amount to which the Group expects to be entitled in exchange for the transfer of goods and services, except for the amounts collected on behalf of third parties (for example, certain sales taxes). The consideration determined in the contract with customer may include fixed, variable or both such amounts.

*Variable consideration*

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. The Group estimates an amount of variable consideration by using either of the following methods, depending on which method the Group expects to better predict the amount of consideration to which it will be entitled:

- the expected value – the expected value is the sum of probability-weighted amounts, in a range of possible consideration amounts. The expected value may be an appropriate estimate of the amount of variable consideration if the Group has a large number of contracts with similar characteristics.
- the most likely amount – the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, the Group either achieves a performance bonus or not).

The Group includes in the transaction price a part or all of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

*Allocating the transaction price to performance obligations*

The Group allocates the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

*Principal versus agent considerations*

Where another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group operates as a principal if it controls the promised good or service before that good or service is transferred to a customer. The Group does not necessarily control a specified good or service if it obtains legal title to that good only momentarily before a legal title is transferred to a customer. The Group that is a principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of the performance obligation on its behalf. If this is the case, the Group recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

The Group operates as an agent, if its performance obligation is to arrange for the provision of the specified good or service by another party. If this is the case, the Group recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

*Variable consideration*

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer and includes in the transaction price a part or all of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

*Non-cash consideration*

For contracts, in which a customer promised consideration in a form other than cash, in order to determine the transaction price, the Group measures the non-cash consideration (or promise of non-cash consideration) at fair value. Where the Group cannot reasonably estimate the fair value of the non-cash consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

*Warranties*

The Group issues a warranty for sold products that provides a customer with assurance that the given product complies with the agreed-upon specifications. The Group recognises such warranties in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

Certain non-standard contracts with customers include extended warranties. Such warranties represent a separate service which is recognised as a performance obligation, to which part of transaction price is allocated.

*Contract asset*

Recognised in contract assets is the Group's right to consideration in exchange for goods or services it has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the Group's future performance). The Group recognises an impairment loss for contract assets in the same manner as for the financial assets in accordance with IFRS 9.

*Receivables*

Recognised in receivables is the Group's right to consideration in exchange for goods or services it has transferred to a customer when that right is unconditional (the only condition for consideration payment is the payment period). The Group recognises receivables in accordance with IFRS 9. Upon initial recognition of receivables from contracts with customers, any difference between IFRS-9 based receivables valuation and the matching amount of revenues recognised earlier, is recognised as contract cost (impairment loss).

*Contract liability*

It is a performance obligation of the Group to transfer goods or services to a customer for which the Group has received consideration (or the amount is due) from the customer.

*Assets from sale with a right of return*

Included in the assets from sale with a right to return is the right to recover products from customers on refund liability settlement.

*Refund liability*

The Group recognises a refund liability if it receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) for which the Group does not expect to be entitled (i.e. amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, in contract liability) is updated at the end of each reporting period for changes in circumstances.

### *8.23.2. Revenue – accounting policy applied before 31 December 2017*

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

### *8.23.3. Sale of goods for resale, finished goods (products), raw materials and scrap*

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

### *8.23.4. Rendering of services*

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

### *8.23.5. Interest*

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

### *8.23.6. Dividends*

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

### *8.23.7. Government grants*

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

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

## 8.24. Income taxes

### *8.24.1. Current tax*

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

### *8.24.2. Deferred tax*

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

Deferred tax liability is recognised for all taxable temporary differences:

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

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

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period

in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

### *8.24.3. Tax credits*

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

| **Type of permit/ license** | **Validity date** |
|---|---|
| License No. 92/ARP S.A./2004 of 14 July 2004 to conduct business operations in the Tarnobrzeska SEZ in the Gorzyce production plant (with changes). | 31 December 2026 |
| License No. 189/ARP S.A./2010 of 1 July 2010 to conduct business operations in the Tarnobrzeska SEZ in the Gorzyce production plant. | 31 December 2026 |
| License No. 216/ARP S.A./2011 of 8 December 2011 to conduct business operations in the Tarnobrzeska SEZ in the Gorzyce production plant. | 31 December 2026 |
| License No. 260/ARP S.A./2014 of 28 May 2014 to conduct business operations in the Tarnobrzeska SEZ in the Gorzyce production plant. | 31 December 2026 |
| License No. 319/ARP S.A./2016 of 27 September 2016 to conduct business operations in the Tarnobrzeska SEZ in the Gorzyce production plant. | 31 December 2026 |
| License No. 163 of 15 July 2008 to conduct business operations in the Kostrzyńsko-Słubicka SEZ in the Nowa Sól production plant (with changes). | 31 December 2026 |
| License No. 217 of 22 March 2012 to conduct business operations in the Kostrzyńsko-Słubicka SEZ in the Nowa Sól production plant. | 31 December 2026 |
| License No. 247 of 29 April 2014 to conduct business operations in the Kostrzyńsko-Słubicka SEZ in the Nowa Sól production plant. | 31 December 2026 |
| License No. 343 of 4 July 2018 to conduct business operations in the Kostrzyńsko-Słubicka SEZ in the Nowa Sól production plant. | |

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

SEZ licenses are of conditional nature and define the scope of business activities and the terms and conditions for their conducting, and relate, among others, to: (i) the number of persons employed to conduct business activities in a SEZ in a defined period of time; (ii) entrepreneur investment expenditure in a SEZ in the amount exceeding a certain pre-determined amount; (iii) deadline for investment completion; (iv) maximum value of investment's qualified costs and 2-year qualified labour costs. The Act on SEZ provides for a possibility of a loss of, or restriction of rights under the given license, if at least one of the below circumstances materialise: (i) an entity ceases to conduct in a SEZ business operations covered by the license; (ii) an entity grossly violates the terms and conditions set forth in the license; (iii) it does not remove defaults identified during control within the timeframe set for defaults removal.

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

Under the license of 22 March 2012, the Group was required to incur investment expenditure at the minimum level of PLN 25 million and the maximum level of PLN 37.5 million by 31 December 2015, and to increase the employment level to 125 persons in the Kostrzyńsko-Słubicka SEZ by 31 December 2013 and to maintain this headcount to 31 December 2018. As at 31 December 2018, under this license, the Group incurred qualified expenditure with respect to the Kostrzyńsko-Słubicka SEZ in the amount of PLN 37.3 million and the employee headcount was 167 persons (as at 31 December 2017 - 169 persons).

Under the license of 29 April 2014, the Group was required to incur investment expenditure at the minimum level of PLN 12 million and the maximum level of PLN 18 million by 31 December 2017, and to increase the employment level to 141 persons in the Kostrzyńsko-Słubicka SEZ by 31 December 2014 and to maintain this headcount to 31 December 2019. As at 31 December 2018, under this license, the Group incurred qualified expenditure with respect to the Kostrzyńsko-Słubicka SEZ in the amount of PLN 17.4 million and the employee headcount was 169 persons (as at 31 December 2017 - 169 persons).

Under the license of 28 May 2014, the Group was required to: (i) incur investment expenditure in the Tarnobrzeska SEZ at the minimum level of PLN 8 million by 31 December 2017, and cumulatively not less than PLN 12 million to 31 December 2021, but not more than PLN 18 million, of which, as at 31 December 2018 the qualifying expenditure amounted to PLN 9.1 million, as well as to (ii) maintain employee headcount at minimum 126 persons by 31 December 2017, of which employee headcount as at 31 December 2018 was 152 persons, while as at 31 December 2017 – 139 persons.

Under the license of 27 September 2016, the Group was required to: (i) incur investment expenditure in the Tarnobrzeska SEZ at the minimum level of PLN 33.1 million by 31 December 2019, and cumulatively not less than PLN 55 million to 31 December 2023 but not more than PLN 71.5 million, of which, as at 31 December 2018 the qualifying expenditure amounted to PLN 55.9 million as well as to (ii) maintain employee headcount at minimum 134 persons by 31 December 2023, of which employee headcount as at 31 December 2018 was 152 persons, while as at 31 December 2017 – 169 persons.

Under the license of 4 July 2018, the Group was required to: (i) incur investment expenditure in the Kostrzyńsko Słubicka SEZ at the minimum level of PLN 20.0 million to 31 December 2021, but not more than PLN 26.0 million as well as to (ii) maintain employee headcount at minimum 170 persons by 31 December 2024, of which employee headcount as at 31 December 2018 was 167 persons, while as at 31 December 2017 - 169 persons.

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

In addition, the Alumetal Group Hungary Kft. was allowed to benefit from public aid in the form of partial income tax relief (tax credit) (in the years 2019 – 2028), based on the application for such tax relief for development purposes filed on 2 October 2014, as documented by the incurred qualified expenditure. In case of Alumetal Group Hungary Kft, the underlying obligation was to: (i) construct a production plant with a production capacity of at least 55 000 tons per year, with an average yearly employment headcount of 150 persons starting from 2019 over the period of 5 years, maintain plant as a going concern business over the period of at least 5 years and start plant operations not later than on 31 December 2018.

On 5 December 2018, the Management Board of Alumetal Group Hungary Kft. in agreement with the Management Board and Audit Committee of Alumetal S.A. decided to recognize valuation allowance for the full amount of deferred tax asset relating to business activities of the Hungarian entity due to the probability of not meeting the requirement of the parameter of minimum yearly average headcount of 150 persons which is the requirement posed by the Hungarian law for every investor to obtain public aid in the form of income tax exemption. Alumetal S.A. informed the public about this fact in its current report No. 31/2018 of 5 December 2018.

Assessment change of realization probability of said parameter measured against original business plan assumptions for the investment project „Construction of a production plant in Hungary" from 2014 is due to the following reasons:

a) permanent change in the supply structure of scrap raw materials at the Hungarian plant of the Alumetal Group that induced lower consumption of scrap raw materials requiring laborious metal management processes, which – in turn – reduced employment headcount at this plant,
b) implementation of several technological and organizational solutions that caused both production capacity improvement and the resultant sustainable lower demand for blue collar work force (production) against entity's original plans,
c) difficult situation on the Hungarian labour market which is characterized by low employee availability and raising pressure on wages, which had impact on said modification of the original business model.

Given the above, the Alumetal Group Hungary Kft., while having lower workforce demand as a result of said changes, most probably will not meet the requirement of minimum yearly average headcount level of 150 persons in 2019 and, in consequence, will not be able to use the tax credit, about which Alumetal S A. informed in its current report No. 17/2014 of 10 October 2014. In these circumstances, a decision was made to recognise valuation allowance for the entire amount of deferred tax asset relating to the unused public aid in the form of income tax exemption of HUF 940 287 853, which in 4Q 2018 reduced both the net result of the Alumetal Group Hungary Kft. and the reported consolidated net result of the Alumetal S.A. Capital Group.

At the same time, in 2014 the Alumetal Group Hungary Kft. received from the Hungarian government a binding offer for a government grant in the form of cash for this undertaking, and has accepted it; the underlying contract for the support finally became effective on 2 February 2016. The total value of government grant was HUF 1 480 211 000, which as at the date of the preparation of these financial statements was transferred to the company in full.

In 1Q 2018 and in 1Q 2019, annexes were signed that modified the contract in the part relating to beneficiary's obligations concerning employee headcount, contract security (performance bond) and the date for project realization. In the case of cash subsidy for Alumetal Group Hungary Kft, the company is currently obligated to: (i) construct a production plant with a production capacity of at least 55 000 tons per year (this obligation was already fulfilled); (ii) maintain yearly average employee headcount at 100 persons starting from 2019 to 2025 (with at least 2.7% of employees of higher education) while retaining total wage bill at a pre-defined level; (iii) maintain project life-period for at least 7 years, (iv) realize sales revenue at certain pre-defined level, and (v) start plant operation not later than on 31 December 2018.

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

As described in Note 5.2, in accordance with IAS 12 *Income Taxes* and detailed regulations governing functioning of partial exemption from income tax (tax credit) for Polish entities, based on the prepared forecasts the Group estimated and recognised the value of deferred tax asset relating to public aid planned to be used in the ensuing years (as described in more detail in Note14.3).

### *8.24.4. Value Added Tax*

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

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

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

## 8.25. Earnings per share

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

# 9. Changes in applied accounting policies

The accounting policies applied in the preparation of the attached financial statements are consistent with those applied in the preparation of the financial statements of the Group for the year ended 31 December 2017, except for the application of new or amended standards or interpretations which are effective for the annual periods commencing on or after 1 January 2018.

The Group applied for the first time IFRS 15 *Revenue from Contracts with Customers* („IFRS 15") and IFRS 9 *Financial instruments* („IFRS 9"). Other new or amended standards or interpretations which are effective for the annual periods commencing on or after 1 January 2018 do not have any material impact on the financial statements of the Group.

## 9.1. IFRS 15 Revenue from Contracts with Customers

IFRS 15 superseded IAS 11 *Construction Contracts*, IAS18 *Revenue* and the related interpretations and applies to all contracts with customers, except for those that are within the scope of other standards. The new standard has established the so-called "Five-step Model" for recognition of revenue from contracts with customers. In accordance with IFRS 15, revenue is recognised at the amount of a consideration, to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

The application of IFRS 15 requires that the Management of the parent company made professional judgments at each of the five steps of the established model.

The Group applied IFRS 15 using the simplified (modified) retrospective approach.

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

In addition, Alumetal S.A. regularly renders holding-related services, but only to other Alumetal Group companies.

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

***Sale of goods for resale, finished goods (products), raw materials and scrap***

Revenue is recognised where the control over goods for resale, finished goods, raw materials and scrap was passed to the buyer and where the amount of revenue can be measured in a reliable manner.

For the sale of goods for resale, finished goods (products), raw materials and scrap, customer contract contains only one performance obligation – sale of promised goods. The Group estimates that the impact of IFRS 15 implementation on recognition of revenue from contracts with customers and on the financial results of the Group is immaterial. Revenue is recognised at a specific moment in time i.e. where a customer assumes control over promised goods for resale.

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

*- Variable consideration*

In accordance with IFRS 15, where a contract contains elements of variable consideration, the entity estimates the amount of variable consideration, to which it will be entitled in exchange for transferring promised goods or services to a customer, and includes variable consideration in the transaction price, in whole or in part, if, and only to the extent, that is highly probable that its inclusion will not result in a reversal in the future of a considerable amount of earlier recognised accumulated revenue, when the uncertainty relating to variable consideration has been subsequently resolved.

The performed analysis proved that variable consideration practically does not occur as only several customers reserve the right to price concession for early consideration payment. In 2018, variable consideration arrangement related to only three customers, whose share in the total revenue for whole year 2018 was 0.36% (in 2017, this arrangement related also to only 3 customers whose sales revenue accounted for 0.23% of total sales revenue for 2017).

*- Right to return*

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

*- Warranties*

The Group issues guarantees for sold products which only ensure customers that the given product complies with the specification agreed by the parties, and, as such, do not represent an additional service. Group products are verified by customers for quality directly upon delivery or shortly afterwards, and so there is no possibility of large scale warranty returns between these two periods of time (Alumetal is responsible for delivered goods only to the moment of change of its physical-chemical features i.e. to the moment of melting). Customer complaints in the Alumetal Group in 2018 related to 0.09% of realised supplies (while in the whole year 2017 - to 0.04 % of delivered supplies).

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

The Group does not sell Product Bundles with respect to goods for resale, finished goods, raw materials and scrap, as well as in the case of rendering of production services (these are not stretched over time and are invoiced immediately after delivery to a customer of the object of service, which occurs systematically) and non-production services (invoiced systematically at least on a monthly basis).

*- Advance payments from customers*

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

Considering all, the Alumetal Group has ascertained that the impact of IFRS 15 implementation on recognition of revenue and on the financial result of the Group is negligible.

## 9.2. IFRS 9 Financial Instruments

IFRS 9 has superseded IAS 39 *Financial Instruments: Recognition and Measurement* and is applicable to annual reporting period commencing on or after 1 January 2018. IFRS 9 addresses the following three aspects relating to financial instruments: classification and measurement, impairment and hedge accounting.

The Group applied IFRS 19 as of its effective date with no comparative data restatement.

a) *Classification and measurement*

In accordance with IFRS 9, except for certain trade receivables, upon initial recognition, the entity measures its financial assets at fair value, which – in case of financial assets which are not measured at fair value through profit or loss – is increased by the transaction costs directly attributable to the acquisition of these financial assets.

After initial recognition, the entity measures financial assets at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss. The entity classifies a financial asset based on its business model for managing financial assets and the asset's contractual cash flow characteristics (the so called "SPPI test").

The classification and measurement of the financial assets of the Group in accordance with IFRS 9 is as follows:

i. Debt instruments measured at amortized cost held within a business model whose objective is to hold financial assets to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii. Debt instruments measured at fair value through other comprehensive income, for which accumulated profits or losses previously recognised under other comprehensive income are reclassified to profit or loss upon de-recognition.

iii. Equity instruments measured at fair value through other comprehensive income, for which accumulated profits or losses previously recognised under other comprehensive income *are not* reclassified to profit or loss upon de-recognition.

The Group assessed its business model at the date of first-time application of IFRS 9 i.e. at 1 January 2018 and then applied it retrospectively, irrespective of the business model used in prior reporting period, to these financial assets which did not cease to be recognised prior to 1 January 2018. The fulfilment of the SPPI test was assessed based on the facts and circumstances occurring at the time of financial asset initial recognition.

IFRS 9 does not introduce any significant changes in the classification and measurement of financial liabilities, except for the modifications which do not result in de-recognition of the existing financial liability. The new standard requires an entity to recognise any adjustment to the amortized cost valuation of a financial liability as an income or cost in the financial result upon modification.

b) *Impairment loss*

The application of IFRS 9 fundamentally changes the approach to the loss of value of financial assets by departing from the concept of *loss incurred* in favour of the *loss expected*, whereby the entire amount of expected credit loss is recognised *ex-ante*.

For trade receivables, simplified approach is applied whereby the expected credit losses are measured in the amount of the life-period expected credit losses using the provisions matrix. Credit loss historical data are used, adjusted, where appropriate, by the impact of information regarding the future.

In the case of all other financial assets, the expected credit losses are measured in the amount of 12-month expected credit losses. Where credit risk relating to the given financial instrument increased materially from the moment of instrument initial recognition, the expected credit losses on that instrument are measured in the amount of instrument's life-period credit losses.

Under the methods of valuation of receivables' impairment losses applied to date, the Group already accounted for the expected credit losses. Given the above, the amount of the impairment loss calculated in accordance with IFRS 9 approximates the amount of impairment loss determined based on the accounting policies that have been applied to date.

In conclusion, the Group has ascertained that the impact of IFRS 9 implementation on its financial statements is negligible.

## 9.3. Other

a) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation explains that the date of the transaction adopted for the purpose of determining the exchange rate that is to be used at the time of initial recognition of a related financial asset, expense or revenue (or part thereof) is the date of initial recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, a date of transaction is established for each consideration paid or received in advance.

This Interpretation does not have any material impact on the consolidated financial statements of the Group.

b) Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify when an entity shall transfer a property, including property under construction, to, or from, investment property. The amendments explain that a change in use occurs if a given property meets, or ceases to meet, the definition of investment property and evidence exists as to the property's change in use. A change in management's intentions alone as regards property use is not an evidence of a change in use.

These amendments do not have any material impact on the consolidated financial statements of the Group.

c) Amendments to IFRS 2 *The Classification and Measurement of Share-based Payment Transactions*

The International Accounting Standards Board (IASB) has published Amendments to IFRS 2 *Share-based Payment* to clarify the following areas: accounting for vesting conditions and conditions other than vesting conditions in the measurement of share-based payment arrangements settled in cash, recognition of share-based payment transactions with the feature of net settlement of withholding tax liabilities, recognition of modifications to the share-based payment arrangements that would change their classification from settled in cash to settled in equity instruments.

These amendments do not have any material impact on the consolidated financial statements of the Group.

d) Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

These amendments allow the entities that conduct insurance business to delay the date of application of IFRS 9 until 1 January 2021. As a result, the concerned entities may continue to prepare their financial statements in accordance with the binding standard i.e. IAS 39.

These amendments are not applicable to the Group.

e) Amendments to IAS 28 *Investments in Associates and Joint Ventures* representing part of Annual Improvements to IFRSs, Cycle 2014-2016

These amendments clarify that an entity that is a venture capital organisation, mutual fund, trust fund or other similar entity, including an insurance fund related to investments, may elect to measure at fair value through profit or loss an investment in an associate or a joint venture in accordance with IFRS 9. Such election is made on an investment-by-investment basis, upon initial recognition. If the entity which itself is not an investment entity holds investments in an associate or a joint venture which are investment entities, then this entity may, using the equity method, decide to continue the measurement method applied by this associate or joint venture who is an investment entity with respect to the investments of said entities in subsidiary companies. Such election is made on an investment-by-investment basis upon a) initial recognition of this associate or joint venture being an investment entity; b) on the date such associate or joint venture becomes an investment entity; c) on the date such associate or joint venture being an investment entity becomes a parent.

These amendments do not have any material impact on the consolidated financial statements of the Group.

f) Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards* representing part of Annual Improvements to IFRSs, Cycle 2014-2016

The short-term exemptions for application of other IFRSs provided in paragraphs E3-E7 of 1 were removed.

These amendments do not have any material impact on the consolidated financial statements of the Group.

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

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

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

- **IFRS 14** ***Regulatory Deferral Accounts*** (issued on 30 January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard; at the date of authorization of these consolidated financial statements, not endorsed by the EU; effective for annual periods beginning on or after 1 January 2016;
- **Amendments to IFRS 10** and **IAS 28** ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** (issued on 11 September 2014) – the work leading to the authorization of these amendments has been postponed by the EU *sine die*; the effective date for these amendments has been deferred by the IASB for an indefinite period of time;
- **IFRS 16** ***Leases*** (issued on 13 January 2016) – effective for annual periods beginning on or after 1 January 2019;
- **IFRS 17** ***Insurance Contracts*** (issued on 18 May 2017) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2021;
- **IFRIC 23** ***Uncertainty of Income Tax Treatments*** (issued on 7 June 2017) – effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IFRS 9** ***Prepayment features with negative compensation*** (issued on 12 October 2017) – effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IAS 28** ***Long-term Interests in Associates and Joint Ventures*** (issued on 12 October 2017) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IAS 19** ***Plan Amendment, Curtailment or Settlement*** (issued on 7 February 2018) – effective for annual periods beginning on or after 1 January 2019;
- **Annual Improvements to IFRSs, Cycle 2015-2017** (issued on 12 December 2017) – effective for annual periods beginning on or after 1 January 2019;
- **Amendments to References to the Conceptual Framework in IFRS Standards** (issued on 29 March 2018) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2020;
- **Amendments to IFRS 3** ***Business Combinations*** (issued on 22 October 2018) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2020;
- **Amendments to IAS 1 and IAS 8:** ***Definition of Materiality*** (issued on 31 October 2018) – at the date of authorization of these consolidated financial statements, not endorsed by the EU. Effective for annual periods beginning on or after 1 January 2020.

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

## 10.1. Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 *Leases* („IFRS 16"), which superseded IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 has established the principles for recognition, measurement, presentation and disclosure of leases.

IFRS 16 introduces a uniform model of lessee accounting and requires that lessees recognised assets and liabilities arising from each lease with the lease term exceeding 12 months, unless the identified asset is of low value. At the inception of a lease, the lessee recognises the right-of-use-assets and lease liability which stands for his obligation to make lease payments.

Lessees separately account for the amortization of the right-of-use assets and interest on lease liability.

Lessees are required to update lease liability after certain events materialised (e.g. change of lease term, change in future lease payments arising from change in index or rate used to determine such payments). In principle, update of lease liability measurement is recognised as an adjustment to the value of the right-of-use assets.

The Group is a lessee as regards fee for the right of perpetual usufruct of land and lease of tanks for technical gases.

Under IFRS 16, lessor accounting for leases has in principle remained unchanged compared to the current accounting under IAS 17. Lessors will continue to recognise all lease agreements using the same classification criteria as in IAS 17 and thus recognising operating and finance leases.

IFRS16 requires that both lessee and lessor provided more disclosures than under IAS 17.

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

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

The Group plans to implement IFRS 16 using the modified retrospective approach.

To summarize, the Group expects that the effect of IFRS 16 implementation will be as follows:

Impact on shareholders' equity (increase/ decrease) as at 31 December 2018

| | *Adjustments* | *in PLN** |
|---|---|---|
| Assets | | |
| Property, plant and equipment | increase | 2 662 648.28 |
| ***Total assets*** | | ***2 662 648.28*** |
| | | |
| Liabilities | | |
| Other financial liabilities (long-term) | increase | 2 466 096.19 |
| Trade and other financial liabilities | increase | 196 552.09 |
| ***Total liabilities*** | | ***2 662 648.28*** |

** values discounted using the annual discount rate of 4.34%*

# 11. Operating segments

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

**1) Casting alloys**

The main output of the production process of the Group are aluminium casting alloys (master alloys and casting alloys) produced in the form of one-notch ingots *(aluminiowe stopy odlewnicze produkowane w postaci gąsek dwudzielnych)* (of 6–8 kg), two-notch ingots (of approx. 13 kg) and in the form of waffle plates (wafers) (of approx. 12 kg) in the production plant in Nowa Sól and Gorzyce. Apart from solid casting alloys, the Alumetal Group delivers to its customers alloys in the form of liquid metal. The total real production capacity of the three Group production plants in 2016 amounted to 165.0 thousand tons per year.

At the end of September 2016, the Alumetal Group started the production activities in the newly- constructed plant in Hungary, in Komarom, which resulted in an increase in its production capacities to 225 thousand tons a year.

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

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

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

Casting alloys are delivered mainly to the customers of the automotive industry (approx. 90% of the volume sold), but also to such other industry segments as construction, metallurgy, machine, smelting and other.

Following completion in 3Q 2018 of the project called *Development of Master Alloy Plant in Gorzyce (Rozbudowa Zakładu Stopów Wstępnych w Gorzycach),* the Group obtained the possibility to sell master alloys in the form of wire (currently at the stage of production tests and customer validation) and increased its production capacity by further 12 thousand tons in the area of master alloys production. At the same time, the Group continued in 2018 with the operating activities to increase its productivity levels, which together with said development of master alloy plant in Gorzyce allowed to increase the production capacity of the Alumetal Group to 250 thousand tons per annum.

**2) Fluxes and salts**

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

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

**3) Other**

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

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

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

| **2018** | Casting alloys | Flux and salts | Other | Unallocated items | Consolidation exclusions | **Total** |
|---|---|---|---|---|---|---|
| Total volume (tons), of which: | 199 488 | 2 490 | 37 188 | - | -14 392 | 224 774 |
| *- inter-segment sales* | *1 873* | *2 354* | *10 165* | - | *-14 392* | - |
| Of which: | | | | | | |
| Volume of goods (tons), of which: | 199 488 | 2 457 | 4 898 | - | -9 125 | 197 718 |
| *- inter-segment sales* | *1 873* | *2 354* | *4 898* | - | *-9 125* | - |
| Volume of raw materials, scrap and services (tons), of which: | - | 33 | 32 290 | - | -5 267 | 27 056 |
| *- inter-segment sales* | - | - | *5 267* | - | *-5 267* | - |
| Volume of goods for resale (tons), of which: | - | - | - | - | - | - |
| *- inter-segment sales* | - | - | - | - | - | - |
| Sales of finished goods, raw materials, goods for resale and services, of which: | 1 629 970 906.30 | 5 655 181.06 | 85 514 806.99 | - | -65 800 399.44 | 1 655 340 494.91 |
| *- inter-segment sales* | *16 394 056.04* | *4 997 031.06* | *44 409 312.33* | - | *-65 800 399.44* | - |
| Cost of sales | -1 492 658 459.36 | -3 630 660.06 | -76 598 098.25 | - | 63 716 250.29 | -1 509 170 967.37 |
| **Gross profit on sales** | **137 312 446.94** | **2 024 521.00** | **8 916 708.74** | - | **-2 084 149.14** | **146 169 527.54** |
| Selling expenses | -31 567 631.51 | -184 238.76 | -88 978.11 | - | 10 215.24 | -31 830 633.14 |
| **Operating profit (before administrative expenses)** | **105 744 815.43** | **1 840 282.24** | **8 827 730.63** | - | **-2 073 933.90** | **114 338 894.40** |
| *% margin* | *6.5%* | *32.5%* | *10.3%* | - | - | *6.9%* |
| Administrative expenses | | | | -29 957 626.63 | 2 119 486.61 | -27 838 140.02 |
| Other operating income/ other operating expenses | | | | 4 369 915.41 | -30 556.80 | 4 339 358.61 |
| Depreciation/ amortization | | | | 30 606 846.81 | -65 570.12 | 30 541 276.69 |
| **EBITDA*** | | | | - | - | **121 381 389.68** |
| *% margin* | | | | - | - | *7.3%* |
| Finance income/ finance costs | | | | 44 717 804.16 | -45 012 462.72 | -294 658.56 |
| **Profit before tax** | | | | - | - | **90 545 454.43** |
| Income tax expense | | | | -16 199 875.11 | - | -16 199 875.11 |
| **Net profit for the year** | | | | - | - | **74 345 579.32** |

| **2017** | Casting alloys | Flux and salts | Other | Unallocated items | Consolidation exclusions | **Total** |
|---|---|---|---|---|---|---|
| Total volume (tons), of which: | 177 164 | 2 889 | 31 138 | - | -11 316 | 199 876 |
| *- inter-segment sales* | *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 |
| *- inter-segment sales* | *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 |
| *- inter-segment sales* | - | *39* | *2 817* | - | *-2 855* | - |
| Volume of goods for resale (tons), of which: | - | 0 | 770 | - | - | 770 |
| *- inter-segment sales* | - | *0* | - | - | - | - |
| 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 |
| *- inter-segment sales* | *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** |
| *% margin* | *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 |
| *% margin* | | | | - | - | *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** |

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

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

Assets and liabilities *are not* monitored by the Management Board at segment level. The reconciliation with the data presented in the statement of comprehensive income is as follows:

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

***Geographical information***

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

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

| *Customer location* | *Sales value (year ended 31 December 2018)* | *Sales value (year ended 31 December 2017)* | *Sales structure (year ended 31 December 2018)* | *Sales structure (year ended 31 December 2017)* |
|---|---|---|---|---|
| Poland | 536 928 958.95 | 533 808 395.80 | 32.4% | 36.7% |
| Germany | 301 462 764.55 | 314 859 060.54 | 18.2% | 22.6% |
| Other European countries | 816 948 771.41 | 607 573 219.21 | 49.4% | 40.7% |
| Total | 1 655 340 494.91 | 1 456 240 675.54 | 100% | 100% |

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

Both in 2018 and in 2017, the Group realised sales with a value exceeding 10% of its total annual revenue to the following business entities:

- the Volkswagen Group
- the Federal Mogul Group.

In 2018, similarly to 2017, the Group was not the customer of a supplier with purchases exceeding 10% of its total sales revenue.

# 12. Revenues and expenses

## 12.1. Revenue from contracts with customers

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Sales of finished goods | 1 614 268 081.62 | 1 411 691 458.05 |
| Sales of raw materials and scrap | 36 924 614.14 | 37 310 854.20 |
| Sales of goods for resale | – | 4 953 155.46 |
| Sales of services | 4 147 799.15 | 2 285 207.84 |
| | **1 655 340 494.91** | **1 456 240 675.54** |

## 12.2. Costs by type

| | *Note* | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|---|
| Depreciation/ amortization | 12.3 | 30 541 276.69 | 28 104 515.58 |
| Inventory impairment write-downs | 12.3 | 634 188.41 | -145 507.04 |
| Materials and energy | | 1 395 644 224.88 | 1 231 489 764.57 |
| External services, of which: | | 48 848 944.32 | 42 493 576.05 |
| - repair services | | 6 056 638.86 | 5 884 014.75 |
| - transport services | | 29 869 310.15 | 24 277 788.14 |
| - advisory services | | 892 828.96 | 815 452.24 |
| Taxes and charges | | 3 649 893.16 | 3 718 207.29 |
| Employee allowances | 12.4 | 59 884 394.13 | 53 775 420.76 |
| Other costs by type | | 3 763 458.96 | 3 754 771.95 |
| Cost of goods for resale, raw materials and scrap sold | | 31 840 840.62 | 32 121 988.46 |
| **Total costs by type, of which:** | | **1 574 807 221.17** | **1 395 312 737.62** |
| Items recognised in cost of sales | | 1 509 170 967.37 | 1 340 386 926.13 |
| Items recognised in selling expenses | | 31 830 633.14 | 25 708 310.04 |
| Items recognised in administrative expenses | | 27 838 140.02 | 24 270 976.18 |
| Change in stocks of finished goods | | 5 967 480.64 | 4 946 525.27 |

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

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Depreciation of property, plant and equipment | 26 788 940.74 | 24 848 090.60 |
| Amortization of intangible assets | 301 673.67 | 258 946.75 |
| Inventory impairment | 634 188.41 | -145 507.04 |
| **Included in cost of sales** | **27 724 802.82** | **24 961 530.31** |
| Depreciation of property, plant and equipment | 1 302 636.63 | 978 705.72 |
| **Included in selling expenses** | **1 302 636.63** | **978 705.72** |
| Depreciation of property, plant and equipment | 2 081 080.11 | 1 972 558.52 |
| Amortization of intangible assets | 66 945.54 | 46 213.99 |
| **Included in administrative expenses** | **2 148 025.65** | **2 018 772.51** |

## 12.4. Employee allowances

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Wages and salaries | 46 824 292.90 | 42 139 822.32 |
| Social security costs | 8 682 292.04 | 8 056 682.93 |
| Cost of incentive scheme | 1 138 998.28 | 89 505.00 |
| Retirement benefits | 108 019.04 | 194 580.29 |
| Amounts transferred to the Social Fund | 1 165 624.19 | 1 301 469.45 |
| Other employee benefits (training, health care, work hygiene and safety, meals and other) | 1 965 167.68 | 1 993 360.77 |
| **Total employee allowances, of which:** | **59 884 394.13** | **53 775 420.76** |
| Items recognised in cost of sales | 51 658 644.12 | 46 157 535.40 |
| Items recognised in selling expenses | 2 573 823.54 | 2 059 172.98 |
| Items recognised in administrative expenses | 5 651 926.47 | 5 558 712.38 |

## 12.5. Other operating income

| | *Note* | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|---|
| Gains on the sale of property, plant and equipment | | 145 184.91 | 50 431.88 |
| Subsidy (incl. recognition of accrued income) | 28.3 | 3 284 517.03 | 2 839 934.86 |
| Inflow from execution of contractors' recovery plan | 22 | 731 795.83 | 1 904 017.02 |
| Net effect of insurance expense and indemnities | | 167 197.85 | – |
| Received awards and compensations | | 145 407.07 | 98 057.62 |
| Other (total of non-material items) | | 276 663.43 | 183 784.33 |
| **Total other operating income** | | **4 750 766.12** | **5 076 225.71** |

### 12.6. Other operating expenses

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Penalties and compensations | 24 669.57 | 162 563.31 |
| Net effect of insurance expense and indemnities | – | 210 696.70 |
| Receivables impairment write-downs | – | 1 210 149.24 |
| Court fees | 376.70 | 80 051.61 |
| Donations granted | 32 709.09 | 44 139.84 |
| Cost of liquidation of property, plant and equipment | 7 820.00 | 88 586.91 |
| Other | 345 832.15 | 286 371.76 |
| **Total other operating expenses** | **411 407.51** | **2 082 559.37** |

### 12.7. Finance income

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Interest, of which: | 205 649.74 | 63 787.88 |
| - interest from business partners (receivables) | 41 408.85 | 42 761.53 |
| - bank interest | 164 240.89 | 21 026.35 |
| FX gains | 598 948.42 | – |
| Other | – | 766.05 |
| **Total finance income** | **804 598.16** | **64 553.93** |

### 12.8. Finance costs

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Interest on bank loans | 944 346.31 | 1 040 555.97 |
| Interest on trade and administrative liabilities | 17 319.71 | 16 880.76 |
| FX losses | – | 217 382.35 |
| Other | 137 590.70 | 141 328.26 |
| **Total finance costs** | **1 099 256.72** | **1 416 147.34** |

## 13. Components of other comprehensive income

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Cumulative translation differences | -350 996.12 | -4 681 700.85 |
| **Total components of other comprehensive income** | **-350 996.12** | **-4 681 700.85** |

# 14. Income tax

## 14.1. Tax expense

The main components of income tax expense for the year ended 31 December 2018 and 31 December 2017 are as follows:

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| **Recognised in profit or loss:** | | |
| *Current income tax:* | *3 407 133.00* | *3 701 674.00* |
| Current tax expense | 3 407 133.00 | 3 701 674.00 |
| *Deferred tax:* | *12 023 670.60* | *-7 205 412.64* |
| Relating to origination and reversal of temporary differences | 12 023 670.60 | -7 205 412.64 |
| *Local business tax* | 769 071.51 | 335 192.42 |
| Income tax reported in the consolidated profit or loss | 16 199 875.11 | -3 168 546.22 |

## 14.2. Reconciliation of effective income tax rate

The reconciliation of income tax on accounting gross profit calculated using the statutory tax rate and income tax on taxable profit calculated using the effective interest rate of the Group for the year ended 31 December 2018 and 31 December 2017 is as follows:

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Accounting gross profit from continuing operations | 90 545 454.43 | 67 516 536.12 |
| Accounting gross profit | 90 545 454.43 | 67 516 536.12 |
| Tax at statutory tax rate in Poland of 19% (in 2018 and 2017) | 17 203 636.34 | 12 828 142.00 |
| Utilisation of tax credit relating to SEZ operations | -18 366 938.40 | -14 318 359.56 |
| Effect of difference in tax rate of the foreign subsidiary | 121 557.57 | 856 486.69 |
| Local business tax at a foreign subsidiary | 769 071.51 | 335 192.42 |
| Effect of tax-exempted revenues and non-tax-deductible expenses, of which: | 298 382.70 | 99 146.37 |
| *- PFRON (National Disabled Persons Rehabilitation Fund) expenses* | *81 973.03* | *82 140.42* |
| *- cost of incentive scheme* | *216 409.67* | *17 005.95* |
| Effect of change in deferred tax asset relating to unused tax credits | 16 009 446.17 | -3 154 650.61 |
| Other | 164 719.22 | 185 496.48 |
| Tax expense at effective tax rate of 17.9% in 2018 (2017: (-) 4.7%) | 16 199 875.11 | -3 168 546.22 |
| Tax (expense)/ tax income reported in the consolidated profit or loss | 16 199 875.11 | -3 168 546.22 |

## 14.3. Deferred tax

| | *Consolidated Statement of Financial Position as at* | | *Effect of translation of foreign subsidiary recognised in the statement of financial position* | *Consolidated Statement of Comprehensive Income for the year ended* | |
|---|---|---|---|---|---|
| | *31 Dec 2018* | *31 Dec 2017* | *31 Dec 2018* | *31 Dec 2018* | *31 Dec 2017* |
| Difference between carrying amount and tax base of property, plant and equipment and intangible assets | 11 337 359.65* | 8 358 955.06* | -198.39 | 2 978 602.98 | 2 818 220.56 |
| Calculated compensations | -163.09 | -1 519.32 | | 1 356.23 | 5 510.68 |
| Accrued interest | -4 614.27 | -5 625.45 | | 1 011.18 | -2 210.02 |
| FX gains | -234 901.05 | -706 056.75 | | 471 155.70 | -281 295.02 |
| Provision for retirement benefits | 226 411.79 | 163 052.33 | | 63 359.46 | 40 954.65 |
| Receivables impairment write-down | 69 520.61 | 208 561.82 | | -139 041.21 | -57 309.18 |
| Inventories impairment write-downs | 17 398.51 | 21 812.38 | | -4 413.87 | 14 780.16 |
| Property, plant and equipment impairment write-down | 27 783.79 | 144 683.69 | | -116 899.90 | – |
| Unpaid wages, salaries and allowances | 508 397.90 | 397 136.51 | | 111 261.39 | -132 484.66 |
| FX losses | 338 300.10 | 1 003 567.33 | | -665 267.23 | 517 726.21 |
| Unpaid bank costs/ interest | 1 547.13 | 575.19 | | 971.94 | -3 623.59 |
| Provision for services | 46 211.82 | 15 035.59 | | 31 176.23 | 15 035.59 |
| Purchase of intangible services in excess of limit | 832 929.00 | – | | 832 929.00 | – |
| Tax loss | – | – | | – | -68 025.20 |
| Tax loss of the foreign subsidiary | 2 114 514.17 | 1 700 152.77 | -5 212.27 | 419 573.67 | 1 183 481.85 |
| Deferred tax asset relating to unused tax credits | 24 357 654.60 | 40 516 843.01 | -149 742.24 | -16 009 446.17 | 3 154 650.61 |
| **Deferred tax expense** | | | | **-12 023 670.60** | **7 205 412.64** |
| **Deferred tax asset/ liability, net, of which:** | | | | | |
| Deferred tax asset from continuing operations | 39 835 127.90 | 52 062 245.31 | | | |
| Deferred tax liability with respect to continuing operations | -196 777.24 | -245 071.15 | | | |

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

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

Alumetal Poland sp. z o.o. has conducted its business operations in the Kostrzyńsko-Słubicka Special Economic Zone and in the Tarnobrzeska Special Economic Zone based on appropriate licences, which define the terms and conditions that are required to be fulfilled to benefit from income tax relief (i.e. tax credit). These terms and conditions were presented in Note 8.24.3 of these consolidated financial statements.

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

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

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

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Qualified expenditure incurred to the reporting date at nominal value (after considering public aid intensity – 50% of the qualified expenditure and utilization through received subsidies*) | 116 045 109.75 | 96 720 177.75 |
| Utilised public aid from income tax relief at nominal value (after considering utilisation for the year ended on the last calendar day) | 105 190 971.49 | 86 824 033.49 |
| | **31 December 2018** | **31 December 2017** |
| Qualified expenditure incurred to the reporting date at discounted value as at the date of SEZ license award (after considering public aid intensity – 50% of the qualified expenditure and utilization through received subsidies*) | 103 379 123.60 | 84 991 554.19 |
| Utilised public aid from income tax relief at discounted value at the date of SEZ license award (after considering utilisation for the year ended on the last calendar day) | 81 512 292.20 | 65 273 306.82 |

* as at 31 December 2018, the total value of utilised public aid delivered in the form of subsidies in the years 2006-2011 amounted to PLN 21,151,281.44 at nominal value, and PLN 19,706,691.06 at discounted value as at the date of SEZ licenses award.

In addition, the Alumetal Group Hungary Kft. was allowed to benefit from public aid in the form of partial income tax relief (tax credit) in the period from 2019 to 2028, based on the application for such tax relief for development purposes filed on 2 October 2014, as documented by the incurred qualified expenditure. The conditions that this entity was to fulfil to be able to use the tax relief were presented in more detail in Note 8.24.3 of these consolidated financial statements.

On 5 December 2018, the Management Board of Alumetal Group Hungary Kft. in agreement with the Management Board and Audit Committee of Alumetal S.A. decided to recognize valuation allowance for the full amount of deferred tax asset relating to business activities of the Hungarian entity due to the probability of not meeting the requirement of the parameter of minimum yearly average headcount of 150 persons which is the requirement posed by the Hungarian law for every investor to obtain public aid in the form of income tax exemption. Alumetal S.A. informed the public about this fact in its current report No. 31/2018 of 5 December 2018.

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

The estimate of the Group as at 31 December 2018 was performed based on the long-term financial forecasts – forecasted tax results prepared to 2026 for Alumetal Poland. The amounts of recognised deferred tax asset are as follows:

- as at 31 December 2018 – PLN 24 357 654.60 for Alumetal Poland
- as at 31 December 2017 – PLN 22 264 123.33 for Alumetal Poland and PLN 18 252 719.68 for the Alumetal Group Hungary (total of PLN 40 516 843.01).

Change in the value of the deferred tax asset between said dates results mainly from the utilisation of public aid in this period (decrease in the deferred tax asset in correspondence with net profit) and from the incurred qualified investment expenditure in the period building up the pool of available public aid (increase in the deferred tax asset in correspondence with net profit), as well as from the recognition of valuation allowance for deferred tax assets relating to the operations of the Hungarian company.

Any deterioration or improvement of realised tax results in the future may have impact on the level of estimated deferred tax asset. Specifically, change in the forecasted tax results of Polish entities (given the pool of public aid available at the reporting date) does not bear any significant impact on the change in the estimate of this asset due to a relatively short period of time assigned for asset realization.

# 15. Earnings per share

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

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

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

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Net profit from continuing operations | 74 345 579.32 | 70 685 082.35 |
| **Net profit** | 74 345 579.32 | 70 685 082.35 |
| Weighted average number of outstanding ordinary shares used to calculate basic earnings per share (accounting for share split) | 15 479 493 | 15 479 493 |
| **Effect of dilution** | | |
| Share options relating to share-based payment, as provided under IFRS 2 *Share-based Payment* | 12 376 | - |
| Weighted average number of outstanding ordinary shares, adjusted for dilution effect (accounting for share split) | 15 491 869 | 15 479 493 |
| **Earnings per share** | | |
| - basic from the profit for the year | 4.80 | 4.57 |
| - diluted from the profit for the year | 4.80 | 4.57 |

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

# 16. Intangible assets

| **Year ended 31 December 2018** | *Patents and licenses* | *Reach licenses* | *Other* | *Intangible assets under construction* | *Total* |
|---|---|---|---|---|---|
| **Gross carrying amount as at 1 January 2018** | **625 249.98** | – | **2 980 201.18** | – | **3 605 451.16** |
| Purchases | – | – | – | 238 781.03 | 238 781.03 |
| Transfer from assets under construction | – | – | – | 1 036 172.26 | 1 036 172.26 |
| Transfer from intangible assets under construction | 84 659.96 | 379 913.61 | 70 312.80 | -534 886.37 | – |
| Cumulative translation differences | – | – | -58.55 | – | -58.55 |
| **Gross carrying amount as at 31 December 2018** | **709 909.94** | 379 913.61 | **3 050 455.43** | **740 066.92** | **4 880 345.90** |
| **Amortization and impairment as at 1 January 2017** | **290 997.27** | – | **1 711 532.10** | – | **2 002 529.37** |
| Amortization charge for the period | 79 426.54 | – | 289 192.67 | – | 368 619.21 |
| Cumulative translation differences | | | | | |
| **Amortization and impairment as at 31 December 2018** | **370 423.81** | – | **2 000 736.17** | – | **2 371 159.98** |
| **Net carrying amount as at 1 January 2018** | **334 252.70** | – | **1 268 669.08** | – | **1 602 921.80** |
| **Net carrying amount as at 31 December 2018** | **339 486.13** | 379 913.61 | **1 049 719.26** | **740 066.92** | **2 509 185.92** |

| **Year ended 31 December 2017** | *Patents and licenses* | *Other* | *Intangible assets under construction* | *Total* |
|---|---|---|---|---|
| **Gross carrying amount as at 1 January 2017** | **452 880.18** | **2 567 183.54** | **472 642.70** | **3 492 706.42** |
| Purchases | – | – | 113 569.80 | 113 569.80 |
| Transfer from intangible assets under construction | 172 369.80 | 413 309.69 | -585 679.49 | – |
| Cumulative translation differences | – | -292.05 | -533.00 | -825.06 |
| **Gross carrying amount as at 31 December 2017** | **625 249.98** | **2 980 201.18** | – | **3 605 451.16** |
| **Amortization and impairment as at 1 January 2017** | **230 865.58** | **1 466 504.62** | – | **1 697 370.20** |
| Amortization charge for the period | 60 131.69 | 245 029.05 | – | 305 160.74 |
| Cumulative translation differences | – | -1.57 | – | -1.57 |
| **Amortization and impairment as at 31 December 2017** | **290 997.27** | **1 711 532.10** | – | **2 002 529.37** |
| **Net carrying amount as at 1 January 2017** | **222 014.60** | **1 100 678.92** | **472 642.70** | **1 795 336.22** |
| **Net carrying amount as at 31 December 2017** | **334 252.70** | **1 268 669.08** | – | **1 602 921.80** |

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

# 17. Property, plant and equipment

**Year ended 31 December 2018**

| | Land (incl. perpetual usufruct right) | Buildings, premises and civil engineering objects | Plant and machinery | Motor vehicles | Other [tangible] fixed assets | AUC | Prepayments for AUC | Total |
|---|---|---|---|---|---|---|---|---|
| ***Gross carrying amount as at 1 January 2018*** | **12 019 354.20** | **154 796 760.58** | **257 524 493.77** | **10 492 251.75** | **4 652 537.46** | **22 540 602.57** | **12 913 349.33** | **474 939 349.66** |
| Purchases | – | – | – | – | – | 28 914 468.91 | 4 367 916.79 | 33 282 385.70 |
| Sale | -4 570.66 | – | -941 591.96 | -1 075 445.27 | – | – | - | -2 021 607.89 |
| Liquidation | – | – | -1 415 910.83 | -361 211.25 | – | -621 342.60 | – | -2 398 464.68 |
| Costs of periodic repairs – overhauls | – | – | 536 059.69 | – | – | -536 059.69 | – | – |
| Spare parts – purchase | – | – | 936 511.55 | – | – | – | – | 936 511.55 |
| Transfer to intangible assets | – | – | – | – | – | -1 036 172.26 | – | -1 036 172.26 |
| Transfers | – | 15 253 383.32* | 35 060 210.23* | 1 487 865.55 | 1 762 211.02 | -36 504 595.16 | -17 059 074.96 | – |
| Cumulative translation differences | -17 855.00 | -213 032.57 | -279 295.89 | -5 940.10 | -3 851.53 | 132.91 | 353.38 | -519 488.80 |
| ***Gross carrying amount as at 31 December 2018*** | **11 996 928.54** | **169 837 111.33** | **291 420 476.56** | **10 537 520.68** | **6 410 896.95** | **12 757 034.68** | **222 544.54** | **503 182 513.28** |
| ***Depreciation and impairment as at 1 January 2018*** | **–** | **22 452 413.08** | **116 840 938.89** | **5 618 310.51** | **2 842 886.86** | **615 262.60** | **–** | **148 369 811.95** |
| Depreciation charge for the period | – | 4 575 357.77 | 23 795 357.51 | 1 441 887.07 | 360 055.13 | – | – | 30 172 657.48 |
| Impairment – reversal | – | – | – | – | – | -615 262.60 | – | -615 262.60 |
| Sale | – | – | -941 591.96 | -929 826.83 | – | – | – | -1 871 418.79 |
| Liquidation | – | – | -1 415 910.83 | -359 471.25 | – | – | – | -1 775 382.08 |
| Cumulative translation differences | – | -1 038.17 | 2 967.43 | -332.37 | -773.76 | – | – | 823.12 |
| ***Depreciation and impairment as at 31 December 2018*** | **–** | **27 026 732.68** | **138 281 761.04** | **5 770 567.13** | **3 202 168.23** | **–** | **–** | **174 281 229.08** |
| **Net carrying amount as at 1 January 2018** | **12 019 354.20** | **132 344 347.50** | **140 683 554.88** | **4 873 941.24** | **1 809 650.59** | **21 925 339.97** | **12 913 349.33** | **326 569 537.71** |
| **Net carrying amount as at 31 December 2018** | **11 996 928.54** | **142 810 378.65** | **153 138 715.52** | **4 766 953.55** | **3 208 728.72** | **12 757 034.68** | **222 544.54** | **328 901 284.20** |

*Significant increases relating to the completion of the investment of development of master alloy plant in Alumetal Poland sp. z o.o. in Gorzyce

**Year ended 31 December 2017**

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

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

Land and buildings with a carrying amount of PLN 89 046 thousand (as at 31 December 2017 – PLN 80 583 thousand) are pledged as mortgage collateral for bank loans and borrowings of the Group (Note 26).

There were no capitalized borrowing costs in the year ended 31 December 2018 or 31 December 2017.

During the course of impairment indicator analysis performed in accordance with IAS 36 *Impairment of assets,* the Management Board of the parent analysed, among others, evidence deriving from the internal reporting as well as the factors obtained from the external sources of information which were described in more detail in Note 8.24.3 to these consolidated financial statements. Given the identified loss indicators, an impairment test was performed for the assets relating to the activities of the subsidiary company, Alumetal Group Hungary Kft. The performed test did not confirm said assets impairment. The test used the forecasts for 5 years (i.e. 2019 - 2023) and for the residual period. Applied in the calculations was a 4.34% discount rate, which according to the Management reflected in the best way the risk and the weighted average cost of capital (WACC) for the industry, in which the Alumetal Group entities operate. For the residual period, the 0% growth rate was adopted. Over the forecast period, the values arise from the adopted long-term production and operating strategy of the Alumetal Group companies basing on such assumptions as future changes in the prices of aluminium, raw materials and energy, future revenues, costs, cash flows, weighted average cost of capital, impact of the prospective and enacted Polish and European regulatory changes as well as the expected macroeconomic situation, which all depend on future market and economic conditions.

The performed sensitivity analysis confirmed a relatively low sensitivity of results to changes in the key parameters listed above.

# 18. Other assets

## 18.1. Other financial assets

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Loans granted | – | 35 000.00 |
| Shares in other entities | – | 10 000.00 |
| **Total, of which:** | **–** | **45 000.00** |
| - short-term portion | – | 35 000.00 |
| - long-term portion | – | 10 000.00 |

As at 31 December 2017, the financial assets related to the loans granted to Alumetal Kęty sp. z o.o. and shares in this company.

## 18.2. Other non-financial assets

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Excess of social assets over Social Fund liabilities | 99 039.03 | 131 195.70 |
| Insurance | 130 445.97 | 159 861.65 |
| IT services | – | 109 500.40 |
| **Total, of which:** | **229 485.00** | **400 557.75** |
| - short-term portion | 229 485.00 | 400 557.75 |
| - long-term portion | – | – |

# 19. Social assets and Social Fund liabilities

The Social Fund Act dated 4 March 1994 (with subsequent amendments) requires enterprises that have at least 50 FTEs *(full-time employees)* to establish and run a Social Fund. The Group operates such Fund and makes periodic contributions to this Fund based on the established basic contribution amount. The Funds' purpose is to subsidize the Group companies' social activities, loans to employees and other social expenditures.

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

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Cash and cash equivalents | 475 986.03 | 525 552.75 |
| Social Fund liabilities | 376 947.00 | 394 357.05 |
| **Balance after netting off** | **99 039.03** | **131 195.70** |

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Amounts transferred (contributions) to the Social Fund during the year | 1 165 624.19 | 1 301 469.45 |
| Non-refundable expenditure by the Fund | 1 184 484.12 | 1 212 533.55 |

# 20. Employee benefits

## 20.1. Retirement benefits

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

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

| | **2018** | **2017** |
|---|---|---|
| **At the beginning of the period as at 1 January** | **858 170.17** | **642 619.40** |
| Provision recognition/ reversal | 441 489.87 | 410 130.94 |
| Cost of benefits paid out | -108 019.04 | -194 580.17 |
| **At the end of the period as at 31 December** | **1 191 641.00** | **858 170.17** |

## 20.2. Incentive programs

Program II

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

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

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

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

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

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

Program III

The Annual General Meeting of the Company authorized on 7 November 2017 and modified on 3 October 2018 the incentive scheme for the years 2018 - 2020 (Incentive Program III) dedicated to management and executives (Eligible Persons) of the Alumetal Group. The assumptions underlying the new incentive scheme provide for a conditional increase in the Company's issued capital through the issue of free-of-charge and non-transferable three tranches of subscription warrants (series D, E and F) and the matching three tranches of new shares of the Company (series G, H and I) with a total nominal value not exceeding PLN 46,438.20, of which:

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

The issue of subscription warrants (warrants series D, E and F) was dedicated to the members of Company's Management Board and key Group personnel indicated by the Management Board and authorized by the Supervisory Board. The Eligible Persons will be able to exercise their right to take up Company's shares on the fulfilment of certain specific conditions, and especially on the condition of remaining in employment relationship, or other similar legal relation justifying rendering services to the Company or to the Subsidiary Companies, from the date of signing by an Eligible Person the Incentive Program III participation agreement to the date preceding the date of exercising rights from allocated subscription warrants. In addition, exercising rights from subscription warrants could take place on the following conditions: achieving the pre-defined level of EBITDA per Company's share; achieving the appropriate level of normalized consolidated net profit per Company's share; achieving the appropriate rate of return on the Company's share compared to the dynamics of change in the WIG index.

The unit issue price of the shares covered by the new incentive program will be PLN 48.60, and will be reduced by the sum total of benefits per share paid by the Company to its shareholders, being in particular dividend paid in the following manner:

- for each G-series share, the issue price of PLN 48.60 will be reduced by paid gross dividend (per share) for the year 2017 (i.e. PLN 2.92), for 2018 and by paid or declared dividend for 2019;
- for each H-series share, the issue price of PLN 48.60 will be reduced by paid gross dividend (per share) for the year 2017 (i.e. PLN 2.92), for 2018, for 2019 and by paid or declared dividend for 2020;
- for each I-series share, the issue price of PLN 48.60 will be reduced by paid gross dividend (per share) for the year 2017 (i.e. PLN 2.92), for 2018, for 2019 and for 20120 and by paid or declared dividend for 2021.

The amount of paid dividends covers the entire amount of paid gross dividends for the periods referred to above, irrespective of whether dividend payment is financed from profits for the given year or from other equity components of the Company which are at its disposal for dividend payment purposes.

Detailed policies of this incentive scheme (Program III) were described in the Incentive Program Policy adopted by the Supervisory Board on 14 December 2017 and modified on 3 October 2018. The Company performed valuation of the cost of this incentive program in accordance with IFRS 2 *Share-based Payment.*

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

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Capital under Incentive Program II | – | – |
| Capital under Incentive Program II | 1 138 998.28 | – |

| *Year ended* | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Cost of Incentive Program II | – | 89 505.00 |
| Cost of Incentive Program III | 1 138 998.28 | – |

# 21. Inventories

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Raw materials and scrap (at acquisition cost) | 66 485 778.82 | 85 000 504.14 |
| Work in progress and semi-finished goods (at cost of production) | 58 605 209.73 | 57 951 641.82 |
| Finished goods | 51 653 386.20 | 46 311 403.52 |
| Goods for resale | 37 096.11 | 37 096.11 |
| Advance payments for supplies | – | 337 812.87 |
| **Total inventories at the lower of cost (cost of production) and net realizable value, of which:** | **176 781 470.86** | **189 638 458.46** |
| Inventory impairment write-downs | *-846 458.68* | *-209 932.11* |

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

# 22. Trade and other receivables

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Trade receivables | 276 143 392.85 | 254 209 295.30 |
| State budget receivables – VAT | 9 931 232.45 | 7 984 810.74 |
| Other third party receivables | 140 094.50 | 80 103.05 |
| Warranty receivables* | 890 957.66 | – |
| **Total short-term receivables, net, of which:** | **287 105 677.46** | **262 274 209.09** |
| Receivables impairment write-downs | *-3 001 574.13* | *-7 898 310.73* |
| **Total short-term receivables, gross** | **290 107 251.59** | **270 172 519.82** |
| | | |
| **Long-term receivables** | | |
| Warranty receivables* | 890 957.66 | 1 789 232.42 |

* Warranty receivables arising from the contract with gas installation contractor and, at the same time, future supplier of gas fuel to the Plant in Hungary

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

*Factoring*

On 15 September 2014, the Group concluded a factoring agreement with the Bank UniCredit Luxembourg S.A., whereby a full factoring was established on the Euro-based receivables from one of the customers of the Alumetal Group at the risk of this customer, with no recourse to the Alumetal Group, and with no limit (limited in practice by the scale of cooperation with the given customer); the concluded factoring agreement provided for a flexible use of this service. As at 31 December 2018, the value of discounted invoices was EUR 0.0 (as at 31 December 2017 –EUR 0.00).

*Receivables impairment write-down*

The Group has appropriate policy regarding making sale to verified customers only. The Management believes that owing to this policy, there is no additional credit risk in excess of the level defined by the bad debts allowance typical for trade receivables of the Group. Details concerning credit risk management were presented in Note 34.4.

As at 31 December 2018, trade receivables of PLN 3 001 574.13 (as at 31 December 2017: PLN 7 898 310.73) were covered by appropriate allowance.

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

| | **2018** | **2017** |
|---|---|---|
| Impairment write-down as at 1 January | 7 898 310.73 | 11 536 250.81 |
| Increase | – | 1 503 048.87 |
| Utilisation/ Reversal | -4 896 736.60 | -5 140 988.95 |
| **Impairment write-down as at 31 December** | **3 001 574.13** | **7 898 310.73** |

Presented below is the analysis of trade and other receivables (with no state budget receivables), which as at 31 December 2018 and 31 December 2017 were past due, but which were not deemed as irrecoverable, and for which no impairment write-down was recognised.

| | | | | *Past due, but recoverable* | | | |
|---|---|---|---|---|---|---|---|
| | *Total* | *Current* | *< 30 days* | *31 – 90 days* | *91 - 180 days* | *181-365 days* | *> 366 days* |
| 31 Dec 2018 | 276 283 487.35 | 248 527 917.28 | 27 349 658.66 | 405 911.41 | – | – | – |
| 31 Dec 2017 | 254 289 398.35 | 233 527 400.21 | 20 627 306.12 | 120 102.66 | 14 589.36 | – | – |

*Receivables from Cimos d.d.*

In accordance with the restructuring process of Cimos d.d. described in the consolidated financial statements for the year ended 31 December 2014 and the resultant customer agreements, in 2018 the Group recorded payment of another two instalments by Cimos d.d. in the amount of EUR 92 415.60 each on 25 April 2018 and on 30 October 2018. As a result, the Group reversed an impairment write-down against this receivable and recognized it in the 2018 result in the amount of the two funds transfer received.

Until the date of the authorization of these consolidated financial statements, the Company has not received any new information on the recovery proceedings of Cimos d.d. As at 31 December 2018, the balance of impaired receivables from CIMOS d.d. amounted to EUR 92 415.61 (2017 - EUR 277 246.81).

*Receivables from the Arche Group companies*

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

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

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

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

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

On 27 April 2018, the Company received from the procedural representative of its subsidiary company, ALUMETAL Poland sp. z o.o., a message from the Liquidator (Receiver) regarding non-recovery of debt from

F.V.M. Technologies Société anonyme. Given the above, in the period ended 31 December 2018 ALUMETAL Poland sp. z o.o. wrote-off receivables from F.V.M. Technologies Société anonyme covered by the impairment write-down. This operation did not have any impact on the financial result of the Group for 2018.

*Receivables from JN Metal*

On 5 June 2017, Alumetal Poland Sp. z o.o. filed a lawsuit with the District Court in Cracow, 9th Economic Department in an action against JN Metal Jerzy Nykiel for payment for supplies with a value of PLN 1 503 048.87. As at 31 December 2017, the balance of receivables from JN Metal Jerzy Nykiel covered by impairment write-down decreased as a result of set-offs to PLN 1 266 471.77. As at the date of the preparation of these consolidated financial statements, the amount of receivables from JN Metal Jerzy Nykiel covered by impairment loss allowance was PLN 1 266 471.77. On 7 March 2018, a hearing took place before the District Court in Cracow concerning action brought by Alumetal Poland Sp. z o.o. against JN Metal Jerzy Nykiel for payment. On 25 April 2018, the District Court in Cracow awarded to Alumetal Poland sp. z o.o. the amount of PLN 1 266 471.77 and court fees. On 15 June 2018, the defendant filed an appeal which was not paid for as the defendant applied for exemption from the appeal fee. On 25 July 2018, the District Court in Cracow rejected defendant's application for court fee exemption, in respect of which a defendant's complain was submitted. Based on its decision of 7 November 2018, the Appeal Court in Cracow repealed the contested decision and remanded the case for a new trial. On 21 November 2018, the defendant was ordered by the District Court in Cracow to address the shortcomings. On 3 January 2019, the District Court in Cracow rejected defendant's application for court fee exemption. On 4 February 2019, the defendant filed a complaint on rejection by the court of his application for court fee exemption. On 13 February 2019, the District Court in Cracow ordered the defendant to address the shortcomings of his letter.

Due to its further trade expansion, the Company decided to change its approach to trade risk management, and in the 1st half of 2016 signed an agreement for receivables insurance. The verification covered the entire sales to non-related entities, except for sales to the three largest customers of the Alumetal Group and the insurance taken covered the period from 1 April 2016. In 2Q 2017 and 2018 a decision was taken to continue with the policy of receivables' insurance, which, over time, additionally improved the level of coverage of the Group's needs in the area of awarded insurance limits. As a result, the credit risk of the Company became considerably limited (the Group intends to continue to insure its receivables in the ensuing years). However, one should note that pursuant to the policies operating in the contracts of this type, part of receivables of each customer is not insured due to the so-called own-share of the policyholder. In addition, as provided in the insurance contract, the Company's Management Board has the right to take a sale decision that originates receivables from customers in the amount higher than the coverage limit granted by the insurer.

# 23. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for various periods of time, from one day to one month, depending on the current needs of the Group for cash, and bear set interest rate. The fair value of cash and cash equivalents approximates their carrying amounts. Cash and cash equivalents reported in the statement of cash flow comprise cash and cash equivalents reduced by outstanding overdraft facilities, which are an integral element of cash management.

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

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Cash on hand and cash at bank | 28 940 480.30 | 6 729 406.17 |
| Short-term deposits | 6 000.00 | 6 000.00 |
| Overdraft facilities | -110 647 926.07 | -97 407 976.35 |
| **Cash and cash equivalents reported in the consolidated statement of cash flow** | **-81 701 445.77** | **-90 672 570.18** |

Included in the balance of cash and cash equivalents as at 31 December 2018 is the amount of PLN 7 468 492.81 gathered on the VAT accounts.

# 24. Issued capital and reserves

## 24.1. Issued capital

| *Issued capital* | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Ordinary shares, series A, with a nominal value of PLN 0.10 each | 9 800 570 | 9 800 570 |
| Ordinary shares, series B, with a nominal value of PLN 0.10 each | 1 507 440 | 1 507 440 |
| Ordinary shares, series C, with a nominal value of PLN 0.10 each | 3 769 430 | 3 769 430 |
| Ordinary shares, series D, with a nominal value of PLN 0.10 each | 150 770 | 150 770 |
| Ordinary shares, series E, with a nominal value of PLN 0.10 each | 150 770 | 150 770 |
| Ordinary shares, series F, with a nominal value of PLN 0.10 each | 100 513 | 100 513 |
| | **15 479 493** | **15 479 493** |

***Nominal value of shares***

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

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

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

participants on 20 July 2016. Based on the Resolution No. 728/2016 of the Management Board of the WSE of 15 July 2016, the E-series shares were admitted to trading on the main market as of 20 July 2016. The Company informed about the E-series share issue process in its current reports: No. 19/2016 of 15 July 2016, No. 20/2016 of 15 July 2016, No. 21/2016 of 18 July 2016, No. 22/2016 of 18 July 2016.

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

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

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

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

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

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

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

In 2018, one change took place in the listing of shareholders with significant blocks of shares. On 16 October 2018, based on article 69 paragraph 1 point 1 and based on article 69a paragraph 1 point 1 of act of 29 July 2005 on public offers and the terms and conditions of introducing financial instruments to organized system of trading and on public companies, the Company received a notification from Powszechne Towarzystwo Emerytalne PZU S.A. (PTE PZU S.A.) acting on behalf of the Open End Pension Fund PZU „Złota Jesień" (OFE PZU) stating that in connection with the completion on 12 October 2018 of liquidation of Pekao Open End Pension Fund (Pekao OFE) causing that on that date all assets of Pekao OFE were transferred to OFE PZU and that OFE PZU assumed all rights and obligations of Pekao OFE, the then current share of OFE PZU in the total number of votes in the Company exceeded the 5% threshold of the total number of votes and counted at 925 305 shares, which account for 5.98% of the Company's issued share capital. The Company informed the public about this change in its current report No. 30/2018 of 16 October 2018.

According to the contents of notifications forwarded to the Company based on the act of 29 July 2005 on public offers and the terms and conditions of introducing financial instruments to organized system of trading and on public companies, as at 21 March 2019 the shareholders of ALUMETAL S.A. required to report significant blocks of shares did not change.

***Shareholder rights***

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

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

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| IPO 30 FIZAN A/S | | |
| share in equity | 32.99% | 32.99% |
| share in the number of votes | 32.99% | 32.99% |
| Aviva Otwarty Fundusz Emerytalny Aviva Santander (*formerly* Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK) | | |
| share in equity | 10.50% | 10.50% |
| share in the number of votes | 10.50% | 10.50% |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | | |
| share in equity | 7.37% | 7.37% |
| share in the number of votes | 7.37% | 7.37% |
| Aegon Otwarty Fundusz Emerytalny | | |
| share in equity | 6.18% | 6.18% |
| share in the number of votes | 6.18% | 6.18% |
| Otwarty Fundusz Emerytalny PZU „Złota Jesień” | | |
| share in equity | 5.98% | – |
| share in the number of votes | 5.98% | – |
| Krzysztof Błasiak | | |
| share in equity | 2.61% | 2.59% |
| share in the number of votes | 2.61% | 2.59% |
| Szymon Adamczyk | | |
| share in equity | 1.79% | 1.79% |
| share in the number of votes | 1.79% | 1.79% |
| Przemysław Grzybek | | |
| share in equity | 1.08% | 1.08% |
| share in the number of votes | 1.08% | 1.08% |
| Agnieszka Drzyżdżyk | | |
| share in equity | 0.05% | 0.05% |
| share in the number of votes | 0.05% | 0.05% |
| Others | | |
| share in equity | 31.45% | 37.45% |
| share in the number of votes | 31.45% | 37.45% |

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

| | *21 March 2019* |
|---|---|
| IPO 30 FIZAN A/S | |
| share in equity | 32.99% |
| share in the number of votes | 32.99% |
| Aviva Otwarty Fundusz Emerytalny Aviva Santander (*formerly* Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK) | |
| share in equity | 10.50% |
| share in the number of votes | 10.50% |
| Nationale-Nederlanden Otwarty Fundusz Emerytalny | |
| share in equity | 7.37% |
| share in the number of votes | 7.37% |
| Aegon Otwarty Fundusz Emerytalny | |
| share in equity | 6.18% |
| share in the number of votes | 6.18% |
| Otwarty Fundusz Emerytalny PZU „Złota Jesień” | |
| share in equity | 5.98% |
| share in the number of votes | 5.98% |
| Krzysztof Błasiak | |
| share in equity | 2.61% |
| share in the number of votes | 2.61% |
| Szymon Adamczyk | |
| share in equity | 1.79% |
| share in the number of votes | 1.79% |
| Przemysław Grzybek | |
| share in equity | 1.08% |
| share in the number of votes | 1.08% |
| Agnieszka Drzyżdżyk | |
| share in equity | 0.05% |
| share in the number of votes | 0.05% |
| Pozostali | |
| share in equity | 31.45% |
| share in the number of votes | 31.45% |

# 25. Reserve capital

The reserve capital was created from statutory appropriations of the profits generated in prior financial years in the amount of PLN 515 983.10, from share premium realized on D-series, E-series and F-series shares in the total amount of PLN 11 920 851.45, as well as from profit appropriations in excess of statutory amount of PLN 317 280 854.16 as at 31 December 2018 (as at 31 December 2017, profit appropriation in excess of statutory amount was PLN 289 134 146.96).

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

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

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

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

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

## 25.2. Dividends paid and proposed

**Dividends paid**

On 23 May 2018, the Ordinary Annual General Meeting resolved to appropriate the Alumetal S.A.'s profit for the year from 1 January to 31 December 2017 in the following manner:

- PLN 40,102,179.07 deriving from the Company's net profit for the year – to dividend payment,
- PLN 40,000.00 – to transfer to the Company's Social Fund.

A decision was made about dividend payment to the Shareholders with a total value of PLN 45,200,119.56, with the proviso that the amount of PLN 40,102,179.07 derived from the Company's net profit for 2017 earmarked for appropriation, while the remaining amount of PLN 5,097,940.49 was released from the Company's reserve capital created from the profits. Eligible to dividend payment were the Shareholders of the Company who were entitled to the shares on 7 June 2018. The amount of dividend of PLN 45,200,119.56 was paid on 29 August 2018. The authorised 2017 dividend per share was PLN 2.92.

**Proposed dividend**

In accordance with the dividend policy of the Company, the Management Board will propose payment of dividend for the year 2018 at the level of 70% of normalised consolidated net profit (normalised net profit is the net profit adjusted by the impact of valuation of an asset in the form of CIT exemption) in the amount of PLN 63 156 331.44 which means that the value of dividend per share would be PLN 4.08. The Management Board will propose that the dividend is paid in June 2019.

# 26. Interest-bearing bank loans and borrowings

| | Available limit | Currency* | Maturity date | 31 December 2018<br>Limit utilised | 31 December 2017<br>Limit utilised |
|---|---|---|---|---|---|
| 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* | 19.06.2019 | 32 464 326.79 | 7 002 037.60 |
| 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* | 28.06.2019 | 29 018 054.81 | 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* | 17.05.2019 | 44 323 109.82 | 48 141 304.56 |
| 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 | 1 850 000.00 | EUR* | 16.08.2019 | 4 842 434.65 | 5 871 732.63 |
| 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 | 8 617 200.00 | 9 055 023.90 |
| **Total short-term portion** | | | | **119 265 126.07** | **106 463 000.25** |
| Long-term portion of the 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 | 24 329 400.00 | 31 957 435.80 |
| **Total** | | | | **143 594 526.07** | **138 420 436.05** |

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

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

**As at 31 December 2018:**

| ***Type of liability*** | ***Creditor*** | ***Type of assets pledged as collateral*** | ***Value of assets pledged as collateral**** |
|---|---|---|---|
| Maximum mortgage | ING Bank Śląski S.A. | Assets under construction, buildings and constructions, right of perpetual usufruct of land | 69 041 012.78 |
| Contractual mortgage | ING Bank Śląski S.A. | Assets under construction, buildings and constructions, right of perpetual usufruct of land | 10 038 619.40 |
| Maximum mortgage | Bank Handlowy w Warszawie S.A. | Assets under construction, buildings and constructions, right of perpetual usufruct of land | 20 838 845.80 |
| Transfer of receivables | ING Bank Śląski S.A. | Receivables | 46 292 200.37 |
| Transfer of receivables | DNB Bank Polska S.A. | Receivables | 6 191 764.09 |
| Pledge | Bank Handlowy SA | Property, plant and equipment | 490 986.49 |
| Pledge | ING Bank Śląski S.A. | Property, plant and equipment | 4 004 198.12 |
| Pledge | ING Bank Śląski S.A. | Raw materials and raw materials scrap | 4 826 351.75 |
| Pledge | DNB Bank Polska S.A. | Raw materials scrap, semi-finished goods scrap, finished goods | 45 000 000.00 |
| Pledge | Bank Handlowy SA | Raw materials scrap | 11 953 137.25 |

** On the basis of carrying amount*

**As at 31 December 2017:**

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

** On the basis of carrying amount*

The collateral for the long-term investment loan taken out by Alumetal S.A. at ING Bank Śląski S.A. in the amount of EUR 10 000 000.00 for the purpose of financing the construction of a production plant in Hungary is the mortgage on the property at the production plant of Alumetal Poland sp. z o.o. in Nowa Sól with a net carrying amount as at 31 December 2018 of PLN 46 111 777.59 (as at 31 December 2017 - of PLN 47 523 687.99).

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

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

In 2016, Alumetal S.A. issued to the Hungarian Ministry of Foreign Affairs a guarantee in respect of the agreement for subsidy to Alumetal Group Hungary Kft. Due to a change in the agreement's security to the mortgage on the property of the Hungarian entity in Komarom, the guarantee automatically expired on17 May 2018 i.e. on the date of final mortgage establishment.

In 2018, Alumetal SA and Alumetal Poland sp. z o.o. issued sureties and guarantees 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 2018 to the equivalent of PLN 2 038 023.66 (as at 31 December 2017 – PLN 2 498 154.42).

In 2009, Alumetal Poland sp. z o.o. (*formerly* Alumetal Nowa Sól Sp. z o.o.) issued in favour of the National Fund for Environmental Protection and Water Management *(Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej)* an *in blanco* promissory note as security for any possible claims of the said Fund against this company that may arise from a contract between these two parties for a financial compensation (subsidy) in the amount of PLN 20 million for the execution of the project called *Construction of a plant for the scrap and aluminium waste management and production of casting alloys – phase I („Budowa zakładu przerobu złomów, odpadów aluminiowych i produkcji stopów odlewniczych – etap I")*. This promissory note was returned upon a written request of the Beneficiary in May 2018 after 5 years of the date of investment projects completion and after the fulfilment of all obligations set forth in the financial compensation contract.

Due to the change in the collateral for the short-term loan in bank ING Bank Śląski S.A., on 5 February 2018 Alumetal S.A. signed an *in blanco* promissory note together with declaration which represented one of the securities for this agreement in favour of ING Bank Śląski S.A.

# 27. Provisions

## 27.1. Movements in provisions

| | Provision for retirement benefits and similar obligations | Total |
|---|---|---|
| **As at 1 January 2018** | **858 170.17** | **858 170.17** |
| Recognition/ reversal during the year | 441 489.87 | 441 489.87 |
| Utilisation | -108 019.04 | -108 019.04 |
| **As at 31 December 2018** | **1 191 641.00** | **1 191 641.00** |
| **Short-term as at 31 December 2018** | **311 715.00** | **311 715.00** |
| **Long-term as at 31 December 2018** | **879 926.00** | **879 926.00** |
| **As at 1 January 2017** | **642 619.40** | **642 619.40** |
| Recognition/ reversal during the year | 410 130.94 | 410 130.94 |
| Utilisation | -194 580.17 | -194 580.17 |
| **As at 31 December 2017** | **858 170.17** | **858 170.17** |
| **Short-term as at 31 December 2017** | **134 297.61** | **134 297.61** |
| **Long-term as at 31 December 2017** | **723 872.56** | **723 872.56** |

## 27.2. Provision for court proceedings in progress

Both in 2018 and 2017, no significant court proceedings were conducted against the Alumetal Group companies.

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

## 28.1. Trade and other financial liabilities (current)

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Trade payables | 146 341 623.32 | 157 977 065.86 |
| Liabilities under reverse factoring | 2 956 254.05 | 2 315 137.73 |
| Payroll liabilities | 2 229 869.10 | 2 231 759.92 |
| Investment liabilities | 1 980 966.86 | 1 844 833.40 |
| Other liabilities | 553 477.61 | 354 470.10 |
| **Total** | **154 062 190.94** | **164 723 267.01** |

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

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

## 28.2. Other non-financial liabilities

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| VAT | 206 323.70 | 277 403.27 |
| Personal income tax | 758 571.87 | 795 415.07 |
| Social security | 2 526 436.62 | 2 517 457.84 |
| PFRON | 53 944.47 | 35 998.00 |
| Excise tax | 28 136.00 | 25 585.00 |
| Other | 701.94 | - |
| **Total, of which:** | **3 574 114.60** | **3 651 859.18** |
| - short-term portion | 3 574 114.60 | 3 651 859.18 |
| - long-term portion | – | – |

## 28.3. Accruals and deferred income

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Accrued expenses, of which: | | |
| - unused annual leave | 680 816.83 | 568 942.91 |
| - employee bonus, incl. annual bonus | 903 000.00 | 324 000.00 |
| Deferred income, of which: | | |
| - subsidies | 27 795 511.80 | 29 180 415.31 |
| **Total, of which:** | **29 379 328.63** | **30 073 358.22** |
| - short-term portion | 4 587 463.33 | 3 923 449.02 |
| - long-term portion | 24 791 865.30 | 26 149 909.20 |

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

a) financing received under sector operating program called *Enhancement of Enterprise Competitiveness in the years 2004-2006 („Wzrost Konkurencyjności Przedsiębiorstw, lata 2004-2006")* and related to the execution of the following investment projects:
   - Purchase and installation of the equipment for raw materials scrap packaging *(Zakup i instalacja urządzenia do paczkowania surowców złomowych)* – financing in the amount of PLN 1 037 333.62;
   - Construction of a gas purification system in the process of re-melting of secondary aluminium in 3 Induction Furnaces, type PIT-6000 *(Budowa instalacji oczyszczania gazów z procesu przetopu aluminium w zespole 3 szt. Pieców indukcyjnych typu PIT-6000)* – financing in the amount of PLN 946 690.18;
   - Modernization of gas-fired melting furnaces and construction of gas purification system at melting furnaces, holding furnaces and melting loss press *(Modernizacja pieców topielnych gazowych i budowa instalacji oczyszczania gazów dla pieców topielnych, pieców odstojowych i pras do zgarów)* – financing in the amount of PLN 5 952 500.00,
   - Improvement of enterprise competitiveness through the construction of aluminium scrap melting furnace, type PIT-6000, and modernization of quality lab *(Wzrost konkurencyjności przedsiębiorstwa poprzez budowę pieca do topienia złomu aluminium PIT-6000 oraz unowocześnienie laboratorium jakościowego)* – financing in the amount of PLN 1 151 281.44;

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

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

In addition, in 2014, the Alumetal Group Hungary Kft. received from the Hungarian government a binding offer, and accepted it, concerning cash subsidy for this project, and the underlying agreement became finally effective on 2 February 2016. In 1Q 2018 and in 1Q 2019, annexes were signed that modified the contract in the part relating to beneficiary's obligations concerning employee headcount, contract security (performance bond) and the date for project realization. In the case of cash subsidy for Alumetal Group Hungary Kft, the company is currently obligated to: (i) construct a production plant with a production capacity of at least 55 000 tons per year (this obligation was already fulfilled); (ii) maintain yearly average employee headcount at 100 persons starting from 2019 to 2025 (with at least 2.7% of employees of higher education) while retaining total wage bill at a pre-defined level; (iii) maintain project life-period for at least 7 years, (iv) realize sales revenue at certain pre-defined level, and (v) start plant operation not later than on 31 December 2018. The public aid in Hungary may be lost or rescinded if the Alumetal Group Hungary Kft. does not fulfil the above requirements or its obligations under labour, environmental protection or tax law.

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

Until the date of the preparation of these consolidated financial statements, the Alumetal Group Hungary received thirteen advance payments under the underlying agreement: on 20 September 2016 for the amount of HUF 197 781 071.00, on 13 December 2016 for the amount of HUF 587 019 329.00, on 20 March 2017 for the amount of HUF 154 511 670.00, on 20 June 2017 for the amount of HUF 59 609 726.00, on 21 July 2017 for the amount of HUF 30 453 981.00, on 21 July 2017 for the amount of HUF 33 440 937.00, on 31 July 2017 for the amount of HUF 139 506 710.00, on 18 August 2017 for the amount of HUF 101 039 459.00, on 21 November 2017 for the amount of HUF 26 522 749.00, on 20 March 2018 for the amount of HUF 116 454 833.00, on 20 April 2018 for the amount of HUF 22 567 461.00, on 13 July 2018 for the amount of HUF 2 961 233.00 and on 18 December 2018 for the amount of HUF 5 377 852.00.

The total amount of thirteen advance payments made towards subsidy in the years 2016-2018 amounted to HUF 1 477 247 011 being the equivalent of PLN 20 467 610.49.

# 29. Investment liabilities

As at 31 December 2018, the committed capital expenditure of the Group amounted to PLN 17 702 553.49. The most significant items were the liabilities arising from the concluded contracts for the realization of the investment project called Modernization of Kęty Plant („Modernizacja zakładu w Kętach") at Alumetal Poland sp. z o.o. Zakład Kęty in the amount of PLN 13 116 106.94.

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

# 30. Contingent liabilities and contingent assets

## 30.1. Court proceedings

Both in 2018 and 2017, no significant court proceedings were conducted against the Alumetal Group companies.

## 30.2. Tax settlements

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

Taxation authorities may examine the accounting records within up to five years after the end of the year in which the tax payment was made. Therefore, as a result of tax inspections, tax liabilities of the Company may be increased by additional amounts. As at 31 December 2018, neither the Company, nor any of its subsidiaries were parties to conducted tax proceedings.

In connection with the activities conducted in the Special Economic Zones, the Group is required to fulfil certain requirements and obligations attached to the received licenses, which were described in detail in Note 8.24. The non-fulfilment by the Group of the license-based obligations and requirements may cause that it will be required to return the already utilised tax relief (tax credits) and may not be able to benefit from similar tax relief in the future. As at the date of the preparation of these consolidated financial statements, the Group believes that there is no risk of its non-fulfilment of the obligations defined in the obtained licenses.

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

# 31. Related party disclosures

As at 31 December 2017, the Group reported in its statement of financial position a receivable of PLN 35 000.00 under the loan granted to the related company, Alumetal Kęty sp. z o.o. In the process of disposal of this entity, the loan was written-off.

## 31.1. Terms and conditions of related party transactions

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

## 31.2. Director’s loan

In the year 2018 and 2017, the Group did not extend any loans to the members of its Management Board.

## 31.3. Other transactions with Management Board Members

In the year 2018 and 2017, the Group did not conclude any other transactions with Management Board members.

## 31.4. Executive Board emoluments

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Management Board of the parent and subsidiaries: Short-term employee benefits (salaries and surcharges) | 4 832 998.96 | 3 619 153.43 |
| Marek Kacprowicz - President of the Management Board, CEO[1] | 186 318.14 | – |
| Szymon Adamczyk – President of the Management Board, CEO[2] | 1 519 525.38 | 1 422 750.99 |
| Krzysztof Błasiak - Vice-president of the Management Board, Development and Metal Management Officer | 1 846 812.20 | 1 422 750.99 |
| Przemysław Grzybek – Member of the Management Board, CFO | 876 639.05 | 702 333.79 |
| Agnieszka Drzyżdżyk – Member of the Management Board, Trade Officer | 403 704.19 | 71 317.66 |

*[1]Mr Marek Kacprowicz was appointed as President of the Management Board as of 3 October 2018.*
*[2]Mr Szymon Adamczyk was the President of the Management Board until 30 September 2018.*

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

**Supervisory Board**

| **Total remuneration, of which:** | | **148 782.61** | **144 000.00** |
|---|---|---|---|
| Grzegorz Stulgis | Chairman of the Supervisory Board | – | – |
| Franciscus Bijlhouwer | Member of the Supervisory Board | 36 000.00 | 36 000.00 |
| Marek Kacprowicz | Member of the Supervisory Board | 30 260.87 | 36 000.00 |
| Szymon Adamczyk | Member of the Supervisory Board | 5 739.13 | – |
| Paweł Małyska | Member of the Supervisory Board | 21 769.57 | – |
| Michał Wnorowski | Member of the Supervisory Board | 20 813.04 | – |
| Tomasz Pasiewicz | Member of the Supervisory Board | 17 100.00 | 36 000.00 |
| Emil Ślązak | Member of the Supervisory Board | 17 100.00 | 36 000.00 |

In 2016, the Group signed an agreement for the purchase of advisory services from IPO 30 FIZAN A/S. The total value of invoices issued in 2018 amounted to EUR 10 000.00 (in 2017 – EUR 30 000.00).

Based on the agreement signed in 2018 for the purchase of advisory services from the Szymon Adamczyk Doradztwo firm, the Group received in that year invoices for the total amount of PLN 170 000.00 PLN.

In addition, the Group received invoices for the advisory services in the process of development and extension of a master alloy plant from Mr Franciscus Bijlhouwer Quality Consultants BV: in 2017 for the amount of EUR 1 562.63; no invoices were received from this entity in 2018.

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

# 32. Additional explanations to the Statement of Cash Flow

The balance of the item *Other (including the costs of incentive scheme)* in the cash flow from operating activities in 2018 in the amount of PLN 1 315 168,.95 is composed of the following items:

- cost of incentive scheme in the amount of PLN 1 138 998.28

- realized gains on forward transactions in the amount of PLN 6 784.90

- cumulative translation differences (from translation of foreign subsidiary operations) in the amount of PLN 169 385.76.

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

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

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

The table below shows the remuneration of the entity authorised to audit financial statements, paid or payable for the year ended 31 December 2018 and 31 December 2017, by type of services:

| ***Type of service*** | *Year ended 31 December 2018** | *Year ended 31 December 2017** |
|---|---|---|
| Statutory audit of consolidated and separate financial statements | 100 000.00 | 105 000.00 |
| Review of interim financial statements | 50 000.00 | 50 000.00 |
| **Total** | **150 000.00** | **155 000.00** |

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

In addition, the fee for statutory audit of separate financial statements of the Alumetal Group Hungary Kft. for 2018 performed by Ernst & Young Konyvvizsgalo Kft. amounted EUR 12,000 (for 2017 - EUR 9,000).

# 34. Financial risk management objectives and policies

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

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

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

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

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

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

## 34.1. Interest rate risk

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

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

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

| | *Increase/ decrease in FX rate* | *Effect on the gross financial result (in '000 PLN)* |
|---|---:|---:|
| Year ended 31 December 2018 | | |
| PLN | + 0.50% | +25 |
| EUR | +0.25 % | -320 |
| HUF | +0.25% | -23 |
| PLN | - 0.50% | -25 |
| EUR | - 0.25% | +320 |
| HUF | -0.25% | +23 |
| Year ended 31 December 2017 | | |
| PLN | + 0.50% | -30 |
| EUR | +0.25 % | -285 |
| HUF | +0.25% | -8 |
| PLN | - 0.50% | 30 |
| EUR | - 0.25% | 285 |
| HUF | - 0.25% | +8 |

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

## 34.2. Foreign currency risk

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

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

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

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

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

As at 31 December 2018, the Group reported open currency forward contracts for sale of Euro in Polish zloty in the total amount of EUR 18 200 000 (as at 31 December 2017 - EUR 14 200 000). In addition, the Group reported open currency forward contracts for the purchase of USD in Polish zloty in the total amount of USD 1 040 000 (at the end of 2017 – USD 846 000).

Due to the execution of an investment project in Hungary, in 2015 the Group started to incur certain foreign currency risk as regards HUF/PLN, and especially EUR/HUF exchange rates. As at 31 December 2018, the Group had open currency forward contracts for sale of EUR in HUF for the total amount of EUR 1 300 000 (as at 31 December 2017 - EUR 3 450 000).

The maturity dates for open contracts usually fall within 3 months of the reporting date.

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

| | *Increase/ decrease in FX rate* | *Effect on the gross financial result (in '000 PLN)* |
|---|---|---|
| 31 December 2018 – EUR/ PLN | + 5% | +3112 |
| | - 5% | -3112 |
| 31 December 2018 – USD/ PLN | + 5% | -228 |
| | - 5% | 228 |
| 31 December 2018 – EUR/ HUF | + 5% | -1506 |
| | - 5% | 1506 |
| 31 December 2017 – EUR/ PLN | + 5% | +4 715 |
| | - 5% | -4 715 |
| 31 December 2017 – USD/ PLN | + 5% | -239 |
| | - 5% | +239 |
| 31 December 2017 – EUR/ HUF | + 5% | -4 028 |
| | - 5% | +4 028 |

## 34.3. Commodity price risk

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

## 34.4. Credit risk

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

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

Due to its further trade expansion, the Company decided to change its approach to trade risk management, and in the 1st half of 2016 signed an agreement for receivables insurance. The verification covered the entire sales to non-related entities, except for sales to the three largest customers of the Alumetal Group, and the insurance taken covered the period from 1 April 2016. In 2Q 2017 and 2018 a decision was taken to continue with the policy of receivables' insurance, which, over time, additionally improved the level of coverage of the Group's needs in the area of awarded insurance limits. As a result, the credit risk of the Company became considerably limited (the Group intends to continue to insure its receivables in the ensuing years). However, one should note that pursuant to the policies operating in the contracts of this type, part of receivables of each customer is not insured due to the so-called own-share of the policyholder. In addition, as provided in the insurance contract, the Company's Management Board has the right to take a sale decision that originates receivables from customers in the amount higher than the coverage limit granted by the insurer, which – in turn - causes that the credit risk is higher than in other areas.

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

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

## 34.5. Liquidity risk

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

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

A certain liquidity risk may pose the fact that the Alumetal Group Hungary Kft received cash subsidy– should it transpire in the future that this company does not meet its obligations arising from the obtained public aid (described in Note 8.24.3), it may be required to return the received public aid in whole or in part, and this – in turn – may be a significant burden and threat to the liquidity of the Group. However, the long-standing experience of the Alumetal Group in benefiting from public aid greatly reduces this risk.

Starting from 2018, in connection with the announced new business strategy, the Group intensified its dividend policy by declaring that in the following years dividends will be at the level of minimum 70% of normalised consolidated net profit. This approach may have material impact on the financial commitment of the Group, however, given the fact that this change is correlated with the objectives of the new strategic plan and given the relatively low indebtedness of the Group, it does not pose any significant threat to its financial liquidity.

The table below shows the maturity profile of the Group's financial liabilities at 31 December 2018 and 31 December 2017, based on maturity dates of contract undiscounted payments.

| | *< 3 months* | *3 – 12 months* | *1 - 5 years* | *> 5 years* | *Total* |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| Trade and other financial liabilities | 154 062 190.94 | – | – | – | 154 062 190.94 |
| Overdraft facilities | – | 110 647 926.07 | – | – | 110 647 926.07 |
| Investment loan | 2 154 300.00 | 6 462 900.00 | 24 329 400.00 | – | 32 946 600.00* |
| **31 December 2017** | | | | | |
| Trade and other financial liabilities | 164 723 267.01 | – | – | – | 164 723 267.01 |
| Overdraft facilities | – | 97 407 976.35 | – | – | 97 407 976.35 |
| Investment loan | 2 786 161.20 | 6 268 862.70 | 31 957 435.80 | – | 41 012 459.70* |

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

# 35. Financial instruments

## 35.1. Fair value of financial instruments, by class

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

| | *Category in accordance with IFRS 9/ IAS 39* | *Carrying amount* | |
|---|---|---|---|
| | | *31 December 2018* | *31 December 2017* |
| *Financial assets* | | | |
| Other financial assets (short-term) | FAaAC/ LaR | – | 35 000.00 |
| Trade and other receivables | FAaAC/ LaR | 278 065 402.67 | 256 078 630.77 |
| Derivative financial instruments | aFVtPL | 216 634.17 | 632 572.53 |
| Cash and cash equivalents | FAaAC/ aFVtPL | 28 946 480.30 | 6 735 406.17 |
| **Total** | | **307 228 517.14** | **263 481 609.47** |

| | *Category in accordance with IFRS 9/ IAS 39* | *Carrying amount* | |
|---|---|---|---|
| | | *31 December 2018* | *31 December 2017* |
| *Financial liabilities* | | | |
| Interest-bearing loans and borrowings | FLaAC/ OFLaAC | 143 594 526.07 | 138 420 436.05 |
| Trade and other financial liabilities | FLaAC/ OFLaAC | 154 062 190.94 | 164 723 267.01 |
| Derivative financial instruments | aFVtPL | – | – |
| **Total** | | **297 656 717.01** | **303 143 703.06** |

The fair value of financial instruments the Alumetal S.A. Capital Group held as at 31 December 2018 and 31 December 2017 *did not* differ materially from their carrying amount presented in the respective financial statements for the following reasons:

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

As at 31 December 2018 and 31 December 2017, the Group's financial instruments classified as at fair value through profit or loss (aFVtPL) were derivative financial instruments - currency forward contracts. All these instruments are classified to Level 2 of the fair value hierarchy described in Note 8.2.

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

**Year ended 31 December 2018**

| | *Category in accordance with IFRS 9* | *Interest income/ (expense)* | *FX gains/ (losses)* | *Impairment write-downs reversal/ (recognition)* | *Valuation gains/ (losses)* | *Gains/ (losses) on disposal of fin. instr.* | *Other* | *Total* |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Trade and other receivables | FAaAC | 41 408.85 | 9 451 644.51 | 731 795.83 | – | – | – | **10 224 849.19** |
| Derivative financial instruments | aFVtPL | – | -6 791.76 | – | -415 324.36 | – | – | **-422 116.12** |
| Cash and cash equivalents | FAaAC | 164 240.89 | 23 255.66 | – | – | – | – | **164 240.89** |
| **Financial liabilities** | | | | | | | | |
| Interest-bearing loans and borrowings | FLaAC | -944 358.88 | -5 536 350.92 | – | – | – | – | **-6 480 709.80** |
| Trade and other financial liabilities | FLaAC | -17 325.22 | -2 894 297.86 | – | – | – | – | **-2 911 623.08** |
| **Total** | | **-756 034.36** | **1 014 203.97** | **731 795.83** | **-415 324.36** | – | – | **574 641.08** |

## Year ended 31 December 2017

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

## 35.3. Change in liabilities from financing activities

**Year ended 31 December 2018**

| | *1 January 2018* | *Changes from cash flow from financing activities* | *Effect of exchange rates fluctuations* | *Other changes* | *31 December 2018* |
|---|---|---|---|---|---|
| Interest-bearing loans and borrowings (long-term) | 31 957 435.80 | – | 989 164.20 | -8 617 200.00 | 24 329 400.00 |
| Interest-bearing loans and borrowings (short-term) | 9 055 023.90 | -9 245 570.90 | 190 547.00 | 8 617 200.00 | 8 617 200.00 |
| Total liabilities arising from financing activities | **41 012 459.70** | **-9 245 570.90** | **1 179 711.20** | – | **32 946 600.00** |

## 35.4. Interest rate risk

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

The Group has mainly overdraft facilities which are short-term items with the instalment amounts calculated using variable market indexes of WIBOR, LIBOR USD, LIBOR EUR, EURORIBOR and BUBOR. In addition, the Group reported an investment loan at ING Bank Śląski in Euro with the instalment amounts calculated on the basis of 1M EURIBOR. Detailed information regarding debt balance from individual loan liabilities is presented in Note 26.

**31 December 2018**

***Variable interest rate***

| | *<1 year* | *1–2 years* | *2-3 years* | *>3 years* | *Total* |
|---|---|---|---|---|---|
| Cash assets | 28 946 480.30 | – | – | – | 28 946 480.30 |
| Overdraft facilities | 110 647 926.07 | – | – | – | 110 647 926.07 |
| Investment loan | 8 617 200.00 | 8 617 200.00 | 8 617 200.00 | 7 095 000.00 | 32 946 600.00 |
| **Total** | **148 211 606.37** | 8 617 200.00 | 8 617 200.00 | 7 095 000.00 | **172 541 006.37** |

**31 December 2017**

***Variable interest rate***

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

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

# 36. Capital management

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

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

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

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Interest-bearing loans and borrowings | 143 594 526.07 | 138 420 436.05 |
| Trade and other financial liabilities | 154 062 190.94 | 164 723 267.01 |
| Less: cash and cash equivalents | -28 946 480.30 | -6 735 406.17 |
| **Net debt, total** | **268 710 236.71** | **296 408 296.89** |
| Shareholders' equity | 533 744 726.38 | 503 811 264.46 |
| **Capital and net debt** | **802 454 963.09** | **800 219 561.35** |
| Gearing ratio (Shareholders' equity/ Capital and total net debt) | 67% | 63% |

# 37. Employment structure

The average employment in the Group in the year ended 31 December 2018 and 31 December 2017 was as follows:

| | *Year ended 31 December 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Management Board of the parent company | 4 | 3 |
| Management Boards of other Group companies | 3 | 4 |
| Administration and logistics department | 113 | 105 |
| Trading department | 13 | 15 |
| Production department | 567 | 568 |
| **Total** | **700** | **695** |

# 38. Events after the reporting date

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

# These consolidated financial statements comprise:

Statement of comprehensive income………………………………………………………….…………… 5
Statement of financial position…………………………………………….……………………………. 7
Statement of cash flow………………………………………………………..………………………. 9
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| | | |
|---|---|---|
| Marek Kacprowicz | President of the Management Board | ........................ |
| Krzysztof Błasiak | Vice-president of the Management Board | ........................ |
| Przemysław Grzybek | Board Member | ........................ |
| Agnieszka Drzyżdzyk | Board Member | ........................ |
| Krzysztof Furtak | Chief Accountant | ........................ |

Kęty, 21 March 2019