

**DIRECTORS' REPORT
ON ACTIVITIES OF
THE ALUMETAL S.A. CAPITAL GROUP
FOR THE YEAR 2019**



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I. Issuer and Capital Group corporate data

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

As at 31 December 2019, the organisation of the ALUMETAL S.A. Capital Group (hereinafter referred to as the "Alumetal Group" or the "Group") is as follows:

A. Issuer corporate data

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

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

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

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

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

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

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

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

The D, E and F-series shares were issued as a result of execution of the Incentive Program II adopted based on the Resolution No. 5 of the Extraordinary Annual General Meeting of 28 May 2014.

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

B. Subsidiary companies

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

ALUMETAL Poland sp. z o.o.

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

Corporate information:

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

T + S sp. z o.o.

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

Corporate information:

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

ALUMETAL Group Hungary Kft.

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

Corporate information:

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

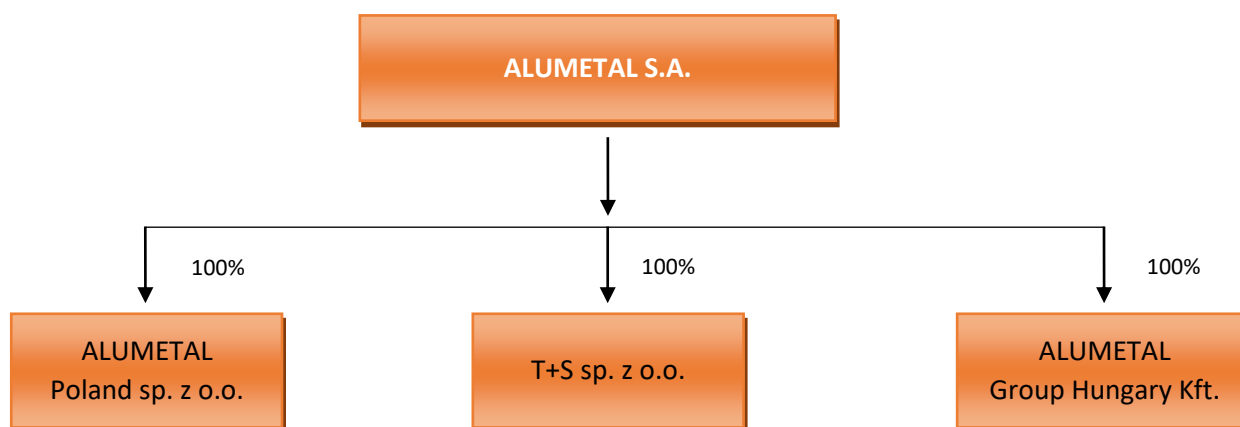
ALUMETAL Kęty sp. z o.o.

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

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. Prior to being sold and in previous years, this company did not conduct operating activities.

As at 31 December 2019, the organizational structure of the Alumetal Group was as follows:

Organizational structure of the ALUMETAL S.A. Capital Group



			% share held by ALUMETAL S.A. in the issued capital	
			31 Dec 2019	31 Dec 2018
ALUMETAL Poland sp. z o.o.	Nowa Sól, Poland	Production	100%	100%
T + S sp. z o.o.	Kęty, Poland	Production	100%	100%
ALUMETAL Group Hungary Kft.	Komarom, Hungary	Production	100%	100%

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

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

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

ALUMETAL Group Hungary Kft. is a Hungarian-law based company, manufacturing secondary aluminium casting alloys in a production plant in Komárom.

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

As at 31 December 2019, the following entities were consolidated:

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

2. Changes in the organisational structure of ALUMETAL Group

In 2019 and as at the date of the publication of this Directors' Report, the organisational structure of the Group did not change.

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

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

The Issuer is also related by capital with the entity controlled by Mr Grzegorz Stulgis, Chairman of the Supervisory Board: IPO 30 FIZAN A/S, which as at 31 December 2019 held a total of 5 108 221 shares of ALUMETAL S.A. which translated into a 32.99% share in the issued capital of the Company.

4. Intra-Group transactions

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

II. Statement of Corporate Governance

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

ALUMETAL S.A. has conducted business in accordance with Polish laws and the Company's Statutes.

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

The expression of the above principle of management is the observing by the ALUMETAL S.A. Capital Group of the policy of exercising the function of Group subsidiary companies' board members by persons who are members of the Management Board of ALUMETAL S.A., as well as possible appointment to the boards of subsidiary companies of additional persons, as required by business tasks of those subsidiary companies. As part of the compliance with this policy, as of 1 January 2015

the mandate of Management Board Member of ALUMETAL Poland sp. z o.o. and T+S sp. z o.o. has been held by Mr Tomasz Kliś.

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

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

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

In the period from 31 December 2018 to 31 December 2019, the principles of management of the Alumetal Group did not change.

2. Description of changes of the Statutes of ALUMETAL S.A

Pursuant to the provisions of § 11 section 2 point 6 of the Statutes of ALUMETAL S.A. any changes to the Company's Statutes fall exclusively within the competence of the General Shareholders' Meeting. All issues related to the manner of amending the Statutes are governed exclusively and strictly by the provisions of the Code of Commercial Companies. The Company's Statutes do not contain any special provisions in this respect.

3. Authorities of ALUMETAL S.A.

A. Annual General Meeting

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

The content of Regulations of Annual General Meetings is available on the Company's website in the tab: Investor relations/Corporate governance/Annual General Meeting.

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

Apart from other matters regulated by the provisions of the Code of Commercial Companies, other legal acts or provisions of the Company's Statutes, the following fall within the competence of the Annual General Meeting:

- 1) creation and elimination of all types of capital and funds, including special purpose capital and funds;
- 2) Company liquidation;
- 3) re-acquisition of own shares for redemption purposes, cancellation or decrease of the Company's issued capital;

- 4) disposal or lease of the Company's enterprise or an organised part thereof, or establishment of a limited property right thereon (*limited right in rem*), disposal of the Company's interest in subsidiary companies;
- 5) merger with another entity (business combination);
- 6) amendments to the Company's Statutes;
- 7) adoption of Regulations of the Company's Annual General Meeting.

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

On 17 May 2019, the Ordinary Annual General Meeting passed resolutions regarding the following:

- appointment of the Chairman of the Ordinary Annual General Meeting;
- adoption of meeting agenda;
- approval of Directors' Report on activities of ALUMETAL S.A. for 2018;
- authorization of the Financial statements of ALUMETAL S.A. for the year ended 31 December 2018;
- approval of Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year ended 31 December 2018;
- authorization of Consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2018;
- approval of the Report of Supervisory Board for 2018;
- approval of the Report on activities of Supervisory Board in 2018;
- approval of the Assessment of Alumetal Group's situation prepared by the Supervisory Board as well as of other assessments and information relating to certain defined aspects of the functioning of the Company set forth in the *Code of Best Practice for WSE Listed Companies*;
- appropriation of profit for 2018, dividend payment, determining dividend date and dividend payment date,
- acknowledgment of fulfilment of duties by Members of the Company's Management Board in 2018;
- acknowledgment of fulfilment of duties by Members of the Company's Supervisory Board in 2018;
- determining the principles of remuneration for members of the Audit Committee.

The Company has made public the full content of resolutions of the Ordinary Annual General Meeting in its current report No. 8/2019 of 17 May 2019.

B. Supervisory Board

During the reporting period, the composition of the Supervisory Board of ALUMETAL S.A. did not change and was as follows:

- Mr Grzegorz Stulgis – Chairman of the Supervisory Board,
- Mr Frans Bijlhouwer – Member of the Supervisory Board,
- Mr Szymon Adamczyk - Member of the Supervisory Board,
- Mr Paweł Małycka - Member of the Supervisory Board,
- Mr Michał Wnorowski - Member of the Supervisory Board.

Until the date of this Directors' Report, the composition of the Supervisory Board presented above did not change.

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

The Supervisory Board acts based on the Regulations of the Supervisory Board adopted by the Supervisory Board and authorized by the Annual General Meeting, the current content of which is available on the Company's website in the tab: Investor relations /Corporate Governance/Supervisory Board.

The Supervisory Board holds its meetings at least once every quarter.

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

The powers of the Supervisory Board include, in particular:

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

- 9) drafting and submitting to the Ordinary Annual General Meeting of the Company of a concise assessment of the Company's position, including the assessment of the internal control and material risks management systems;
- 10) considering and providing opinions on the matters which are to be the subject of resolutions of Annual General Meeting;
- 11) authorization of the policies, procedures and bylaws developed by the committees operated by the Company.

Pursuant to the regulations of the „2016 Code of Best Practice for WSE Listed Companies” implemented by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015 and the Code of Commercial Companies, the Supervisory Board of ALUMETAL S.A., at its meeting of 17 April 2019, passed resolutions in the following matters:

- assessment of the Directors' Report on activities of ALUMETAL S.A. for the year 2018 and of the financial statements of ALUMETAL S.A. for the year ended 31 December 2018, assessment of Management Board's proposal regarding 2018 profit appropriation, and assessment of the Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2018 and of the consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2018;
- acceptance of the report of ALUMETAL S.A.'s Supervisory Board on the assessment of Directors' Report on activities of ALUMETAL S.A. for the year 2018 and of the financial statements of ALUMETAL S.A. for the year ended 31 December 2018, on the assessment of Management Board's proposal regarding 2018 profit appropriation, as well as on the assessment of Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2018 and of the consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2018;
- assessment of the need to separate the internal audit function;
- acceptance of the Report of ALUMETAL S.A.'s Management Board on the assessment of internal control and risk management systems;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. an assessment of the position of the ALUMETAL S.A. Capital Group in 2018;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of the Report on activities of Supervisory Board in 2018;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of the assessment of the manner in which the Company complies with disclosure obligations regarding the application of corporate governance rules;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of information on non-pursuing sponsoring, charity or other similar activities;
- providing opinions on the matters and materials to be the subject of resolutions of Ordinary Annual General Meeting of ALUMETAL S.A. for the year 2018.

C. Audit Committee

Audit Committee operating as part of the Supervisory Board was established in accordance with the provisions of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

The main objective of the Audit Committee is to support the Supervisory Board, as Company's governing body established in accordance with the Company's Statutes, to fulfil its control and oversight obligations.

In accordance with Regulations of the Audit Committee of Alumetal S.A., Audit Committee is composed of at least three members, including Chairman of the Audit Committee, appointed and removed by the Supervisory Board from among Supervisory Board Members. The term of office of Audit Committee members coincides with the term of office of Supervisory Board members.

The tasks of the Audit Committee comprise, in particular:

1. Monitoring of the following:
 - a. financial reporting process at the Company;
 - b. efficiency of the internal control and risk management systems, and of the internal audit and the compliance system, if operated at the Company;
 - c. performance of financial audit activities, especially of the audit performed by an external audit firm, while observing all conclusions and factual findings of the Audit Supervision Committee (*Komisja Nadzoru Audytowego*) arising from the control of an audit company.
2. Controlling and monitoring of independence of a certified auditor and the entity authorised to audit financial statements, especially where services other than attest services are rendered to the Company;
3. Informing Supervisory Board about audit results and explaining how the performed audit contributed to the truth and fairness of the financial reporting at the Company, and what was the role of the Audit Committee during the course of the audit;
4. Assessing independence of a certified auditor and consenting to his rendering of allowed non-audit services;
5. Developing the policy of selecting audit firm authorised to audit financial statements;
6. Developing the policy of rendering by an audit firm and by a member of audit firm network of allowed non-audit services;
7. Determining the procedure for the selection of an audit firm by the Company;
8. Presenting to the Supervisory Board recommendations referred to in article 16 of Regulation [(EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities], in accordance with the policies referred to in point 5 and 6 above;
9. Forwarding recommendations aimed at ensuring truth and fairness of the reporting process at the Company;
10. During the process of audit firm selection, presenting to the Supervisory Board the recommendations referred to in article 130 para. 2 and 3 of the Act [of 11 May 2017 on statutory auditors, audit firms and public oversight].

During the reporting period, the composition of the Audit Committee of Alumetal S.A. did not change and was as follows:

- Mr Paweł Małycka - Chairman of the Audit Committee,
- Mr Michał Wnorowski - Member of the Audit Committee,
- Mr Grzegorz Stulgis - Member of the Audit Committee.

The required legal criteria of independence are fulfilled by two members of the Audit Committee i.e. by Mr Paweł Małycka and by Mr Michał Wnorowski.

Mr Paweł Małycka remains an independent person of the Audit Committee owing to the title of doctor of economics obtained in the Collegium of Management and Finance of the Warsaw School of Economics and his considerable professional experience in the field of financial analysis and investment portfolio management, as well as his knowledge and skills in the area of accounting and audit.

Mr Michał Wnorowski remains an independent person of the Audit Committee owing to his education i.e. completed university studies at the Warsaw School of Economics and the Cracow University of Economics, and owing to his professional experience in investment project management, market and financial analysis, business potential analysis, enterprise appraisal, investment portfolio management, and his knowledge and skills in the area of accounting and audit.

Mr Grzegorz Stulgis, due to his education i.e. completed university studies at the Poznań University of Economics and Business and held license of the investment adviser, professional experience in the field of financial analysis, investment portfolio management, business potential analysis and enterprise appraisal, participating capital interest and fulfilling the role in the Company's Supervisory Board for over 16 years and membership of the Chamber Council of the Economic Chamber of Non-Ferrous Metals and Recycling (*Izba Gospodarcza Metali Nieżelaznych i Recyklingu - IGMNiR*), has the required knowledge and skills relating to the Company's industry accounting and audits.

During the reporting period, no allowed non-audit services were provided to the Company by its auditor, except for the interim review of condensed separate and consolidated financial statements of Alumetal S.A. for the 6-month period ended 30 June 2019.

The Company operates the following policies: *The Policy of Selection of an Entity Authorised to Audit Statutory Financial Statements of the Company and of the Capital Group* („Polityka wyboru podmiotu uprawnionego do badania ustawowego sprawozdań finansowych Spółki i Grupy Kapitałowej”) and *The Policy of Providing Allowed Non-audit Services by an Audit Firm Performing the Audit of the Financial Statements of the Company and of the Capital Group, by Entities related to that Audit Firm or by Member of Audit Firm's Network* („Polityka świadczenia przez firmę audytorską przeprowadzającą badanie Spółki i Grupy Kapitałowej przez podmioty powiązane z tą firmą audytorską lub przez członka sieci firmy audytorskiej dozwolonych usług niebędących badaniem”), which were adopted by Resolution of the Supervisory Board on 10 October 2017 and then modified on 6 February 2020.

The main assumptions of *The Policy of Selection of an Entity Authorised to Audit Statutory Financial Statements of the Company and of the Capital Group* cover the process of selection by the Supervisory Board of an entity authorised to audit statutory financial statements of the Company and of the Capital Group after obtaining recommendations of the Audit Committee, while observing the following:

- Independence of an audit firm and certified auditor;

- Audit firm and certified auditor rotation rules in such a way that the maximum period of continuous statutory audit engagements conducted by the same audit firm or an audit firm related to that audit firm or any member of this audit firm network operating in EU member states does not exceed 5 years, and the key certified auditor does not conduct statutory audits for the period longer than 5 years (in that case, the key certified auditor may again engage in the audit of Company's statutory financial statements after 3 years of the completion of his last statutory audit);
- Factual findings and conclusions included in the annual report of the Audit Supervision Committee (*Komisja Nadzoru Audytowego*) which may affect audit firm selection;
- Fee of the audit firm or its subcontractors which should reflect the work input and work complexity and the required qualifications, and which shall not:
 - depend on any conditions, and by no means on audit results;
 - be warranted by or depend on providing to the Company or its related entities any additional non-audit services by the audit firm, entity related to the audit firm or any entity belonging to the network of the audit firm.

The main assumptions of the *Policy of Providing Allowed Non-audit Services by an Audit Firm Performing the Audit of the Financial Statements of the Company and of the Capital Group, by Entities related to that Audit Firm or by Member of Audit Firm's Network* comprise, in particular:

- Prohibition to render, directly or indirectly, by the certified auditor or an audit firm conducting statutory audit of the financial statements of the Company or of the Capital Group, entity related to that audit firm or belonging to the network of that audit firm, of forbidden non-audit services to the Company, its holding companies, or to the entities controlled in the EU territory in the following periods:
 - over the period from the commencement of audited period to issuance of auditor's report; and
 - in the financial year directly preceding the period referred to above in relation to legal services including:
 - i. providing general legal advisory,
 - ii. negotiating on behalf of audited company,
 - iii. acting in an advocacy role in the resolution of litigation;
- The prohibited non-audit services referred to above are the following:
 - a) Tax services relating to:
 - preparation of tax forms/ returns,
 - income tax,
 - customs duty liabilities,
 - identification of public aid (government grants) and tax incentives, unless the support of a certified auditor or an audit firm for such services is required by law,
 - support in the field of tax inspections carried out by taxation authorities, unless the support of a certified auditor or an audit firm for such inspections is required by law,
 - calculation of direct and indirect tax, and deferred income tax,
 - provision of tax advisory;
 - b) Services covering any participation in management or a decision-making process of audited entity, including, in particular, services of working capital management, providing financial

information, operating process optimization, cash management, determining transfer prices, enhancement of supply chain efficiency etc.

- c) Keeping books of account and preparation of accounting records and financial statements;
- d) Payroll-related services;
- e) Development and implementation of internal control procedures or the procedures of risk management relating to financial information preparing and control, or development and implementation of technological systems for financial information handling;
- f) Valuation services, including those performed in connection with actuarial or support services in legal dispute settlement;
- g) Legal services comprising: providing general legal advisory, negotiations on behalf of audited company, acting in an advocacy role in the resolution of litigation;
- h) Services related to the internal audit function of audited entity;
- i) Services related to financing, capital structure and capital allocation and investment strategy of a client, for whom audit services are rendered, except for such attest services relating to financial statements as issuance of comfort letters for share issue prospectuses of audited company;
- j) Conducting promotional activities and trading in shares of audited company on own account or underwriting share issuance for audited entity;
- k) Human Capital related services with regard to:
 - Executives that may exercise significant influence on preparing accounting documentation or financial statements subject to statutory audit, if such services comprise:
 - Recruitment or selection of candidates for such posts,
 - Checking the credentials/ references of candidates for such positions,
 - Development of organizational structure; and
 - Cost control.
- l) Other non-audit services.

On 4 December 2019, the Audit Committee of Alumetal S.A. passed a resolution in the matter of recommendation to the Supervisory Board on the appointment of an audit firm for the audit of separate (Alumetal S.A.) and consolidated (the Alumetal S.A. Capital Group) financial statements. This recommendation met all formal requirements regarding scope and legal basis.

In 2019, six meetings of the Audit Committee were held, i.e. on 15 March 2019, 21 March 2019, 18 June 2019, 12 August 2019, 19 November 2019 and 4 December 2019.

The Audit Committee also carried out its procedures in the out of office mode i.e. using electronic mail on 1 April 2019, 18 September 2019 and 2 December 2019, respectively.

D. Management Board

As at 31 December 2018, the composition of the Management Board of ALUMETAL S.A. was as follows:

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

On 17 April 2019, Mr Marek Kacprowicz resigned as President of the Management Board. On the same day, the Company's Supervisory Board appointed Ms Agnieszka Drzyżdzyk President of the Management Board, about which the Company informed the public in its current report No. 3/2019 of 17 April 2019.

As at 31 December 2019, the composition of the Management Board of ALUMETAL S.A. was as follows:

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

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

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

The powers of the Management Board comprise, in particular:

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

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

Resolutions of the Management Board are adopted by an absolute majority of votes. In the case of a voting tie, the casting vote is that of the President of the Management Board. Resolutions of the Management Board may also be taken with the use of the writing procedure or through the use of the means of distance communication.

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

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

The scope of rights and obligations of the Management Board, as well as the mode of its operation are laid down in the Work Regulations of the Management Board. The current content of these Regulations is available on the Company's website in the tab: Investor relations /Corporate Governance/Management Board.

4. Shareholding structure

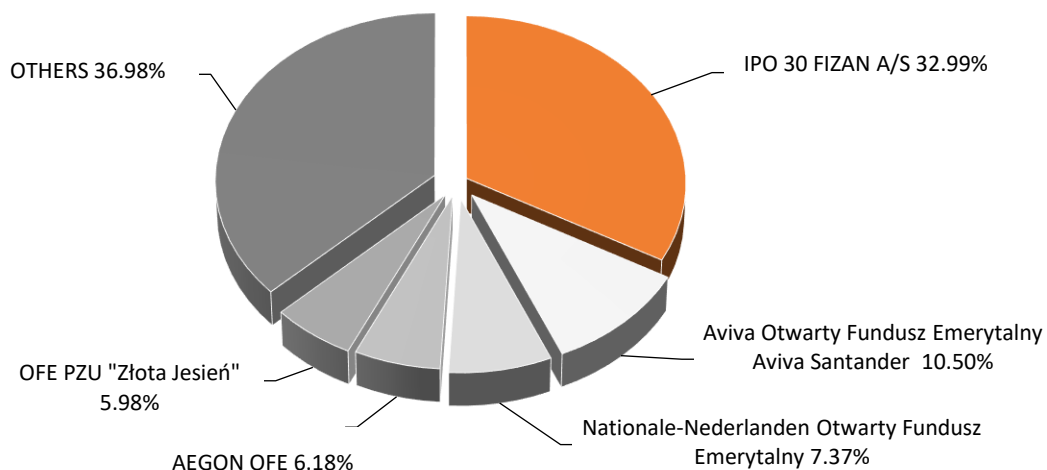
A. Shareholders of ALUMETAL S.A. with material blocks of shares

As at 31 December 2019, the Company had below information (in accordance with the notifications based on the Act of 29 July 2005 on public offering, terms and conditions of introducing financial instruments into organised system of trading and on public companies) ("Act on public offering") on the shareholders holding, directly or indirectly through subsidiary companies, at least 5% of the total number of votes at the Annual General Meeting of ALUMETAL S.A.

Shareholders holding, directly or indirectly through subsidiary companies, at least 5% of the total number of votes at the Annual General Meeting of ALUMETAL S.A. as at 31 December 2019				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
IPO 30 FIZAN A/S*	5 108 221	32.99	5 108 221	32.99
Aviva Otwarty Fundusz Emerytalny Aviva Santander	1 625 112	10.50	1 625 112	10.50
Nationale-Nederlanden Otwarty Fundusz Emerytalny	1 140 650	7.37	1 140 650	7.37
AEGON Otwarty Fundusz Emerytalny	956 216	6.18	956 216	6.18
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	925 305	5.98	925 305	5.98
Others	5 723 989	36.98	5 723 989	36.98
Total	15 479 493	100.00	15 479 493	100.00

*entity controlled by Mr Grzegorz Stulgis

Shareholding structure as at 31 December 2019



According to the contents of the notifications forwarded to the Company, as at 23 March 2020 the shareholding structure of ALUMETAL S.A. covered by the obligation to report significant blocks of shares did not change.

B. Share issue and re-acquisition of own shares

Detailed information regarding realization of the Incentive Program III that result in the issuance of Company's shares are presented in point 7 *Incentive Programs* of this Report.

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

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

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

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

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

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

Shares in ALUMETAL S.A. held by members of its Management and Supervisory Boards as at 31 December 2019					
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM	Total nominal share value in PLN
Grzegorz Stulgis, indirectly through IPO 30 FIZAN A/S	5 108 221	32.99	5 108 221	32.99	510 822.10
Krzysztof Błasiak	407 033	2.63	407 033	2.63	40 703.30
Szymon Adamczyk	279 233	1.80	279 233	1.80	27 923.30
Przemysław Grzybek	167 386	1.08	167 386	1.08	16 738.60
Agnieszka Drzyżdzyk	8 473	0.05	8 473	0.05	847.30
Frans Bijlhouwer	0	0	0	0	0
Michał Wnorowski	0	0	0	0	0
Paweł Małyska	0	0	0	0	0

During the reporting period, the following transactions of acquisition and disposal of Company's shares were realized by members of Management and Supervisory Boards:

- On 16 September 2019, Mr Krzysztof Błasiak, in the transactions on the WSE regulated market, acquired 2 890 shares, about which the Company informed the public in its current report No. 11/2019 of 16 September 2019;
- On 17 and 18 September 2019, Mr Szymon Adamczyk, in the transactions on the WSE regulated market, acquired 2 900 shares, about which the Company informed the public in its current report No. 12/2019 of 19 September 2019;
- On 2 October 2019, Ms Agnieszka Drzyżdzyk, in the transactions on the WSE regulated market, acquired 690 shares, about which the Company informed the public in its current report No. 13/2019 of 3 October 2019.

In the period from 31 December 2019 to the date of the publication of this Directors' Report, the number of shares held in ALUMETAL S.A. by the members of Management and Supervisory Boards of the Company did not change.

6. Emoluments of the members of Management and Supervisory Boards

Remuneration of Supervisory Board Members		Year ended 31 December 2019
Grzegorz Stulgis*	Chairman of the Supervisory Board	-----
Frans Bijlhouwer	Member of the Supervisory Board	36 000.00
Michał Wnorowski	Member of the Supervisory Board	54 523.81
Paweł Małyska	Member of the Supervisory Board	63 785.72
Szymon Adamczyk	Member of the Supervisory Board	36 000.00
Total remuneration paid		190 309.53

*Mr Grzegorz Stulgis has not been remunerated since 1 August 2016 for chairing the Supervisory Board

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

Based on the agreement signed in 2018 for the purchase of advisory services from the company operating under the name of Szymon Adamczyk Doradztwo, the Group received in 2019 invoices for the total amount of PLN 625 200.00.

Remuneration of Issuer's Management Board Members in the parent and subsidiary companies		Year ended 31 December 2019
Marek Kacprowicz ¹	President of the Management Board, CEO, until 16 April 2019	336 681.77
Agnieszka Drzyżdzyk	President of the Management Board, CEO, as of 17 April 2019	649 376.14
Krzysztof Błasiak	Vice-President of the Management Board, Development and Metal Management Director	1 322 899.54
Przemysław Grzybek	Member of the Management Board, Financial Director	657 955.36
Short-term employee benefits (payroll and surcharges), total		2 966 912.81

In the reporting period, no agreements were concluded between the Company and the members of the Management Board regarding compensation for their resignation or dismissal without valid reason, or where their dismissal was justified by Company's merger through acquisition.

Management Board Members have also continued to be covered by the Incentive Program III described in point 7 of this Report.

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

In 2019, the Alumetal Group did not operate retirement benefits or similar programs dedicated to the members of its management or supervisory boards.

7. Incentive Program

Incentive Program III for the years 2018-2020

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

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

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

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

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

On 3 November 2018, the Extraordinary Annual General Meeting of the Company resolved to modify the policy on determining share issue price for the Incentive Program III. The unit issue price of the Incentive Shares 3 will be PLN 48.60, which will be reduced by the sum total of benefits per share paid by the Company to its shareholders, being, in particular, shareholder dividend, paid or declared 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 2020, 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 year or from other equity components of the Company which are at its disposal for dividend payment purposes.

The above policies were also accounted for in the Incentive Program III Policy duly modified by the Supervisory Board on 3 October 2018.

In 2018, the Company fulfilled the conditions related to achieving the appropriate level of consolidated EBITDA and achieving the appropriate level of normalized consolidated net profit. However, the condition of achieving an appropriate return on the Company's shares in relation to the dynamics of changes in the WIG index was not met, which means that the Company has issued only 103,196 series D subscription warrants. All these warrants were taken up by the Eligible Persons in 4Q 2019. The right to subscribe for series G Incentive Shares resulting from the holding of series D subscription warrants may be exercised not earlier than from 1 July 2020 and not later than by 31 December 2022.

In view of the likely failure to meet the non-market conditions in 2019 for the E series subscription warrants, already in mid-2019 the cost related to these warrants was written off. As stated in December 2019, the market condition for E-series subscription warrants was also not met and this cost was also written off. Consequently, *none* of the 154,794 E series subscription warrants that could entitle their holders to subscribe for/take up 154,794 H series shares of the Company will be granted to the Eligible Persons.

Obtaining the right to subscribe for 154,794 series F subscription warrants and, as a consequence, to acquire up to 154,794 series I shares depends on the results achieved by the Company in 2020.

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.

Value of capital and cost of incentive programs	Year ended 31 December 2019	Year ended 31 December 2018
Capital under Incentive Program III	1 946 382.16	1 138 998.28
Cost of Incentive Program III	807 383.88	1 138 998.28

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

8. Diversity policy

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

Despite the absence of a formalised policy, the Alumetal Group seeks to apply the principles of diversity as demonstrated by the diversity of persons fulfilling the functions in the Management and Supervisory Boards of the Alumetal Group as regards their age, education, professional experience and gender.

9. Rules of best practice and corporate governance

A. *Best practice and corporate governance*

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

According to the Information published on the Company's website on 18 March 2020 on the status of application of the recommendations and principles contained in the Code of Best Practice for WSE Listed Companies 2016, the following Rules (Recommendations) for Best Practice 2016 for WSE Listed Companies *were not* complied with by the Company:

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

The Management Board of ALUMETAL S.A. decided *not to* observe the above Rule (Recommendation) for economic reasons.

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

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

- 1) general information about the company's remuneration system;*
- 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;*
- 3) information about non-financial remuneration components due to each management board member and key managers;*
- 4) significant amendments of the remuneration policy in the last financial year or information about their absence;*
- 5) assessment of the functioning of the remuneration policy in terms of achievement of its objectives, in particular long-term shareholder value creation and the stability of company's operations.*

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

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

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

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

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

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

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

C. Internal control system and risk management

The Management Board of the parent is responsible for the internal control system of the entire Group and for its efficiency during the process of preparation of periodic reports, separate and consolidated accounts, prepared and published in accordance with the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and on the conditions for recognition as equivalent the information required by laws of non-EU member states (the "Decree on current and periodic information").

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

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

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

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

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

D. Implementation of the compliance system at ALUMETAL Group

On 2 January 2020, a compliance system was implemented covering the functioning of all ALUMETAL Group companies. The implementation process was preceded by a series of preparatory activities, including, among other things, a review of applicable procedures and internal regulations as well as of business and operational processes in order to identify and assess the level of compliance risk of the ALUMETAL Group. The rules for the functioning of the compliance system were based on the guidelines and recommendations of the Polish Financial Supervision Authority, the Warsaw Stock Exchange, as well as chambers and associations, i.e. the entities specializing in the field of regulatory compliance.

III. Representations concerning non-financial reporting

These „*Representations concerning non-financial reporting by the ALUMETAL S.A. Capital Group*” (hereinafter the „*Representations*”) cover the non-financial reporting on the ALUMETAL S.A. Capital Group for the period from 1 January 2019 to 31 December 2019 and were prepared based on own policies, and, among others, based on the contents of the Announcement of the European Commission of 5 July 2017 – *Guidelines of the European Commission on non-financial reporting* (methodology for non-financial reporting), 2017/C 215/01, and the provisions of the Act of 29 September 1994 on accounting (the „*Accounting Act*”).

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

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

A. Group description

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

We cooperate with many automotive concerns both at home and abroad, and we comply with the highest quality requirements of that market segment. Close cooperation with our customers, primarily with those from the automotive industry, results in ongoing development, improvement of work standards and building of long-term partnerships. People are the main asset of each company, therefore we offer to our customers services provided by our highly qualified and well-coordinated team composed of the employees with many-years' experience and the younger ones who demonstrate creative and fresh perspective, who jointly accomplish the goals and objectives of the Alumetal Group, but first of all – through being close to the customers – offer customized services.

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

The main source of sales revenue for the Group are casting alloys whose sales accounted for approx. 97% of sales revenue of the Group in 2019 and it is this particular segment that has the greatest impact on the Group's financial result.

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

Aluminium is the most popular non-ferrous metal as regards its use. Over the last 40 years, global production and consumption of aluminium has increased more than four times. Owing to its unique features (lightweight, durability, strength, resistance to corrosion, and good thermal and electrical conductivity) as well as due to its re-cycling features, aluminium has been used in such industry sectors as transport, construction, energy, packaging or machine industry. Due to aluminium lightweight, compared to steel, demand for aluminium has continued to grow also in the automotive industry. The necessity to reduce CO₂ emissions by motor vehicles has been realised, among others, by reducing vehicle weight.

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

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

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

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

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

One of the main customers of secondary aluminium in Europe is the automotive industry. The Alumetal Group delivers almost 90% of its production to this industry sector. The concrete customers are leading manufacturers of vehicles and vehicle components in Europe with considerable production capacity and high quality norms. Apart from the automotive customers, the Alumetal Group has delivered its products also to the construction industry, white goods manufacturers, to the machine and steel industry. A growing group of customers are the recipients of master alloys, who represent a wide range of manufacturers of aluminium semi-finished products from the construction industry (e.g. profiles) through the automotive industry (e.g. car body sheets) to the food industry (e.g. tin cans or cling films).

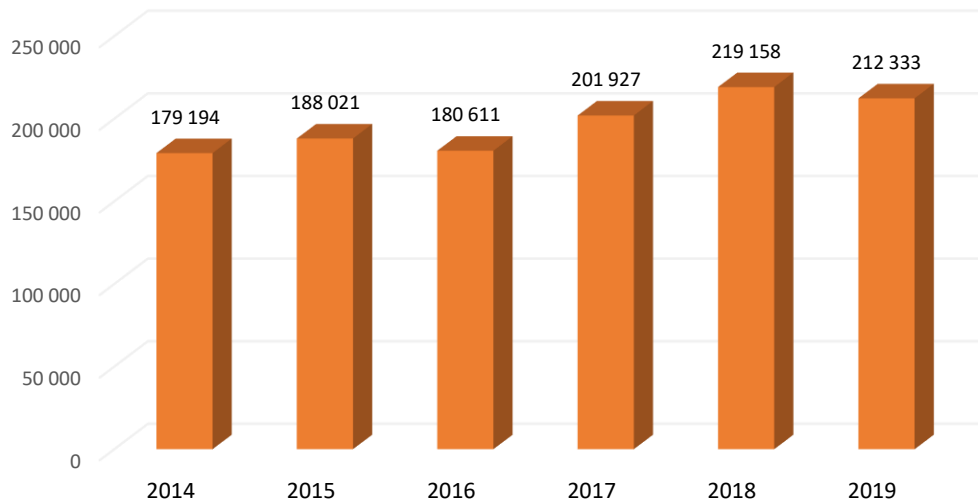
Another competitive advantage of the Alumetal Group is the fact that for many years now a trend has been observed in the automotive industry to transfer vehicle and vehicle components production to the CEE5 countries (Poland, Czechia, Slovakia, Hungary and Romania). The importance of this particular region on the map of European automotive industry has systematically grown. According to OICA, production of motor vehicles in the CEE5 countries increased to approx. 24% (an increase of 1.5 pp. compared to 2018) of total EU vehicle production, and the process of automotive industry relocation still continues (e.g. the JLR factory in Slovakia or Daimler engine production plant in Poland). This phenomenon supports sales volume increase and development of the Alumetal Group.

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

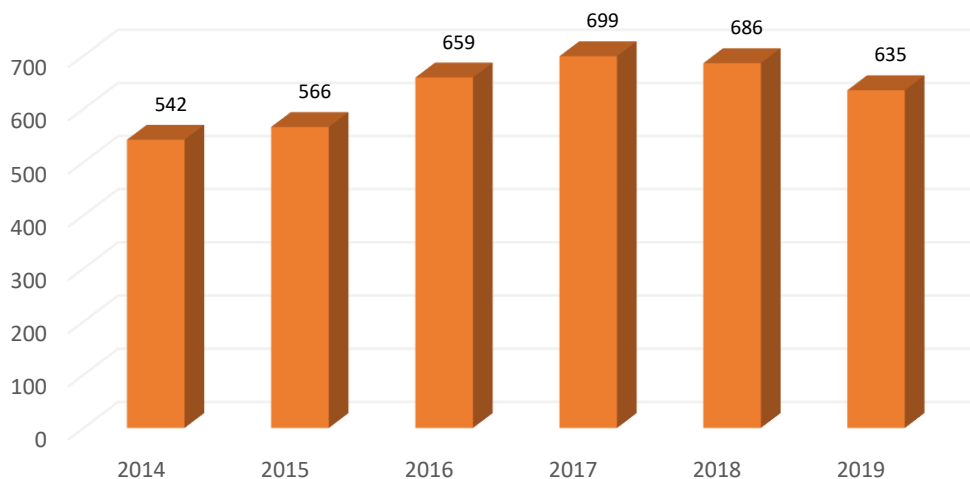
- a) systematic growth of the range of professional and ecological processing of aluminium scrap, and
- b) stable jobs in the Alumetal Group.

Changes in these areas in the last 6 years have been illustrated in the charts below. The decrease in both parameters in 2019 was mainly due to the downturn in the automotive industry and, consequently, the decrease in production and sales, and the continuation of the operational optimization process at the Alumetal Group.

Amount of scrap metals processed in the years 2014-2019 (tons)



**No. of employees at the Alumetal Group
in the years 2014-2019* (persons)**



*at the end of the period

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

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

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

A. Social environment

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

In the years 2016-2019, aid in such form was granted, among others, to the following institutions and organizations:

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

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

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

B. Staff-related issues

B.1 Values and communication

Employees with their experience and qualifications are Alumetal's greatest asset. The successes and current position of the Group wouldn't be possible without the engagement of all persons working with the company. Employees are encouraged to use their experience and to take the initiative and promote solutions to improve the functioning of the Alumetal Group. The aim is that the employees are highly qualified specialists with the best competences that will constitute a competitive advantage on the market; also efforts are made to standardize and to ensure transparency of HR processes throughout the organization.

The Alumetal Group seeks to create a good working environment and to build long-term relationships with employees. Particular attention is paid to employees who are new to the organization through dedicated adaptation program, so as to provide them with the best understanding of the Alumetal Group. The goal is to encourage employees to go beyond "the old ways" and present innovative ideas.

B.2 Recruitment policy

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

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

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

B.3 Structure of employment

As at 31 December 2019, the Group had 635 employees working based on an employment contract which account for 100% of posts (similar statistics for 2018).

Staff headcount at the Alumetal Group, by company

Company	31 December 2019	31 December 2018
Alumetal S.A.	55	59
Alumetal Poland sp. z o.o.	463	502
T+S sp. z o.o.	11*	5
Alumetal Group Hungary Kft.	106	120
Total	635	686

**The T + S team is 11 people, but 6.86 FTEs*

Staff headcount at the Alumetal Group, by gender

Gender	31 December 2019	31 December 2018
Females	75	77
Males	560	609
Total	635	686

Staff headcount at the Alumetal Group, by type of work

Type of work	31 December 2019	31 December 2018
White-collar employees	138	136
Blue-collar employees	497	550
Total	635	686

White-collar posts at the Alumetal Group, by gender

White-collar posts, by gender	31 December 2019	31 December 2018
White-collar employees-females	68	71
White-collar employees - males	70	65
Total	138	136

Executive and management posts at the Alumetal Group, by gender

Executive and management posts, by gender	31 December 2019	31 December 2018
Females	9	9
Males	36	36
Total	45	45

As at 31 December 2019, 88.2% of all Group employee posts were occupied by males compared to 11.8% occupied by females, which is mainly due to the character of conducted business activities (relatively difficult working conditions of blue-collar posts typical for the casting industry).

B.4 Professional development and training

At the Alumetal Group, employee training policy has been realized in a systematic manner. Training sessions have been carried out in accordance with annual training schedule, while observing current and development needs.

Group employees participate in:

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

B.5 Labour hygiene and safety

Employee health and occupational hygiene and safety (OHS), and ensuring good working conditions are one of the main priorities at the Alumetal Group. This objective has been realised by the activities provided for in the law, but also by additional training and by the initiatives promoting employee awareness that each person is responsible for his own and fellow employee occupational safety, which are all to eliminate any potential OHS risks at workplace.

One-off and long-term steps are taken to ensure safety at work. To this end, not only the activities required directly by legal regulations are executed as a minimum, but additional training is provided to improve all employee awareness of the importance of occupational safety. Risks are identified at particular workstations and occupational hazards are defined.

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

In October 2019, Alumetal S.A. and Alumetal Poland, together with business units in Kęty, Gorzyce and Nowa Sól, successfully passed recertification audit under BS OHSAS 18001:2007 norm for management system.

In 2019, 20 occupational accidents occurred at the Alumetal Group. The majority of them occurred at the Alumetal Group Hungary Kft. and resulted largely from employee low work experience and their high turnover. All these accidents, except for one, were classified as non-serious.

Occupational accidents at the Alumetal Group

Type of accident	2019	2018	2017
Non-serious accident	19	14	14
Serious accident	1	0	0

In 2019, a total of several hundred employees of the Alumetal Group participated in the OHS (occupational health and safety) training (both obligatory i.e. preliminary and cyclical, and advanced training). In addition, training was provided to several dozen persons from other entities who performed repair work on the premises of Group production plants. The conducted OHS initiatives increased workplace safety and improved working conditions of Group employees.

Risks identified in the area of staff-related matters:

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

Methods of identified risks management:

- organization of "open days" at individual production plants of the Group;
- cooperation with higher, intermediate and vocational schools with the curriculum of light metals industry;
- participation of the Group in work fairs;
- operating employee incentive programs;
- promotion opportunities for outstanding employees and care for good working conditions;
- systematic development and investments in new technologies;
- investments in and modernization of the field of occupational safety and health;
- systematic OHS training for all Alumetal Group employees that increase their awareness in this area;
- implementation of initiatives aimed at building the culture of safety at the Alumetal Group;
- operating and developing the OSH management system based on the BS OHSAS 18001 norm;
- ensuring ever better solutions and tools in the field of employee personal safety;
- significant and pro-active role of OSH inspectors at individual production plants.

C. Respecting human rights and counteracting corruption

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

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

The anti-mobbing policy contains the rules that prevent acts of mobbing in the workplace, among others, by fostering activities that contribute to building positive relations between employees in the Group and by offering employees training on psychological harassment. The objective of this policy is to counteract mobbing, among others, by non-acceptance of any and all behaviours associated with mobbing. *The anti-mobbing policy* provides for the manner of reporting of incidents of psychological harassment by employees, which are afterwards considered by the Anti-Mobbing Committee. The result of the work of the Anti-Mobbing Committee is a protocol covering all factual findings gathered during the course of the work, inclusive of the assessment of incident reporting validity and possible recommendations to eliminate identified irregularities and to prevent occurrence of mobbing incidents in the future. In addition, in order to provide employees with anonymous reporting channels, on 29 November 2019, *The procedure for anonymous reporting of [ethics and professional conduct] violations in the ALUMETAL Group (Procedura anonimowego zgłaszania naruszeń w Grupie ALUMETAL)* was adopted at the Group level.

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

- the risk of claims for compensation in the event of violating human rights, inclusive of mobbing incidents ascertained by appropriate state authorities;
- the risk of loss of reputation as a result of employee corruptive or fraudulent behaviour;
- the risk of property damage in the event of employee corruption or fraud activities.

Methods of identified risks management:

- implementation of *The anti-mobbing policy* with a view to effective counteracting incidents of violation of human rights;
- zero acceptance stance on the part of Group's executives and management board for the behaviour violating human rights;
- promoting the culture of respect for human rights among all employees of the Group;
- implementation of *The Anti-corruption policy* with a view to effective counteracting corruptive or fraudulent behaviour;

- operating the system of control and authorization of realised transactions and processes at all organizational levels in the Group.

D. Environmental protection

Here, at the Alumetal Group we perceive the protection of natural environment and its resources, and the impact of operating our plants on natural environment as an important issue and this standpoint results not only from the necessary compliance with legal requirements. The environmental policy of the Group is directed to clean production understood as making effort to reduce resource consumption, to reduce harmful emissions and to efficiently prevent damage.

In October 2018, all three manufacturing plants of Alumetal Poland sp. z o.o. and Alumetal S.A., as a managing company, successfully passed monitoring audit under ISO14001:2015 norm.

Due to the nature of conducted business activities, the Alumetal Group production plants are subject to the *Environment Protection Law*, *Waste Management Law* and other laws and regulations on environment protection. Each our production plant operates in accordance with the obtained, separately for each location, Integrated Permit, which define rigorous requirements for conducting business in accordance with the BAT (Best Available Technology) and impose appropriate limits for production plants in the matter of their impact on natural environment. The Alumetal Group for many years has operated its environment protection management system in accordance with the ISO 14001 norm.

Reduction of natural resource consumption is executed through the use of aluminium scrap obtained from the market. More than 90% of the raw materials used for production are scrap raw materials undergoing a technologically advanced recycling process. The ongoing production optimization process is carried out with a view to using other types of scrap metals with the concurrent aim of reducing gas or energy consumption.

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

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

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

In the reporting period, the Company has not received any complaints for violating environmental norms, laws or regulations. The lack of complaints from local residents only proves that the environmental impacts of production plants are effective.

In the reporting period, the production plants of Alumetal Poland sp. z o.o. successfully passed the so-called recycler audit arising from the amendments to the Act on packaging management and packaging waste.

The Act of 20 July 2018 on the amendment to the Waste Act and some other acts (Journal of Laws 2018, item 1592) and the Act of 19 July 2019 amending the Act on maintaining cleanliness and order in municipalities and certain other acts (Journal of Laws of 2019, item 1579) forced changes to the Integrated Permits at individual plants in Poland.

The production plants of the Alumetal Group carry out proper waste management, in accordance with binding legal regulations and the relevant permits obtained. Production plants in Poland in accordance with the Waste Act have complied with the requirement to keep records and manage waste using the BDO system.

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

Risks identified in the area of environmental protection:

- the risk of change in binding legal regulations, including the risk of tightening environmental protection requirements, which may involve incurring necessary adjusting costs or carrying out necessary investments in this area ;
- the risk of unexpected events as a result possible contamination or actual contamination of natural environment in connection with conducted business activities by Group plants (malfunctions, force majeure).

Methods of identified risks management:

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

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

1. ALUMETAL Group products

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

A. Casting alloys

The main output of the production process of the Group are aluminium casting alloys (casting alloys and master alloys) produced in the form of one-notch ingots (*alumiowe stopy odlewnicze produkowane w postaci gąsek dwudzielnych*) (of 6–8 kg) and in the form of waffle plates (wafers) (of approx. 12 kg) in Polish production plant in Nowa Sól, Kęty and Gorzyce, from where the Alumetal Group also provides alloys to customers in the form of liquid metal. The total real production capacity of the three Polish production plants of the Group amounted in 2017 to 173.0 thousand tons per year (in 2016 - 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 Komárom, which resulted in an increase in its production capacities to 233 thousand tons a year.

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 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.

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. 88% of the volume sold in 2019 compared to 89% sold in 2018), but also to such other industry segments as construction, metallurgy (metal), machine, smelting and other.

B. Fluxes and salts

The Alumetal Group, through the T+S sp z o.o. company, produces in the Kęty production plant auxiliary materials used in the smelting and casting industries, including fluxes (*topniki*), aluminium refiners (*rafinatory*), quenching salts (*sole hartownicze*), modifiers (*modyfikatory*), insulating casting powders (*zasypki izolacyjne*) and casting binders (*spoiwa odlewnicze*). The production capacity of the company 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. for the production of such goods as steel, cast steel (*staliwo*), cast iron, copper, aluminium and other non-ferrous metals.

C. Other

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

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

Detailed data are presented below:

THE ALUMETAL S.A. CAPITAL GROUP
Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2019

2019	Casting alloys	Fluxes and salts	Other	Unallocated items	Consolidation exclusions	Total
Total volume (tons), of which:	194 849	2 546	41 445	-	-16 419	222 421
- <i>inter-segment sales</i>	1 774	2 451	12 194	-	-16 419	-
Of which:						
Volume of goods (tons), of which:	194 849	2 519	4 644	-	-8 869	193 143
- <i>inter-segment sales</i>	1 774	2 451	4 644	-	-8 869	-
Volume of raw materials, scrap and services (tons), of which:	-	27	36 801	-	-7 550	29 278
- <i>inter-segment sales</i>	-	-	7 550	-	-7 550	-
Volume of goods for resale (tons), of which:	-	-	-	-	-	-
- <i>inter-segment sales</i>	-	-	-	-	-	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 363 561 886.30	6 011 791.56	144 061 610.05	-	-129 826 865.30	1 383 808 422.61
- <i>inter-segment sales</i>	15 500 302.89	5 681 427.83	43 875 731.18	-	-65 057 461.91	-
- <i>dividend income</i>	-	-	64 769 403.39	-	-64 769 403.39	-
Cost of sales	-1 256 035 035.35	-4 274 484.91	-70 903 292.64	-	63 768 503.61	-1 267 444 309.29
Gross profit on sales	107 526 850.95	1 737 306.65	73 158 317.41	-	-66 058 361.69	116 364 113.32
Selling expenses	-30 891 977.40	-222 322.06	-119 776.42	-	181.35	-31 233 894.53
Operating profit (before administrative expenses)	76 634 873.55	1 514 984.59	73 038 540.98	-	-66 058 180.34	85 130 218.78
<i>% margin</i>	5.6%	25.2%	50.7%	-	-	6.2%
Administrative expenses				-25 680 576.68	1 365 651.62	-24 314 925.06
Other operating income/ other operating expenses				2 603 056.62	-48 877.28	2 554 179.34
Depreciation/ amortization				32 152 066.41	-73 749.42	32 078 316.99
EBITDA*				-	-	95 447 790.05
<i>% margin</i>				-	-	6.9%
Finance income/ finance costs				-1 255 921.31	-	-1 255 921.31
Profit before tax				-	-	62 113 551.75
Income tax expense				-11 663 241.43	-	-11 663 241.43
Net profit for the year				-	-	50 450 310.32

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

THE ALUMETAL S.A. CAPITAL GROUP
Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2019

2018	Casting alloys	Fluxes and salts	Other	Unallocated items	Consolidation exclusions	Total
Total volume (tons), of which:	199 488	2 490	37 188	-	-14 392	224 774
- <i>inter-segment sales</i>	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
- <i>inter-segment sales</i>	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
- <i>inter-segment sales</i>	-	-	5 267	-	-5 267	-
Volume of goods for resale (tons), of which:	-	-	-	-	-	-
- <i>inter-segment sales</i>	-	-	-	-	-	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 629 970 906.29	5 655 181.06	130 527 269.71	-	-110 812 862.15	1 655 340 494.91
- <i>inter-segment sales</i>	16 394 056.04	4 997 031.06	44 409 312.33	-	-65 800 399.43	-
- <i>dividend income</i>	-	-	45 012 462.72	-	-45 012 462.72	-
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	53 929 171.46	-	-47 096 611.86	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	53 840 193.35	-	-47 086 396.62	114 338 894.40
<i>% margin</i>	6.5%	32.5%	41.2%	-	-	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
<i>% margin</i>				-	-	7.3%
Finance income/ finance costs				-294 658.56	-	-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

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

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

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

The consolidated financial statements for 2019 as well as the comparative data for the prior financial year have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and the related interpretations issued in the form of regulations of the European Commission.

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

On 1 February 2018, the Supervisory Board of the Company re-appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa to audit the financial statements of the Company and the Group for the years 2018 and 2019. Current audit contract was on 25 February 2018 extended for the following two years and will expire after the audit of the Company's financial statements for 2019. In the case of ALUMETAL Group Hungary Kft., the entity authorised to audit separate financial statements is Ernst & Young Konyvvizsgalo Kft.

The table below shows remuneration of the entity authorised to audit financial statements, paid or payable for the year ended 31 December 2019 and 31 December 2018, by type of services:

<i>Type of service</i>	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
Statutory audit of consolidated financial statements	100 000.00	100 000.00
Review of interim financial statements	50 000.00	50 000.00
Total	150 000.00	150 000.00

In addition, fee for the statutory audit of the financial statements of the ALUMETAL Group Hungary Kft. for 2019 performed by Ernst & Young Konyvvizsgalo Kft. was EUR 12 000.00 EUR (for 2018 – EUR 12 000.00).

2. Market situation

A. Sales market

In 2019 the production of motor vehicles in the European Union counted at 17.735 million pieces, and was 4.7% lower than in 2018 (source: OICA). The region of Europe has continued to be the second, after China, biggest manufacturing centre of motor vehicles and accounted for 23% share in the global production.

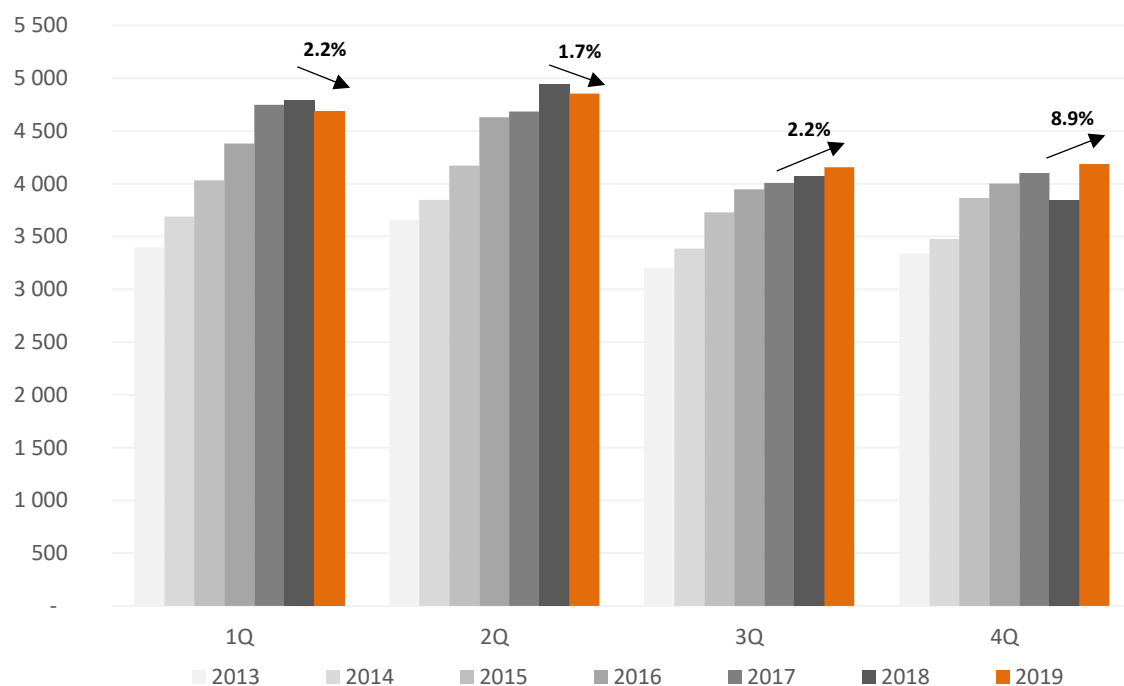
It should be noted that the role of the CEE5 region (Poland, Czechia, Slovakia, Hungary and Romania) in motor vehicle production has continued to grow. While the production of vehicles in the EU dropped in 2019 by nearly 5%, in the CEE5 Region – increased by 0.9% to 4.172 million pieces. Thus the share of this region in total UE motor vehicles production was nearly 24% in 2019 and increased from 22.4% in 2018. More than half of motor vehicles in the EU has continued to be manufactured in Germany and in the CEE5 region and accounted for 50% of the entire EU motor vehicle production (decrease by 1% compared to 2018, due to lower volume of cars manufactured in Germany). Relocation process of motor vehicle production facilities (vehicles and components) to the CEE5 countries has continued.

Registrations of new motor vehicles (passenger cars and commercial vehicles) increased by 1.4%, and therefore 2019 was the sixth year of vehicle sales growth in the European Union. In the first half of 2019, registration dropped by 2.0% and in the second half of the year sales rebounded by 5.5%. The increase in the second half of 2019 was caused by "advance" registrations due to the upcoming final stage of tightening CO2 emission standards (WLTP) as of 1 September 2019 and due to the beginning as of 1 January 2020 of the period for calculating penalties for automotive concerns for 2020 and 2021. Achieving the CO2 emission target of 95 g/km will be rather difficult.

In 2019, 15.34 million passenger vehicles were registered which marked a 1.2% increase compared to the prior year. In the same period, commercial vehicle market showed a 2.5% y/y increase and registrations of new vehicles in this segment reached 2.55 million pieces (source: ACEA). In analysing jointly the registration of new passenger cars (PC) and commercial vehicles (CV) in 2019, a 1.4% increase was recorded to the level of 17.89 million pieces. In 2019, the region that supported demand for new passenger vehicles was the CEE5 region, where registration levels grew by 5.5%. The results of the largest European automotive markets varied widely. Germany recorded a 5.0% increase in PC vehicles registration, France – a 1.9% increase, while Italy – only a 0.3% increase. On the other hand, Spain recorded a 4.8% decrease, and Great Britain – a nearly 2.4% decrease (source: ACEA).

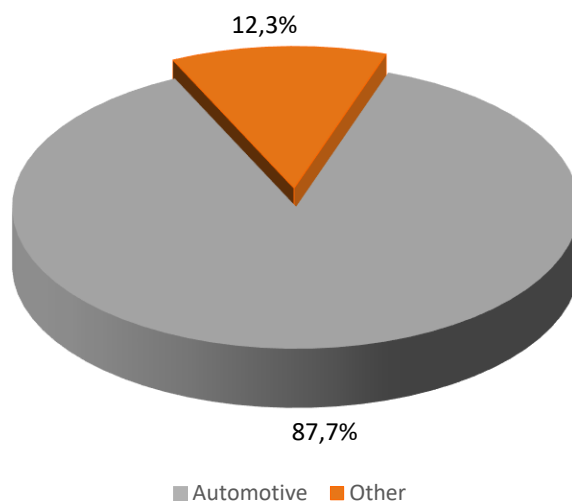
Presented below is the chart showing quarterly trends in the registration of passenger cars and commercial vehicles in the years 2013-2019.

Quarterly changes in registration of new vehicles in the years 2013-2019

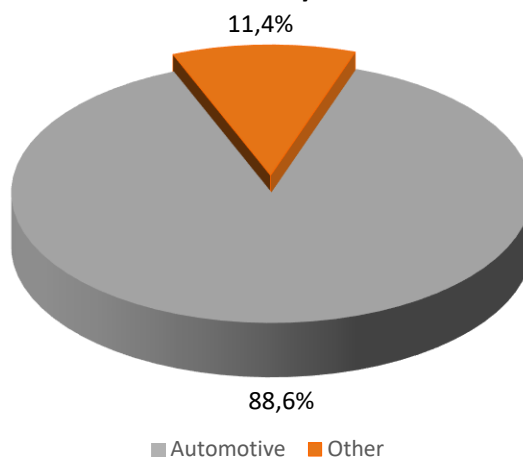


In 2019, sales volume of the Alumetal Group was 193 thousand tons and was by 2.5% lower on a y/y basis. The automotive industry continued to dominate in the structure of sales to individual industries - 87.7% (compared to the previous year, it was a 0.9 percentage point drop).

Sales in 2019 of finished goods of the Alumetal Group, by industry

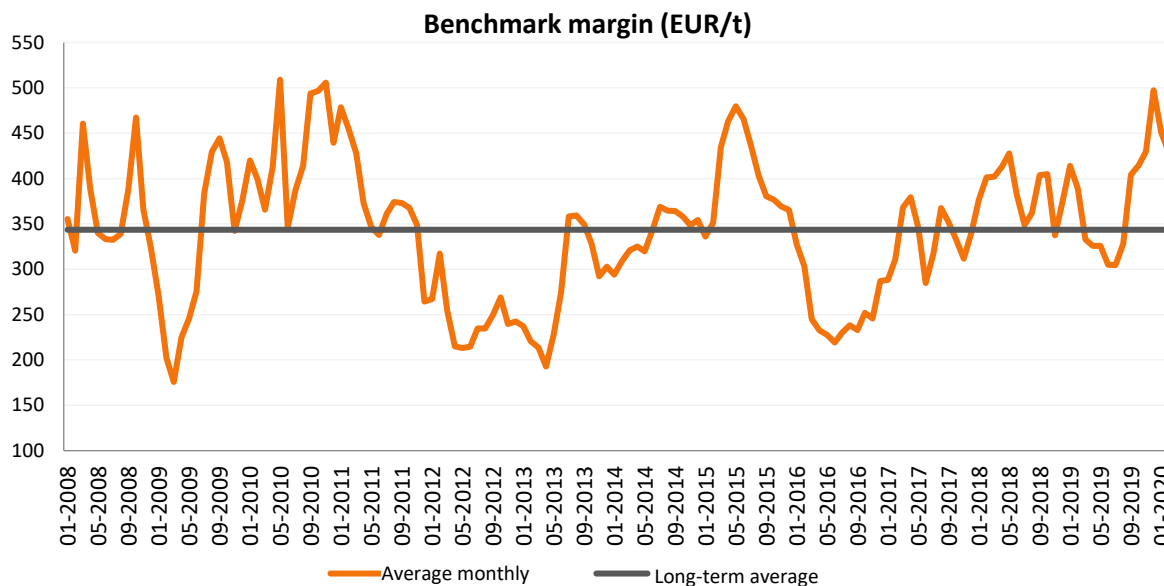


Sales in 2018 of finished goods of the Alumetal Group, by industry



The analysis of market price index (arm's length margin) i.e. of the spread between the price of standard aluminium alloy (alloy 226) and purchase price of appropriate metal scrap used to produce this alloy shows that, on average, the margin analysed for that period was 373 EUR/ton and was 3% higher than the average margin for 2018, and 11% higher than the average long-term margin (average margin from the beginning of the analysis i.e. from 2008 to the end of 2018 was 342 EUR/ton). The minimum margin for 2019 was 305 EUR/ton (June, July), while the maximum margin stood at 498 EUR/ton (December). Such considerable differences in short periods of time did not facilitate sales margin optimization.

In addition, in the opinion of the Management Board, the BM's margin in 4Q 2019 did not reflect the market situation as regards scrap prices (despite the increase in scrap prices, this parameter in the BM remained unchanged). The situation normalized in 1Q 2020.



In 2019, the Alumetal Group earned revenues at the level of PLN 1,383.8 million, thus recording a 16.4% decrease compared to 2018, which was the result of a 2.5% decrease in sales volume and a decrease in the average sale price of products by approx. 14% as a consequence of the decline in production in the European automotive industry.

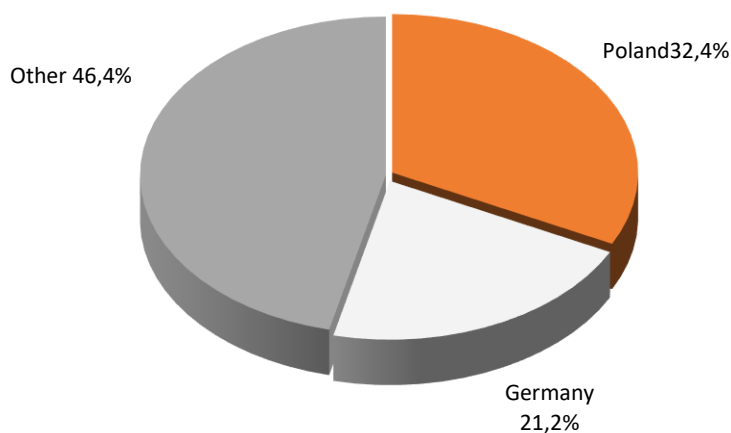
In the whole 2019, the share of exports in total sales was more than 67.6% that is as in the previous year.

The Alumetal Group sales structure, by geographical area	2019	2018
Polish market	32.4%	32.4%
Other markets	67.6%	67.6%

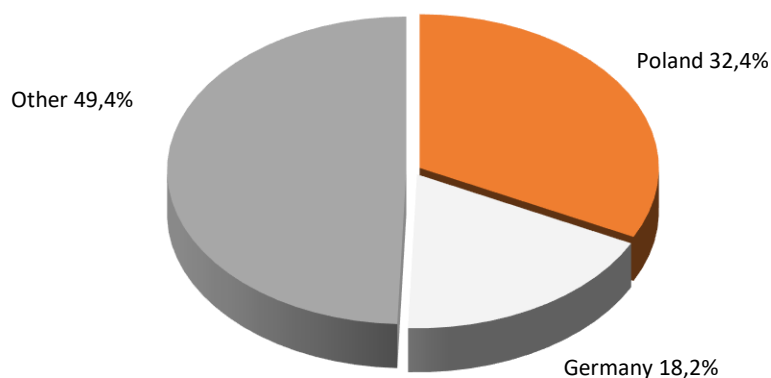
In 2019, the policy of sales diversification and sales portfolio development was continued by acting proactively in the area of acquiring new customers. In 2019, the Alumetal Group acquired 21 new customers, including the customers for both the Group's aluminium alloy products, master alloys and for fluxes and salts.

The below charts show the geographical structure of Group sales for the years 2019 and 2018 (data as per delivery location of Group customers).

Geographical structure of sales in 2019



Geographical structure of sales in 2018



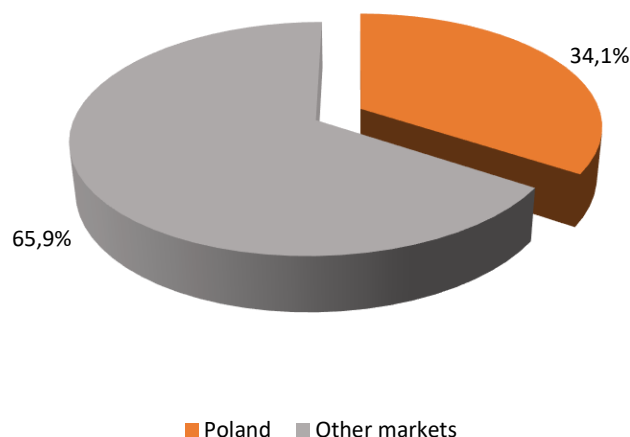
In 2019, the Volkswagen Group was the only customer with whom the Alumetal Group generated revenues accounting for more than 10% of total annual revenue.

B. Supply market

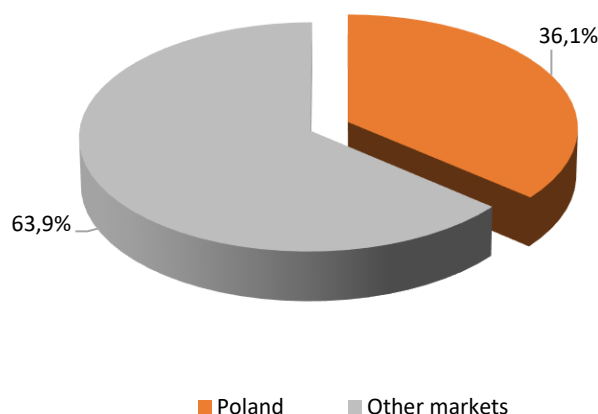
In 2019, the Alumetal Group acquired 212 thousand tons of aluminium scrap, which means a 3.2% decrease compared to 2018. In this period, the Alumetal Group acquired 25 new suppliers of scrap. Lower volumes of aluminium scrap purchases were the result of lower sales of alloys in 2019.

The share of scrap purchased on the domestic market in total scrap purchases decreased from 36.1% in 2018 to 34.1% in 2019.

Geographical structure of purchases in 2019



Geographical structure of purchases in 2018



In the period from December 2018 to November 2019, scrap exports from Poland increased by 2.0% to 254 thousand tons. In the same period, scrap imports decreased by 16.8% to 223 thousand tons. As a result, Poland again became a net exporter of aluminium scrap at 31 thousand tons in 2019 against net importer of 17 thousand tons in 2018. In 2019, exports increased by 12.5% to 1 091 thousand tons (the share of exports to China and India increased from 54.0% to 56%). In the same period, scrap imports to the EU increased by 10.5% to 514 thousand tons. Consequently, net exports of aluminium scrap from the EU increased from 495 thousand tons in 2018 to 577 thousand tons in 2019.

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

The table below shows summarized consolidated data of the Alumetal Group for 2019 and the comparative data for 2018.

THE ALUMETAL S.A. CAPITAL GROUP
Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2019

ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME & STATEMENT OF CASH FLOWS	In PLN thousand		In EUR thousand	
	12 -month period of 2019	12 -month period of 2018	12 -month period of 2019	12 -month period of 2018
Volume of sold goods – in tons	193 143	197 718	193 143	197 718
Revenue from contracts with customers	1 383 808	1 655 340	321 681	387 949
Operating profit	63 369	90 840	14 731	21 289
EBITDA	95 448	121 381	22 188	28 447
EBITDA – unit in PLN/ ton	494	614	115	144
Profit before tax	62 114	90 545	14 439	21 220
Net profit	50 450	74 346	11 728	17 424
Net cash flow from operating activities	179 185	96 007	41 653	22 500
Net cash flow from investing activities	-34 015	-33 802	-7 907	-7 922
Net cash flow from financing activities	-72 314	-53 252	-16 810	-12 480
Total net cash flow	72 856	8 953	16 936	2 098
Basic net earnings per share attributable to equity holders of the parent (in PLN / EUR)	3.26	4.80	0.76	1.13
Diluted net earnings per share attributable to equity holders of the parent (in PLN / EUR)	3.26	4.80	0.76	1.12

ITEMS OF THE STATEMENT OF FINANCIAL POSITION	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Total assets	765 943	865 757	179 862	201 339
Non-current assets	368 210	372 137	86 465	86 543
Current assets	397 733	493 621	93 397	114 796
Shareholders' equity	519 793	533 745	122 060	124 127
Issued capital	1 548	1 548	363	360
Non-current liabilities	42 057	50 198	9 876	11 674
Current liabilities	204 094	281 815	47 926	65 538
Number of shares	15 479 493	15 479 493	15 479 493	15 479 493
Basic carrying amount per share (PLN/EUR)	33.58	34.48	7.89	8.02
Diluted carrying amount per share (PLN/EUR)	33.58	34.45	7.89	8.01
Declared or paid dividend per share (PLN/EUR)	0.00	4.08*	0.00	0.95*

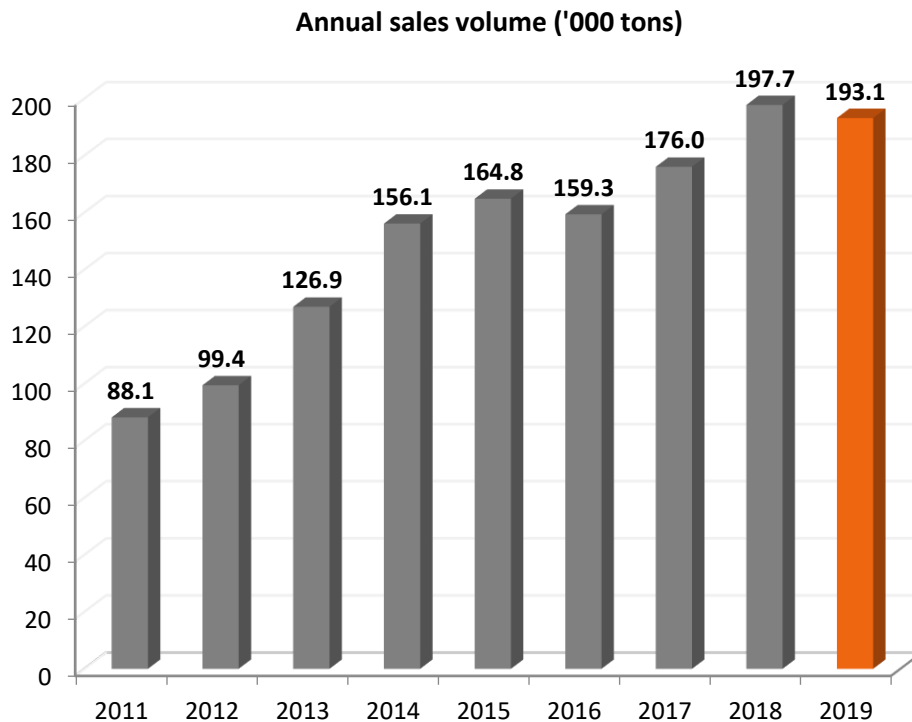
* dividend paid

The above financial data for 2019 and 2017 were translated into EUR in the following manner:

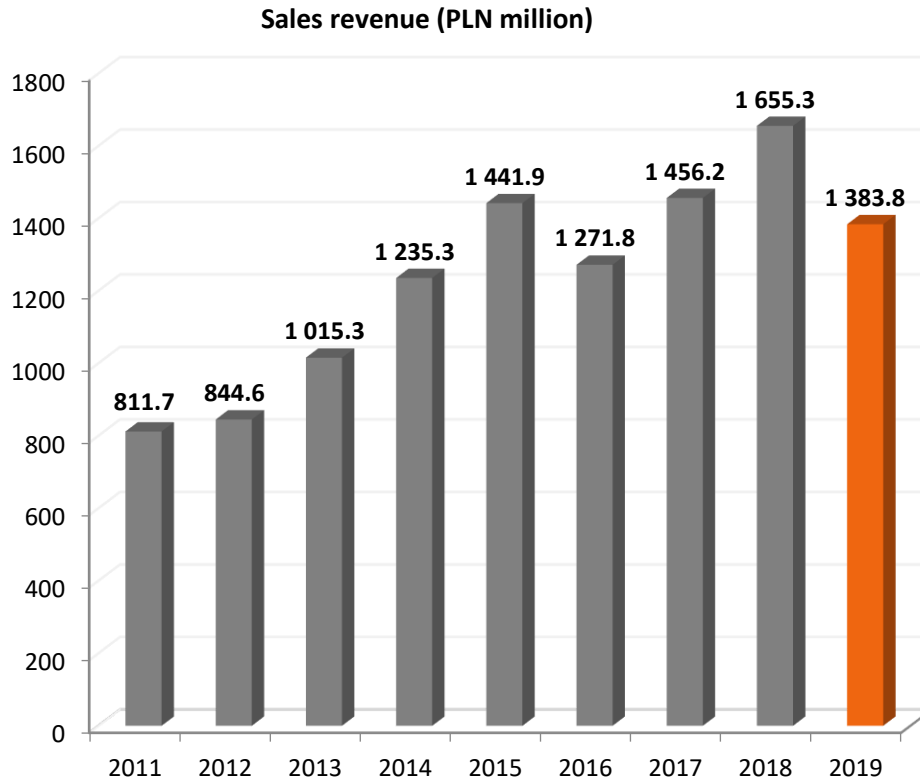
- components of assets and liabilities – at the average NBP exchange rate prevailing as at 31 December 2019 i.e. EUR/PLN 4.2585, and 31 December 2018 i.e. EUR/PLN 4.3000
- components of the statement of comprehensive income and the statement of cash flow – at the exchange rate being the mathematical average of the NBP exchange rates prevailing at the last days of the month: for 12 months of 2019 - EUR/PLN 4.3018 and for 12 months of 2018 - EUR/PLN 4.2669.

Due to the fact that sales of the *Castings alloys* segment account for approx. 97% of total sales revenue of the Group in 2019, it is this particular segment that decides about the overall results of the Group. Nevertheless the results of other segments (*Fluxes and salts and Other*) are also positive, and detailed information on the profitability of each segment was included in point III.1 of this Directors' Report.

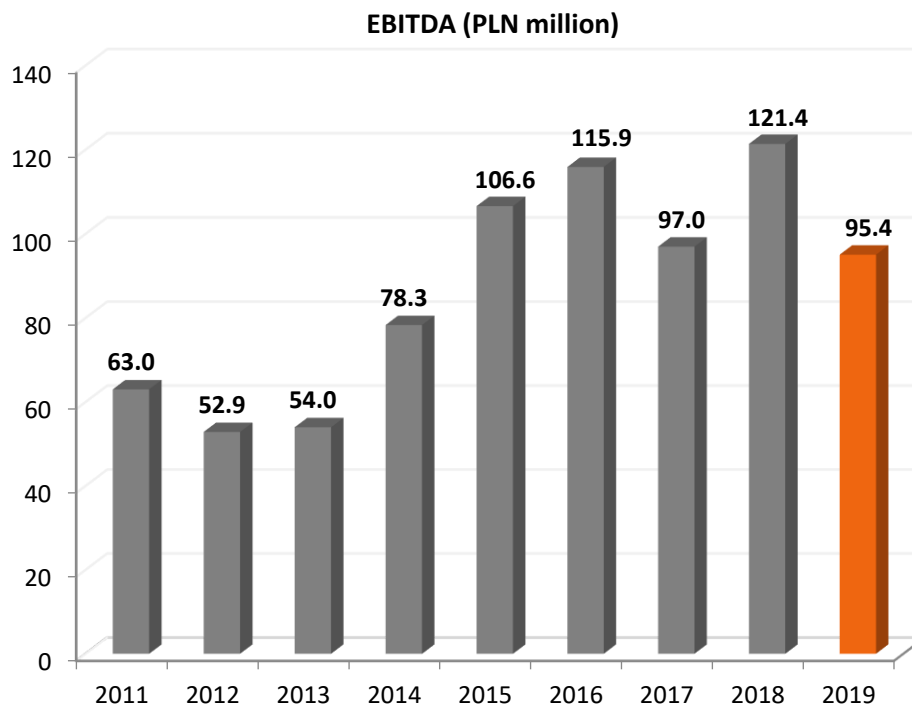
Due to the downturn in the automotive industry, the Group's sales volume was 193.1 thousand tons and fell by 2.3% in 2019. Compared to 2011, sales volume increased by 119%.



Sales revenue of the Alumetal Group from contracts with customers amounted to PLN 1 383.8 million and decreased in 2019 by 16%, which was due to the decrease in sales volume referred to above and to a 14% decrease in average selling price of goods compared to the prior year. Revenue for 2019 was 70% higher compared to 2011.

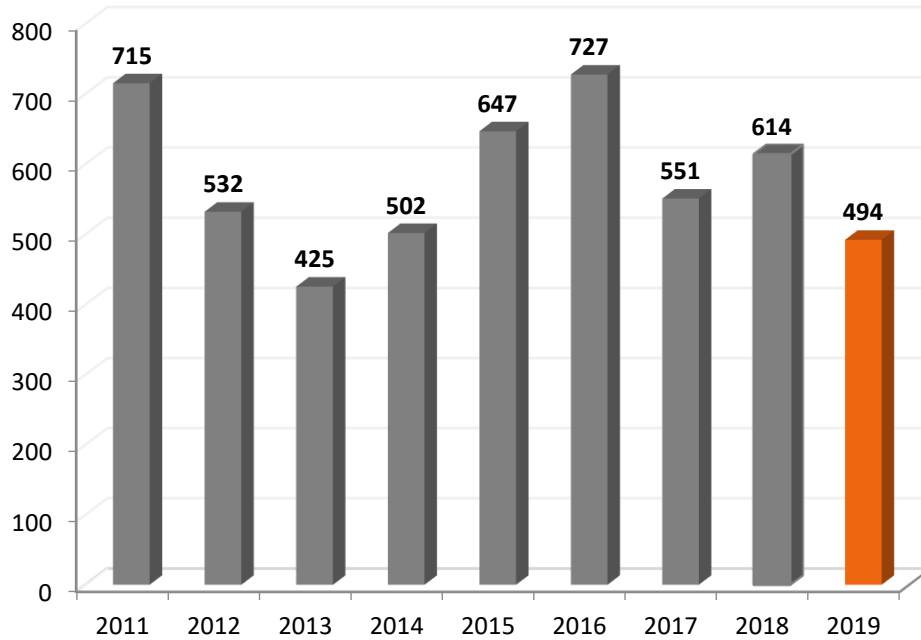


The EBITDA earnings amounted in 2019 to PLN 95.4 million and were 21% lower compared to 2018. The main factors which had adverse impact on the 2019 EBITDA result were lower sales volumes and decrease in unit EBITDA. The decline in both parameters was affected by the downturn in the automotive industry.



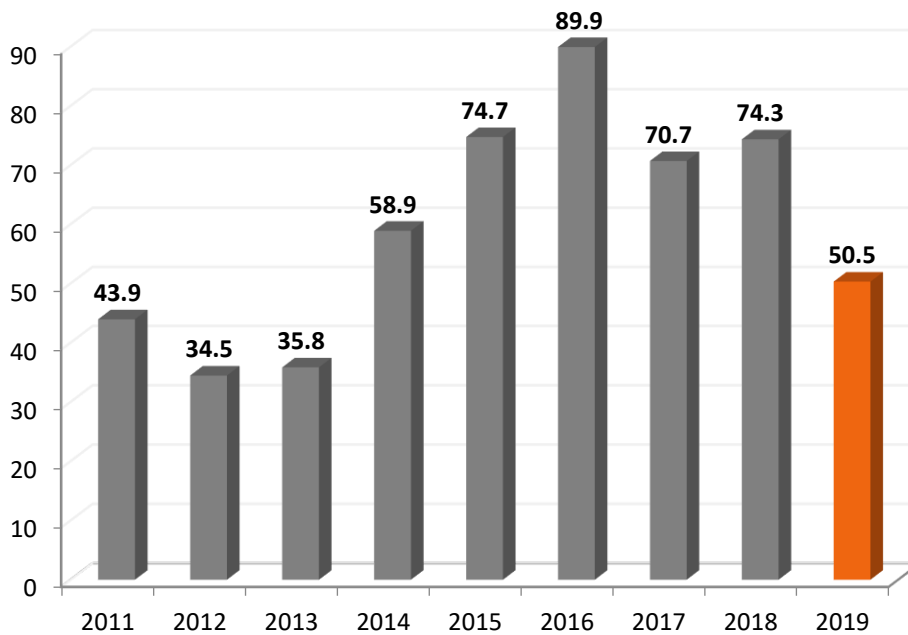
The unit EBITDA ratio in 2019 was PLN 494/ton, and was 20% lower compared to 2018, which means that in 2019 it was 16% lower than the 8-year average result of the Group.

Unit EBITDA earnings (PLN/t)



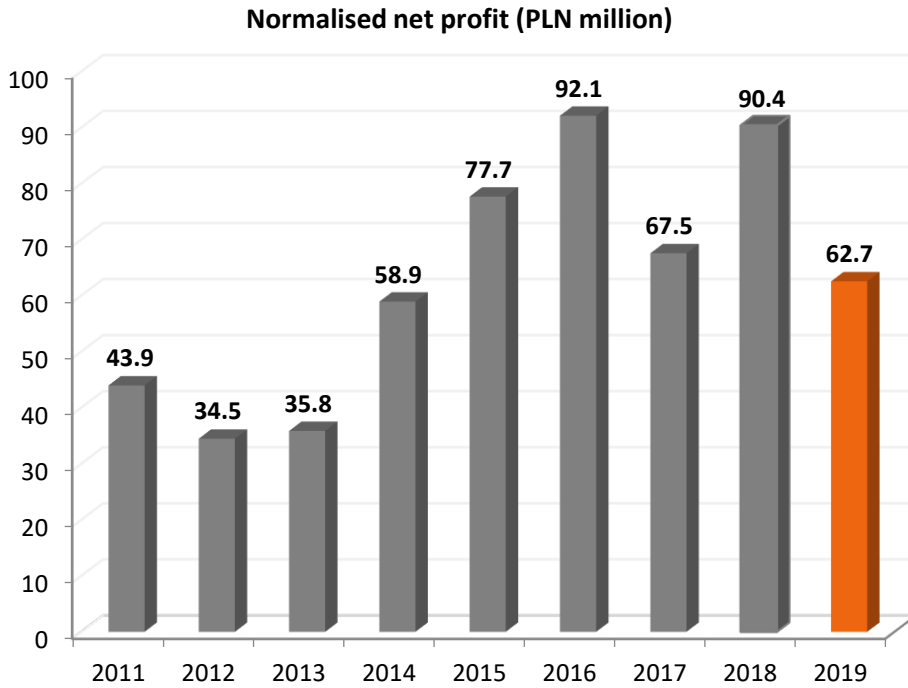
The reported net profit for 2019 amounted to PLN 50.5 million, which means that it was 32% lower compared to 2018.

Net profit (PLN million)

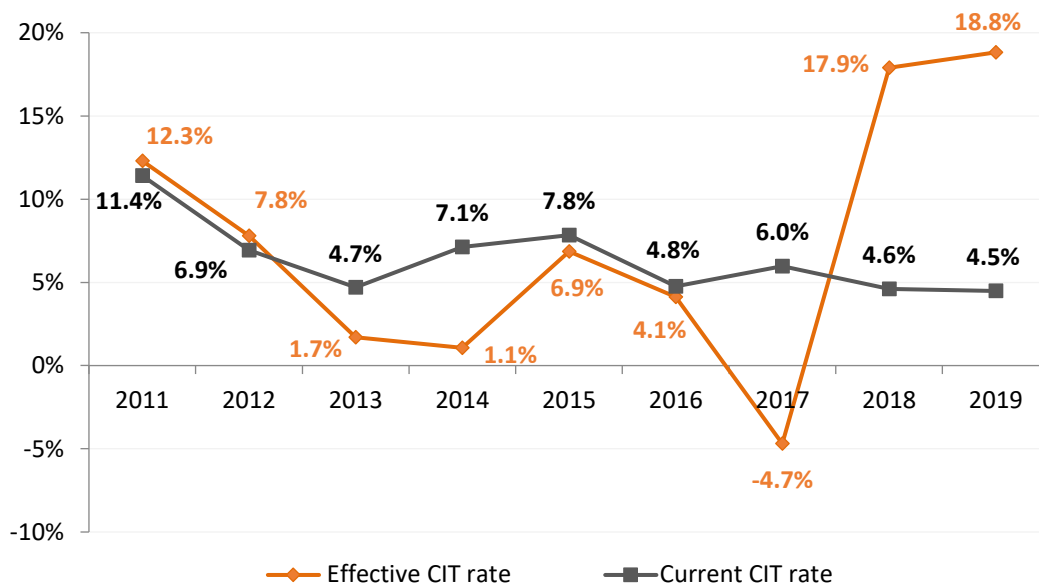


To illustrate the effects of asset valuation in the form of a CIT exemption, the Alumetal Group reported normalised profit (i.e. the reported profit adjusted for the effect of valuation of deferred tax asset from income tax exemption), and - starting from 2017 profit appropriation - modified its dividend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

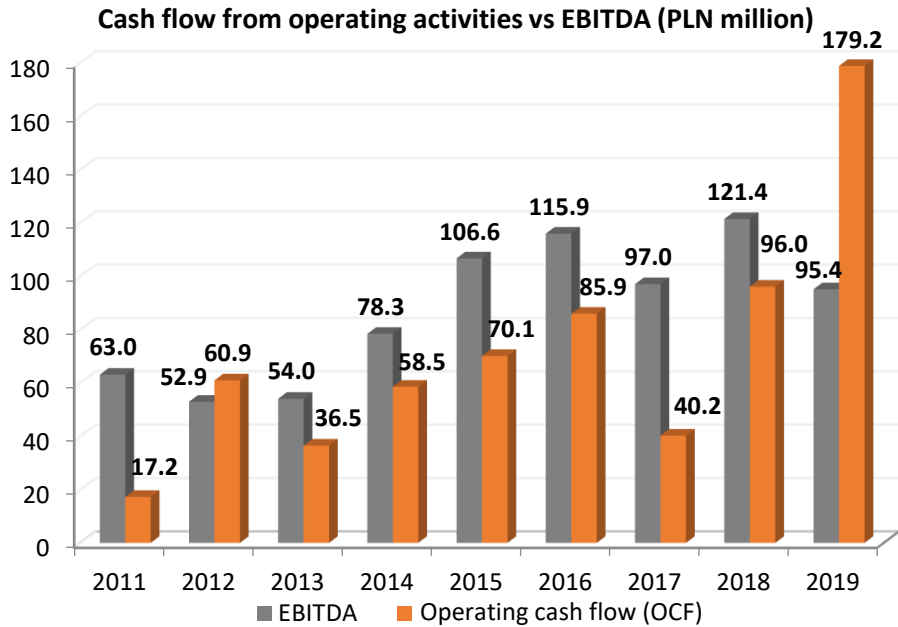
The chart below shows normalised net profit for 2019 which amounted to PLN 62.7 million and was 31% lower than in 2018.



The effective CIT rate (being the CIT ratio reported in the Consolidated Financial Statements from total income to gross profit) in 2019 was 18.8%, while the current CIT rate (the CIT ratio from CIT payable to tax offices for a given period to gross profit) was 4.5%.

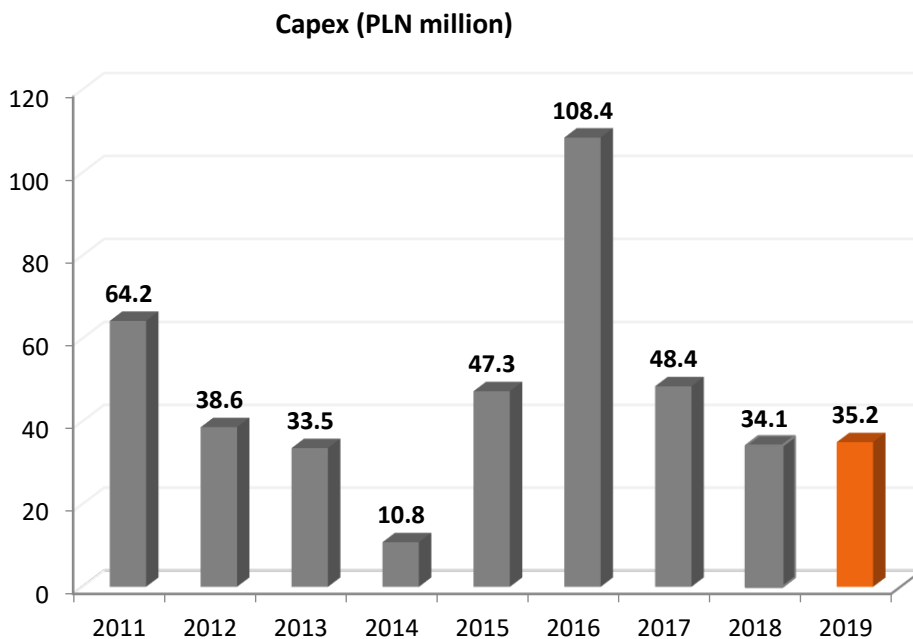


Throughout 2019, operating cash flow was PLN 83.8 million higher than EBITDA. The main factors affecting the very high level of operating cash flow were lower production and sales, a significant drop in prices (on average by 16% when comparing the 4Q 2019 to 4Q 2018) and a shortening of the net Working Capital Days ratio by 10 days, which - when combined - resulted in a very significant decrease in working capital employment.



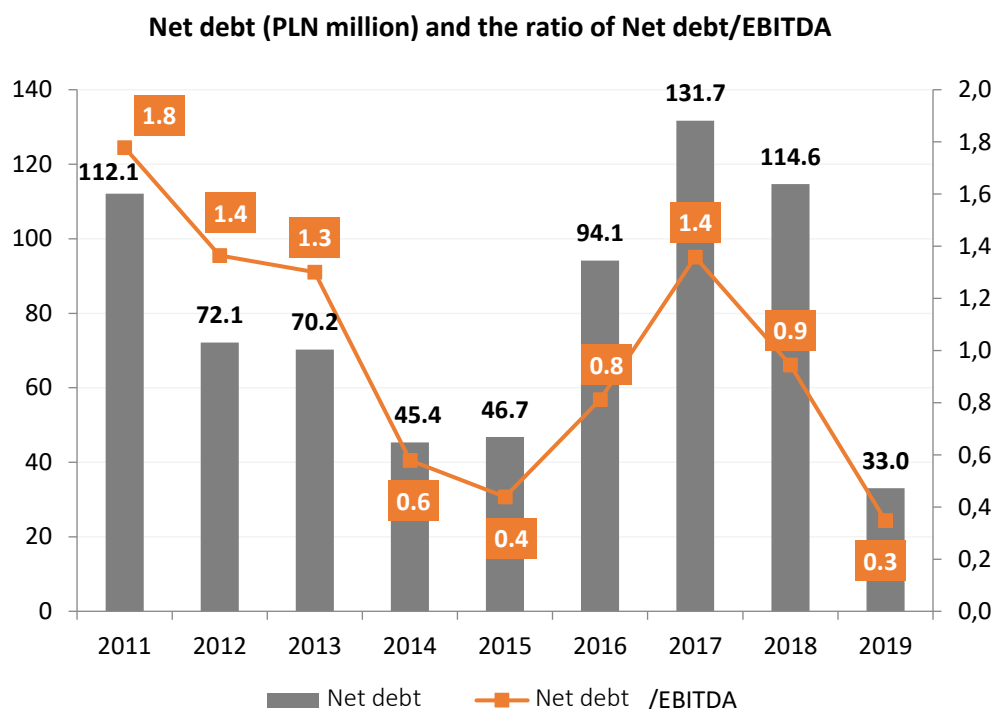
In 2019, capital expenditure amounted to PLN 35.2 million and was 3% higher compared to 2018. The structure of capital expenditure in 2019 was as follows:

- PLN 29.8 million for product mix/ modernization and production capacity increase
- PLN 5.4 million for replacement and retrofitting.



At the end of 2019, the net balance of interest due and payable was PLN 33.0 million i.e. was 71% lower than at the end of 2018. Debt reduction, despite lower EBITDA, continued capital expenditure and dividend payment at the level of 70% of normalised consolidated net profit, was possible owing to significantly lower need for net current assets in 2019.

The ratio of Net debt /EBITDA at the end of 2019 remained at a record low level of 0.3, which was significantly lower than at the end of 2018.



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

These ratios demonstrate good or very good efficiency of the operations of the Group at the level of EBITDA margin and net profit margin in the long-term perspective. Apart from sales profitability, the ratios of return on assets (ROA) and return on equity (ROE) remained at a satisfactory level, while noticeable fluctuations in these parameters are of moderate value.

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

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

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

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

Financial ratio	Ratio description	2019	2018	2017	2016	2015	2014	2013	2012
EBITDA margin (%)	EBITDA/Revenue from contracts with customers	6.9%	7.3%	6.7%	9.1%	7.4%	6.3%	5.3%	6.3%
Net profit margin (%)	Net profit/Revenue from contracts with customers	3.6%	4.5%	4.9%	7.1%	5.2%	4.8%	3.5%	4.1%
Return on assets (ROA) (%)	Net profit/Total assets	6.6%	8.6%	8.4%	12.4%	12.4%	11.0%	7.4%	8.0%
Return on equity (ROE) (%)	Net profit/Shareholders' equity at the beginning of the period	9.5%	14.8%	14.7%	21.9%	20.5%	20.6%	14.4%	16.1%
Liquidity I (multiplicity)	Total current assets/Current liabilities	1.9	1.8	1.6	1.9	2.0	1.8	1.7	1.7
Working Capital Days (days)	Inventory days + Debtors days – Creditors days	67	77	70	65	51	60	66	74
Capital immobility ratio (multiplicity)	Total non-current assets /Total current assets	0.93	0.75	0.83	0.98	0.76	0.61	0.77	0.83
Stability of financing (%)	(Shareholders' equity + Non-current liabilities)/Total equity and liabilities	73.4%	67.4%	66.9%	73.4%	72.0%	64.5%	65.9%	67.5%
Debt ratio (%)	(Total equity and liabilities – Shareholders equity)/Total assets	32.1%	38.3%	40.2%	35.5%	31.0%	39.4%	40.9%	42.4%
Net debt/EBITDA (multiplicity)	(Bank loans and borrowings – cash)/EBITDA	0.3	0.9	1.4	0.8	0.4	0.6	1.3	1.4

Margins realised by the Group show considerable stability, interest due and payable is very low, working capital ratio is high and the financial liquidity - very good, which all cause that the prospect of discharging liabilities by ALUMETAL S.A. and subsidiary companies on time is completely secure.

4. Significant and non-routine events, significant agreements and factors with impact on 2019 results

A. Development of Master Alloy Plant in Gorzyce

Investment expenditure related to the implementation of this project has accumulated to PLN 58.8 million since the beginning of the investment. In 2019, technical and technological tests related to the production of master alloys in the form of wire were carried out in order to achieve the required product quality. In the second half of the year, the process of validation and sale of the first batches of products began.

B. Signing Annex No. 2 to cash subsidy contract with the Hungarian Ministry of Foreign Affairs and Trade

On 13 December 2018, an application was filed for a change in the contract for cash subsidy concluded on 21 October 2015 with the Hungarian Ministry of Foreign Affairs and Trade concerning subsidy for the project called *Construction of a production plant in Hungary (Budowa Zakładu na Węgrzech)*. The change that was applied for related to reducing the obligation of the ALUMETAL Group Hungary Kft. to maintain the minimum headcount from 113 to 100 employees. This application was accepted and caused that annex No. 2 to cash subsidy contract was signed in February 2019.

C. Resignation of the President of Management Board

On 17 April 2019, the Supervisory Board and the Company received a written resignation of Mr Marek Kacprowicz from the function of the President of the Management Board and membership in the Company's Management Board and subsidiaries with effect from 17 April 2019. The Company informed the market about this by publishing its current report No. 3/2019 of 17 April 2019.

D. Appointment of the President of Management Board

On 17 April 2019, the Company's Supervisory Board appointed Ms Agnieszka Drzyżdzyk to act as President of the Management Board for a joint 3-year term of office, which the Company announced by publishing its current report No. 3/2019 of 17 April 2019.

E. Receipt of last cash advance advances for ALUMETAL Group Hungary Kft.

The ALUMETAL Group Hungary Kft. received two cash grant advances from the Hungarian Investment Promotion Agency (HIPA) during the reporting period:

- on 16 April 2019, HUF 2 961 233.00 (equivalent of PLN 39 573.92 calculated at the exchange rate as at the date of funds receipt),
- on 21 June 2019, HUF 2 756.00 (equivalent of PLN 40.00 calculated at the exchange rate as at the date of funds receipt).

The amount of all subsidy installments received in the years 2016-2019 totaled HUF 1 480 211 000 (equivalent of PLN 20 506 557.31).

F. Submission to HIPA of the final financial report on the realization of the ALUMETAL Group Hungary Kft. investment to HIPA

On 13 August 2019, the ALUMETAL Group Hungary Kft. submitted the final financial report to the Hungarian Investment Promotion Agency (HIPA) summarizing, among others, the scope, deadlines, costs and implementation of the project's objectives, as well as information on any change in the beneficiary's position since the signing of the grant agreement and assessing its ability to meet its obligations.

G. Receipt of the last instalment of overdue receivables from CIMOS d.d.

On 22 May 2019, the Group recorded payment of the last instalment by Cimos d.d. in the amount of EUR 92 415.60. As a result, the Group reversed an impairment write-down against this receivable in the H1 2019 result in the amount of received funds. Thus, the repayment agreement of the agreed debt ended in accordance with the arrangement.

H. Extension of short-term loan agreements with banks for another year

Following negotiations conducted in 2Q 2019, a decision was made to extend for another year the agreements for the short-term bank loans for the Alumetal Group companies with the following banks: Bank Handlowy w Warszawie SA in the amount of the equivalent of PLN 54 million, DNB Bank Polska SA in the amount of PLN 40 million and with ING Bank Śląski SA in the amount of PLN 36 million. A decision was also made to extend in August 2019 the short-term loan agreement of Alumetal Group Hungary Kft. with Citibank Europe Hungarian Branch Office with the equivalent of EUR 1.850 million.

I. Decision to continue the policy of receivables insurance

Due to its further trade expansion and positive experience from the first three years of receivables insurance, the Company decided to continue with this policy for another year. The verification will continue to cover the entire sales to non-related entities, except for the sales to the three largest customers of the Alumetal Group.

J. Payment of dividend for 2018

On 21 March 2019, the Management Board of ALUMETAL S.A. adopted a resolution regarding submission to the Supervisory Board and to the Ordinary Annual General Meeting proposal regarding the appropriation of the Company's net profit for 2018 in the amount of PLN 43 916 655.46 (in words: forty three million nine hundred sixteen thousand six hundred fifty five zloty forty six groszy) and regarding dividend payment in the total amount of PLN 63 156 331.44 (in words: sixty three million one hundred fifty six thousand three hundred thirty one zloty forty four groszy) in the following manner:

- PLN 43 862 155.46 (in words: forty three million eight hundred sixty two thousand one hundred fifty five zloty forty six groszy) deriving from the Company's net profit for 2018 and part of the Company's reserve capital in accordance with art. 348 § 1 of the Code of Commercial Companies Code in the amount of PLN 19 294 175.98 (in words: nineteen million two hundred ninety four thousand one hundred seventy five zloty ninety eight groszy) - to

dividend to the Company's shareholders, i.e. in the total amount of PLN 63 156 334.44, i.e. PLN 4.08 (in words: four zloty eight groszy) per share;

- PLN 54 500.00 (in words: fifty four thousand five hundred zloty zero groszy) from the Company's net profit for 2018 - to the Company's Social Fund.

The Management Board recommended setting dividend date at 7 June 2019 and dividend payment date – at 27 June 2019.

At its meeting on 17 April 2019, the Company's Supervisory Board approved Management Board's proposal regarding 2018 profit appropriation and recommended to the General Meeting of the Company the distribution of profit, payment of dividend, setting dividend date and the date of dividend payment as requested by the Management Board.

The Ordinary Annual General Meeting of the Company at its meeting on 17 May 2019 concurred with the recommendation of the Management Board regarding 2018 profit appropriation and dividend payment.

The Company informed the public about the decision of its governing bodies regarding 2018 profit appropriation and payment of dividend for 2018 in its current report no: 2/2019 of 21 March 2019, 4/2019 of 17 April 2019, 5/2019 of 18 April 2019, 6/2019 of 26 April 2019 and 7/2019 of 17 May 2019.

K. Granting series D subscription warrants entitling to subscribe for the Company's shares under the Incentive Scheme III for 2018-2020

On 15 October 2019, the Company's Supervisory Board, pursuant to Resolution No. 3 of the Extraordinary Annual General Meeting of the Company of 7 November 2017 regarding the conditional increase in the Company's issued capital and the issue of subscription warrants, excluding in its entirety the pre-emptive right of shareholders in respect of the subscription warrants and the shares issued as part of the conditional capital and amendments to the Statutes, as part of the implementation of the assumptions of the Incentive Program III for the years 2018-2020 (the "Incentive Program"), granted a total of 103,196 (in words: one hundred three thousand one hundred ninety six) series D subscription warrants entitling to the same amount of series G ordinary bearer shares.

Due to the fulfillment of the terms of the Incentive Program for 2018, members of the Company's Management Board were granted 35,732 D series subscription warrants, while managers, employees and associates of the ALUMETAL SA Capital Group companies - 67,464 D series subscription warrants. The D-series subscription warrants were offered free of charge. The Eligible Persons will be able to realize their right to take up the underlying shares not earlier than from 1 July 2020 and not later than by 31 December 2022.

The Company informed the public about this fact by publishing current report no. 15/2019 on 15 October 2019.

L. Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.

On 13 November 2019, the Company's Supervisory Board adopted a resolution approving the modified investment plan submitted by the Company's Management Board regarding „*Modernization of Kęty Plant Alumetal Poland sp. z o.o.*”

The investment plan related to the modernization of the Plant in Kęty, as a significant part of the strategy of the Alumetal SA Capital Group for the years 2018-2022, was made available to the public in the current report No. 17/2018 of 16 July 2018.

The Management Board of the Company, after verifying the best available offers for technological solutions and their efficiency, decided to invest in a larger production line than originally planned, whose production capacity will be by 20 thousand tons annually higher than originally anticipated. As a consequence, the Alumetal Group's production capacity will increase from the current 250 thousand tons per year to 270 thousand tons. At the same time, the investment will allow for the use of modern production technology of aluminum casting alloys, increase in production volume and significant modernization of operational processes, which will significantly increase the productivity and reduce unit cash production costs at the Kęty Plant.

Apart from increasing production capacity, the Management Board also decided to extend the scope of construction works related to the modernization of the Plant, which, combined with a slight increase in prices of construction services and construction materials in the last several months, compared to the original assumptions, means a total increase in planned investment expenditure of the project from the current amount of PLN 55 600 000.00 up to the amount of PLN 67 800 000.00.

The basic scope of the Plant's modernization has not changed and according to the adopted plan includes the expansion of the production and storage hall, partial reconstruction of the existing Plant, modernization of infrastructure as well as the purchase, installation and commissioning of technological and auxiliary equipment.

The expenses related to the Plant's modernization, as planned so far, will be incurred in 2019 and 2020, with the majority - in 2020. Also, no changes were made to the sources of investment financing - the project continues to be fully financed from the Alumetal Group's own resources, and according to the original date of modernization completion - the Management Board has planned to complete the investment no later than by the end of 2020.

The Company informed the public about the above events in the current report No. 16/2019 on 13 November 2019.

M. Selection of the audit firm for the following two years

In September 2019, the Audit Committee officially started the process of selecting a statutory auditor, under which the inquiry was sent to 7 entities. A time-table related to the selection process was established and a methodology for assessing the offers of audit firms was developed, whilst taking into account the selection criteria, in accordance with the applicable Policy of selecting the entity authorized to audit the Company's and Capital Group's financial statements.

During meetings and talks with offerors, similar issues were raised, including the procedures for testing independence and conflicts of interest, internal quality control systems, IT systems used, composition of audit teams and experience of the team and the company itself in auditing the automotive and metal industry entities, and the entities listed on the Warsaw Stock Exchange.

The invited audit firms submitted all statements required by law and declarations of independence, which, during meetings with offerors, were additionally verified by the Audit Committee at the level

of applied control procedures and analysis of services provided during the 5-year period preceding audit firm selection.

In December 2019, the Audit Committee approved the Management Board's Report on the Tender Procedure for the purpose of selecting the entity authorized to audit financial statements and issued recommendations to the Supervisory Board of ALUMETAL SA regarding the selection of an audit firm who would audit the financial statements for 2020 and 2021. In accordance with the approved methodology, the Committee independently assessed the offers of all audit firms and gave the highest rating to the offer of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., and thus recommended the Supervisory Board of ALUMETAL SA that this company be selected as the auditor of the financial statements. The recommendation for the selection of the audit firm prepared by the Audit Committee was made in accordance with the provisions of the Company's binding policy and procedure for the selection of the audit firm and was free from the influence of third parties.

The Supervisory Board of ALUMETAL SA, acting pursuant to art. 4 of the Accounting Act and § 20 para. 3 point 4) of the Statutes of ALUMETAL SA and the recommendations of the Audit Committee of ALUMETAL SA, on 13 December 2019 selected PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. with its registered office in Warsaw at ul. Polna 11, as an audit firm to:

- a) audit the financial statements of ALUMETAL SA and the ALUMETAL SA Capital Group for the financial years 2020 and 2021,
- b) review the interim condensed financial statements of Alumetal SA and the interim condensed consolidated financial statements of the Alumetal SA Capital Group prepared for the period of 6 months ending on 30 June 2020 and 30 June 2021.

N. Agreements between Shareholders

In the reporting period, the Company did not receive any information on agreements between Shareholders that were significant to its business.

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

A. Subsidy from the EU funds for the subsidiary company, T+S Sp. z o.o.

On 23 January 2020, the Management Board of Alumetal S.A. received information on the outcome of the competition called "Intelligent Operational Project 2014-2020" (*Projekt Operacyjny Inteligentny Rozwój 2014-2020*), R&D projects of enterprises, sub-activity: Industrial research and development work conducted by enterprises, held by the National Center for Research and Development ("NCBiR"), under which T + S Sp. z o. o. filed an application for EU subsidy. The project of T+S sp. z o.o was included in the list of projects selected for funding. The aim of the project, which is to be implemented in the years 2020-2022, is to develop a technology for the processing of post-production waste from the production of aluminium casting alloys. Under this project, T+S sp. z o.o. has the right to receive funding of up to PLN 25 746 078.19. Due to the research and development nature of the project and the fact that it is realised in phases, the investment expenditure incurred and the related co-financing

from the European Union funds may be realised partially, depending on the degree of investment realization.

On 23 January 2020, the Company's Supervisory Board approved the implementation of the first and the second phase of the investment project with a total limit of eligible phase-related expenditure in the amount of PLN 5 873 232.04, which will be incurred in the years 2020-2021. Depending on the research results, the Company's authorities will make further decisions regarding possible implementation of the next phases of the project.

To that effect, the Company published current report no. 2/2020 on 23 January 2020.

B. Joining the scheme of Employee Capital Plans (ECP)

Polish companies of the Alumetal Group have completed the process of selecting a managing company that will support the Group in the participation in the scheme of Employee Capital Plans (*PPK - Pracowniczy Plan Kapitałowy*). The Group's plants joined the ECP scheme by signing an ECP management contract and an ECP scheme operating contract on 18 March 2020.

C. Call for payment of compensation and disability pension

On 21 January 2020, Alumetal Poland sp. z o.o. received a request to pay compensation and a pension from one of the employees of an external company that carried out structural repair works on 15 December 2018. This person during the work carried out in 2018 was injured and, consequently, demanded from Alumetal Poland sp. z o.o. as the entity in which the accident event took place, PLN 150,000.00 in damages and the amount of PLN 5,000.00 monthly in a life annuity in connection with the accident.

On 21 January 2020, Alumetal Poland sp. z o.o. received a request to pay compensation and disability pension from one of the employees of an external company that carried out structural repair works on 15 December 2018. This person during the work carried out in 2018 was injured and, consequently, demanded from Alumetal Poland sp. z o.o. as the entity in which the accident event took place, PLN 150,000.00 in compensation and PLN 5,000.00 monthly in a life disability pension in connection with the accident.

Alumetal Poland sp. z o.o. challenged the claim of the injured party in its response to said call for payment which was sent on 3 March 2020 both to the injured party's attorney and to the insurer of Alumetal Poland sp. z o.o.

D. Outbreak and progression of COVID-19 pandemic in Poland and in Europe

The global development of the coronavirus pandemic and COVID-19 disease may have significant negative impact on the results of the Alumetal Group as well as the entire industry, including the automotive industry in Europe and the world. The scale of the impact of this phenomenon is unpredictable and the potential effects are difficult to quantify. At the time of the publication of this Directors' Report, in the opinion of the Management Board, the pandemic does not have a very strong impact on the current operations of Alumetal S.A., but the first negative symptoms of pandemic spreading are appearing. In addition, it should be kept in mind that the current extremely dynamically changing situation, including possible changes in the legal and regulatory environment, means that despite the utmost diligence and taking preventive measures, the Management Board is not able to predict the further development of events and, consequently, the impact of the pandemic on the Company's financial results and development prospects.

E. Management Board's recommendation regarding suspension of dividend policy

The Management Board of ALUMETAL SA based in Kęty, after considering the growing coronavirus epidemic crisis and COVID-19 disease with their negative impact on the economic situation of the country and Europe, as well as the economic environment of the Company, will recommend to the Supervisory Board and the Annual General Meeting of Alumetal SA in its motion regarding the distribution of Alumetal SA's net profit *not to* pay dividend for 2019, but to create a reserve capital in the amount of 70% of normalized consolidated net profit of the Alumetal Group for 2019 earmarked for dividend payment, including advance dividend payment, in future years. At the same time, the Management Board will recommend that these funds are retained in the Company in the event of continuing unfavourable developments in the coming months, which – should they materialize - would mean a one-off departure from the dividend policy. The above solution will allow to secure the financial situation of the Group in the event of possible negative effects of further spread of epidemic risks. The Company informed the public about this intention of the Management Board in the current report No. 3/2020 on 16 March 2020.

The value of the reserve capital allocated for dividend payment requested by the Management Board is PLN 43 806 965.19, which means that the amount of possible dividend per share paid in the future from this capital would be PLN 2.83.

Apart from the events that occurred between the reporting date and the date of this Directors' Report, there were no other significant and non-routine events, contracts with significant impact on the Company's operations or factors with an impact on the Company's results.

VI. Realised investments and development work

1. Information on major research and development achievements

In 2018 and 2019, the value of investment expenditure incurred for the purchase of property, plant and equipment and intangible assets in the Alumetal Group was as follows:

Total expenditure (PLN thousand)	01.01.2019 – 31.12.2019	01.01.2018 - 31.12.2018
	35 180.78	34 089.74

The investment projects carried out in 2018 related to the tasks in the following areas:

- product mix/modernization and production capacity increase – PLN 29.8million,
- replacement - retrofitting type investment projects –PLN 5.4 million

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

In 2019, intensive technical and technological tests related to the production of master alloys in the form of wire were carried out in order to achieve the required product quality. Due to the successful completion of these activities, the process of validation and sales development in this area is currently underway.

3. Modernization of Kęty plant

On 16 July 2018, the Supervisory Board of the Company, based on Resolution No. 4, authorised the investment plan called *Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.*, which was modified by the resolution of the Supervisory Board of 13 November 2019, which is discussed in more detail in point V. 4. M.

As regards execution of the construction part of the project in 2019, among others, the following were achieved:

- most contracts were signed,
- necessary permits and supporting documentation were obtained,
- most of the construction and construction works were carried out in accordance with the project schedule.

In the area of the supply of machinery and equipment in 2019, among others, the following were realized:

- the most important contracts for the supply of equipment and implementation of infrastructure elements were signed,
- an application has been submitted to change the integrated permit.

4. Financing the development of ALUMETAL Group

The Alumetal Group companies concluded a number of contracts with a view to securing finance for the project called *Construction of a production plant in Hungary (Budowa Zakładu na Węgrzech)* in the following order:

- an investment loan of 15 October 2015 between ALUMETAL S.A. and ING Bank Śląski S.A. taken out with a view to granting a loan to the subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of a production plant in Hungary, in the amount of EUR 10 million with the maturity date set at 14 October 2022; at the end of 2017, repayment of this loan commenced in the form of 60 monthly instalments;
- contract of 21 October 2015 for cash subsidy between ALUMETAL Group Hungary Kft. and the Hungarian Ministry of Foreign Affairs and Trade;
- a long-term loan agreement of 26 October 2015 between ALUMETAL S.A. and the subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of the production plant in Hungary, in the amount of EUR 10 million with the maturity date set at 14 October 2022; at the end of 2017, repayment of this loan commenced in the form of 60 monthly instalments;
- in 2Q 2019, the Alumetal Group extended its short-term loan agreements with ING Bank Śląski S.A., DBN Bank Polska S.A. and with Bank Handlowy w Warszawie S.A. for another year, while the ALUMETAL Group Hungary Kft. extended in 3Q 2019 for another year its agreement with Citibank Europe plc Hungarian Branch Office for a short-term bank loan of EUR 1.85 million, which caused that the total short-term loan limit of the Alumetal Group remained unchanged at the equivalent of PLN 138 million.

The financial resources of the Alumetal Group allow to fully discharge its current and future liabilities relating to current development plans.

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

In 2019, the Alumetal Group did not make any capital deposits or capital investments.

6. Strategy and development directions of the ALUMETAL Group

On 16 July 2018, the Supervisory Board of the Company authorised by way of resolution the „Strategy of the ALUMETAL S.A. Capital Group for the years 2018 – 2022” (the “Strategy”) presented by the Company’s Management Board.

The adopted Strategy assumed increase in the value for shareholders (return for shareholders) and strengthening of market position of the ALUMETAL S.A. Capital Group as leading European manufacturer of aluminium casting alloys and master alloys.

The objectives of this Strategy are to be achieved through, among others:

- raising sales volumes of the ALUMETAL S.A. Capital Group’s products to the level of more than 250 thousand tons in 2022;
- modernization of the production plant in Kęty;
- focusing on operational activities undertaken with a view to improving production efficiency, as well as its technological and cost efficiency;
- further intensification of trading activities, including product portfolio diversification;
- average annual EBITDA growth by 10%.

The adopted Strategy assumed, among others, execution of a material investment relating to the modernization of the Kęty plant. The Supervisory Board approved the investment plan “Modernization of Kęty plant at ALUMETAL Poland Sp. z o.o.” submitted by the Management Board.

In accordance with the authorised plan, execution of the investment called „Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.” will comprise extension of the production hall and warehousing facility, partial conversion of the existing plant, infrastructure modernization, as well as purchase, installation and launch of technological and auxiliary equipment. This investment will facilitate the use of modern technologies for aluminium alloys production, increase in production output and significant enhancement of technological and operational processes. The Supervisory Board authorised execution of the investment plan „Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.” as a strategic plan within the meaning of § 20 paragraph 3 point 2 of the Company’s Statutes on 16 July 2018 and on 13 November 2019 consented to plan modification incurring investment expenditure to the amount of PLN 67 800 000.00. The decision to invest more is at the same time an investment in greater production capacity, which will result in the completion of the modernization of Kęty plant, thus increasing the Group's production capacity to 270 thousand starting from 2021. The investment expenditure will be incurred mainly in the years 2019 – 2020, with the majority of expenditure incurred in 2020. The Management Board plans to complete the investment project by 31 December 2020. The whole investment will be financed solely from the own funds of the ALUMETAL S.A. Capital Group.

With the approval of the strategy, the ALUMETAL S.A. Capital Group decided to modify its dividend policy by increasing the declared dividend level from the current 50% to the minimum 70% of normalised consolidated net profit. The Company informed the public about authorization of the new Strategy in its current report No. 17/2018 of 16 July 2018.

VII. Quality

All production plants of the Alumetal Group maintain the highest standards as regards continual and premium quality of products required by the automotive industry customers, to which the majority of alloys is delivered. The highest and reproducible quality of products and meeting customer requirements to the IATF 16949:2016 Standard were confirmed during the TUV Rheinland supervisory audits carried out at all production plants of ALUMETAL Poland sp. z o.o., at the ALUMETAL Group Hungary Kft. and at ALUMETAL S.A. as the managing company. All production plants of the Alumetal Group successfully passed said audits.

In 2019, 8 customer audits were carried out at Alumetal and all ended with positive results.

After starting the production of master alloys in the form of wire in 2019, the technology was refined that guarantees the achievement of high-quality product and meets customer requirements.

2019 was also the year of intensive cooperation with major customers in the field of exchange of experience and knowledge in order to improve technological and production processes.

VIII. Loans and borrowings, and other financial agreements

1. Interest-bearing loans and borrowings

	Available limit	Currency*	Maturity date	Limit utilised in PLN as at 31 December 2019	Limit utilised in PLN as at 31 December 2018
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*	18.06.2020	18 166 314.97	32 464 326.79
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*	30.06.2020	13 913 728.07	29 018 054.81
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*	12.06.2020	29 814 594.70	44 323 109.82
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*	14.08.2020	5 526 623.33	4 842 434.65
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	8 534 034.00	8 617 200.00
Total short-term portion				75 955 295.07	119 265 126.07
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	15 560 559.00	24 329 400.00
Total				91 515 854.07	143 594 526.07

* 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 EUR 10 million.

2. Loans granted

In 2019, ALUMETAL S.A. or its subsidiary company issued the following loans and borrowings:

- issuance on 26 October 2015 of a long-term loan by ALUMETAL S.A. to its subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of a production plant in Hungary, in the amount of EUR 10 million and with the maturity date set at 14 October 2022. As at 31 December 2019, the value of the loan disbursed was EUR 5 658 000.

3. Other financial agreements

- Non-recourse factoring agreement of 15 September 2014 with Bank UniCredit Luxembourg S.A. with respect to Euro-based receivables from one of the customers of the Alumetal Group i.e. at the risk of this customer and with no recourse to the Alumetal Group, and with no limit (limited in practice by the scale of cooperation with the given customer);
- Agreement of 28 June 2011 (with subsequent amendments) between ALUMETAL Poland sp. z o.o. and Bank Handlowy w Warszawie S.A. on collaboration between the parties in the area of acquiring by the Bank, based on separate agreements, of trade liabilities of ALUMETAL Poland sp. o.o. towards its business partners, with a total limit of PLN 7 million (non-recourse factoring for suppliers executed at their cost).
- the Alumetal Group Hungary Kft. received from the Hungarian government a binding offer, and accepted it, concerning cash subsidy for this project, and the underlying support agreement became effective on 2 February 2016. The last instalment was paid on 16 April 2019 in the amount of HUF 2 961 233.00 (equivalent of PLN 39 573.92 according to the exchange rate as at the date of funds receipt), and the sum total of all subsidy instalments paid in the years 2016-2019 under this agreement was HUF 1 480 211 000 (equivalent of PLN 20 506 557.31).

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

1. Significant proceedings before court of law, court of arbitration or public administration body

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 the payment for supplies with a value of PLN 1 503 048.87 and this amount was included in the write-down in the results of 1Q 2017. As at 31 March 2018, the balance of receivables as a result of performed set-off was PLN 1 266 471.77. 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 the exemption from the appeal fee.

As at 31 December 2019 and as at the date of this Directors' Report, the appeal was not considered due to the complaints filed by the defendant regarding refusal of the exemption from the costs of appeal.

In addition to the foregoing court proceedings, the Company or its subsidiaries did not participate in any significant proceedings pending before a court, body competent for arbitration or a public administration body as at 31 December 2019.

There were also no significant settlements in this respect.

2. Sureties for loans and borrowings and guarantees issued

In 2019, ALUMETAL SA and ALUMETAL Poland sp. z o.o. issued guarantees and sureties in respect of trade liabilities of Alumetal Group Hungary Kft in favour of the suppliers of the Hungarian subsidiary. The total value of these guarantees and sureties amounted as at 31 December 2019 to the equivalent of PLN 590 638.24.

3. Contingent liabilities

In order to collateralise the short-term loan in the form of common multi-currency facility at ING Bank Śląski S.A. with a value of PLN 36 million, each borrower (ALUMETAL S.A., ALUMETAL Poland sp. z o.o., ALUMETAL Group Hungary Kft.) issued on 5 February 2018 an *in blanco* promissory note together with declaration.

In connection with the signing on 14 February 2020 of the project co-financing agreement with the National Center for Research and Development, referred to in detail in point V.5.A., T + S sp. z o.o. issued on 21 February 2020 to the National Center for Research and Development a blank promissory note together with declaration.

Apart from the above contingent liabilities, as at 31 December 2019, the Company and its subsidiary companies had no other contingent liabilities with a total or individual value of at least 10% of the Company's issued capital.

X. Financial risk management objectives and policies

The main type of business activity of the Company is conducting operations of a holding company. As part of these operations, the Company manages the financial risk of the companies of the ALUMETAL S.A. Capital Group. The main types of risk described in detail in the consolidated financial statements of the ALUMETAL S.A. Capital Group prepared for the year ended 31 December 2019 are the following:

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

The financial risk management objectives and policies did not change compared to those valid as at 31 December 2018.

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

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

1. Interest rate risk

The Alumetal Group is exposed to interest rate risk arising from the financial instruments used to finance operating and investing activities i.e. short- and long-term loans, factoring services on own receivables and short-term deposits.

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

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

2. Foreign currency risk

The Group is exposed to foreign currency risk in connection with the transactions of current operations. Such exposure arises from the sale or purchase transactions made by Group companies in the currencies other than their measurement currency. The Alumetal 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 lack of balance between these two types of business transactions, some exposure to foreign currency risk is generated.

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

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

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

3. Commodity price risk

Selling prices of products are directly or indirectly correlated with the metal quotations on the London Metal Exchange ("LME") (*Londyńska Giełda Metali*). The quotations with the most significant effect are the quotations of pure aluminium (LME HG) and aluminium alloys (LME AA), while the quotations of several other metals such as nickel or copper are of far lesser importance. The correlation of these quotations with the prices of goods of the Alumetal Group, although relatively strong, is not – however

- full, especially in a short period of time. In addition, the mechanism of natural hedging is applied in this area as the prices of purchase of raw materials, which account for approx. 85% - 90% of the production costs, are also correlated with LME's quotations, particularly in a long term. This causes that the risk of LME's commodity price fluctuations represents rather limited threat to the financial results of the Group. For these reasons, the Group does not use any instruments hedging against fluctuations in LME's quotations of raw materials.

4. Credit risk

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

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

Given its further trade expansion, the Company decided to change its approach to trade risk management, and in the 1st half of 2016 signed an agreement for receivables insurance. Verification of trade receivables covered the entire balance of sales to non-related entities, except for the sales to the three largest customers of the Alumetal Group, and the insurance taken covered the period from 1 April 2016. In 2Qs of 2017, 2018 and 2019, a decision was taken to continue with the insurance policy, which additionally improved the Group's need for the coverage of same risks as regards awarded insurance limits, and, as a result, the credit risk of the Company became considerably limited (the Group plans to continue to insure its receivables in the ensuing years). However, one should note that pursuant to the policies operating in the contracts of this type, part of receivables of each customer is not insured due to the so-called "own share" of the policy holder; in addition, the Company's Management Board, given the wording of the insurance contract, has the right to take a sale decision that may originate receivables from customers in the amount higher than the coverage limit granted by the insurer.

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

5. Liquidity risk

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

However, for many years now, the Group has used multi-currency overdraft facility lines which fully match its financial liquidity requirements. To this end, the Group has used services of several banks by taking out short- and long-term loans and borrowings, and by using their factoring services. The above

instruments and reported good financial results cause that despite the Group's intensive development (bringing high investment expenditure and growing demand for financing of working capital), the risk of the loss of financial liquidity does not occur.

XI. Risk factors with possible impact on Group financial results

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

1. Geopolitical and macroeconomic situation in Europe

The activities of the Group are affected by macroeconomic conditions relating to Polish, German, Central European and European economy, economic policy of individual governments, tax systems, GDP, unemployment rate, interest rates, currency exchange rates, inflation rate, consumption levels, investment expenditure and the amount of budget deficit. Fluctuations in the market prices of secondary aluminium have direct impact on the prices of Group products and, to a limited extent, on the margins earned. Market prices of secondary aluminium depend on the supply and demand as well as on other factors, on which the Group has no or has only limited influence, such as general macroeconomic conditions, situation in the industry sectors that are the key consumers of secondary aluminium alloys, prices of primary aluminium and prices of aluminium scrap. Deterioration of general economic conditions in Europe, and especially in Poland, Germany, Hungary or in the Central and Eastern Europe may have adverse impact on the activities, financial position, financial results or business perspectives of the Alumetal Group by the end of 2020. Geopolitical situation may also have indirect impact on the results of the Group.

2. Situation of the automotive industry

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

During economic recession or during the periods of low economic growth, it is the automotive industry that usually suffers from shrinking business. In the period from 2005 to the mid of 2013, the EU saw a declining trend in motor vehicles production and sale. Considerable recovery of the automotive industry was noted since the mid of 2013. However, in 2H 2018, reversal of this trend took place, which had unfavourable impact on demand volumes or margin levels realized by manufacturers of secondary aluminium casting alloys. The activities of the Group may be affected by the potential shrinking of automotive industry exports outside Europe (e.g. to Asia or to Northern America) or by constrained vehicles production in the EU caused by the Brexit decision. In addition, the financial results of the producers of secondary aluminium alloys, including the Alumetal Group, may be affected by the economic situation of individual automotive companies as well as by more stringent regulations on vehicle CO₂ emissions such as implemented vehicle WLTP-type approval system (*World harmonised Light duty vehicle Test Procedure*), which replaced the current NEDC system. The most recent very clear threat to the automotive industry is the spread of the coronavirus pandemic and COVID-19 disease.

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

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

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

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

4. Limited availability of raw materials scrap in Europe

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

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

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

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

6. Higher competition on the market of secondary aluminium alloys

Emergence of new entities or stronger market position of the existing competitors - secondary aluminium alloys producers, or a potential increase of production capacity or development plans of domestic or international competitors of the Group may cause higher market competition. There is no guarantee that in the future, the entities competing with the Alumetal Group will not make further efforts to intensify development of their business and will not conduct an aggressive price and product policy towards current or potential suppliers and customers of the Alumetal Group.

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

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

Another risk to the financial results of the Group may pose the fact that the ALUMETAL Group Hungary Kft. has received cash subsidy and ALUMETAL Poland Sp. z o.o. has used the investment tax relief (tax credit).

Should it transpire in the future that these companies do not meet their obligations arising from the obtained public aid, they 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 results and liquidity of the Group. However, the long-standing experience of the Alumetal Group in benefiting from public aid greatly reduces this risk.

8. The risk of „trade war”

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

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

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

9. Risk of COVID-19 pandemic spreading

The results of the ALUMETAL Group may be significantly affected by the situation of the automotive industry in Europe and in the world as a consequence of the spread of the coronavirus pandemic and COVID 19 disease. The scale of the impact of this phenomenon, due to the still initial stage of virus development, is unpredictable and difficult to quantify. At the time of the publication of this Report, in the opinion of the Management Board, the pandemic does not have a very strong, direct impact on the current operations of the Alumetal Group, although its first negative symptoms have been recorded. However, it should be kept in mind that the current extremely dynamically changing situation, including possible changes in the legal and regulatory environment, means that despite the utmost diligence and taking preventive measures, the Management Board is not able to predict the further development of events and, consequently, the impact of the pandemic on the Group's financial results and development prospects. As a result of the quantitative and qualitative analysis of the impact of this phenomenon carried out by the Management Board, the following were primarily analyzed:

- commercial issues - concluded contracts and utilization of production capacity
 - a) situation in the automotive industry,
 - b) current level of contracting,
 - c) current demand for casting alloys,
 - d) current imputed profitability of contracts,
 - e) current and planned utilization of production capacity,
 - f) level of commercial risk of concluded contracts,
- supply and production continuity issues
 - a) inventories level and structure,
 - b) scale and structure of concluded supply contracts,
 - c) emergency action plans in the event of a necessity to reduce production or in the event of bottlenecks in the supply of scrap materials,
- issues regarding possibility to reduce operating expenses
 - a) analysis of fixed and quasi-fixed costs,
 - b) level of operating leverage,
 - c) employment structure flexibility,
 - d) possibility of obtaining public aid to cover part of labour costs under the forthcoming government program,
- debt, financial liquidity and currency and interest rate risks issues
 - a) current and expected debt level,
 - b) level of bank covenants,
 - c) variability of demand for working capital,
 - d) temporary suspension of dividend policy,

- e) Group financial liquidity,
- f) access to finance,
- g) currency and interest rate risk,
- health and safety issues and minimizing the epidemic risk
 - a) adequacy of the procedures and precautionary measures introduced to reduce the epidemic risk,
 - b) analysis and implementation of recommendations of institutions of sanitary-epidemiological service and the experience of other business entities,
 - c) organization of work and cooperation with business partners,
 - d) diversification of the logistic and territorial functioning of the Group's business.

The most important risks identified as a result of the analysis are as follows:

- a) the risk of production stoppages among customers, especially in the automotive industry, and decrease in demand for the Group's products,
- b) the risk of infecting employees with coronavirus in one (or more) of the Group's four production plants,
- c) the risk of logistic or administrative barriers in Europe in the area of scrap material supplies,
- d) the risk of periodic deterioration in scrap materials availability,
- e) the risk of reduced availability of receivables insurance limits for the sale of the Group's products.

To sum up, in the current circumstances, the Alumetal Group has taken a number of measures to secure high-volume contracts from customers with good financial standing and/or with receivables insurance limits. Measures have been taken to reduce operating expenses and increase operational flexibility. Emerging information about commenced and planned stopovers in the automotive industry will probably have a negative impact on the Group's situation and financial results in the near future.

At present, the Alumetal Group is in a very good financial condition and does not expect any problems with its financial liquidity, or with the availability and renewal of credit limits, and any rapid changes in the currency or interest rates do not pose any significant threat.

The Alumetal Group has taken numerous measures to limit the effects of the pandemic on its operations, but the possibilities of influencing the risks in this area are very limited.

The conducted analysis confirmed proper preparation of the Alumetal Group for the difficult times of the coronavirus pandemic. The Group's goal is to optimally lead the Company through this demanding time and strengthen its competitive advantages and market position in the long term. However, the situation is so dynamic and unique that it is rather impossible to predict further developments and precisely quantify its impact on the financial position or financial results of the Alumetal Group.

10. Other accidental, unfavourable one-off events

The results of ALUMETAL S.A. and the Alumetal Group may also be significantly affected by other, accidental and unexpected one-off events.

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

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

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Management Board

Krzysztof Błasiak
Vice-president of the
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Przemysław Grzybek
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