THE ALUMETAL S.A. CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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Kęty, 23 March 2020

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

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Continuing operations			
Revenues from contracts with customers	12.1	1 383 808 422.61	1 655 340 494.91
Total revenues from contracts with customers		**1 383 808 422.61**	**1 655 340 494.91**
Cost of sales	12.2	-1 267 444 309.29	-1 509 170 967.37
Gross profit on sales		**116 364 113.32**	**146 169 527.54**
Other operating income	12.5	3 749 453.07	4 750 766.12
Selling expenses	12.2	-31 233 894.53	-31 830 633.14
Administrative expenses	12.2	-24 314 925.06	-27 838 140.02
Other operating expenses	12.6	-1 195 273.74	-411 407.51
Operating profit		**63 369 473.06**	**90 840 112.99**
Finance income	12.7	360 918.01	804 598.16
Finance costs	12.8	-1 616 839.32	-1 099 256.72
Profit before tax		**62 113 551.75**	**90 545 454.43**
Income tax	0	-11 663 241.43	-16 199 875.11
Net profit from continuing operations		**50 450 310.32**	**74 345 579.32**
Discontinued operations		–	–
Profit/ (loss) for the year from discontinued operations		–	–
Net profit/ (loss) for the year		**50 450 310.32**	**74 345 579.32**
Other comprehensive income			
Cumulative translation differences	13	-2 053 345.78	-350 996.12
Net other comprehensive income subject to reclassification to profit/ (loss) in subsequent reporting periods		**-2 053 345.78**	**-350 996.12**
COMPREHENSIVE INCOME FOR THE YEAR		**48 396 964.54**	**73 994 583.20**

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Profit attributable to:			
Equity holders of the parent		**50 450 310.32**	**74 345 579.32**
Non-controlling interest		–	–
Comprehensive income attributable to:			
Equity holders of the parent		**48 396 964.54**	**73 994 583.20**
Non-controlling interest		–	–

		Year ended 31 December 2019	*Year ended 31 December 2018*
Earnings per share:	15		
- basic from the profit for the year attributable to equity holders of the parent		3.26	4.80
- basic from the profit from continuing operations for the year attributable to equity holders of the parent		3.26	4.80
- diluted from the profit for the year attributable to equity holders of the parent		3.26	4.80
- diluted from the profit from continuing operations for the year attributable to equity holders of the parent		3.26	4.80

Consolidated Statement of Financial Position
As at 31 December 2019

	Note	*31 December 2019*	*31 December 2018*
ASSETS			
Non-current assets			
Intangible assets	16	3 317 344.00	2 509 185.92
Property, plant and equipment	17	326 424 197.01	328 901 284.20
Right-of-use assets (ROU assets)	18.1	6 243 780.94	–
Other long-term receivables	23	–	890 957.66
Other non-financial assets (non-current)	19.1	1 371 359.26	–
Deferred tax assets	14.3	30 853 644.72	39 835 127.90
		368 210 325.93	**372 136 555.68**
Current assets			
Inventories	22	120 991 980.16	176 781 470.86
Trade and other receivables	23	216 932 905.22	287 105 677.46
Other non-financial assets	19.1	368 900.61	229 485.00
Current tax assets		84 325.00	341 099.39
Derivative financial instruments	36.1	870 753.96	216 634.17
Cash and cash equivalents	24	58 484 170.45	28 946 480.30
		397 733 035.40	**493 620 847.18**
TOTAL ASSETS		**765 943 361.33**	**865 757 402.86**

Consolidated Statement of Financial Position (cont.)

As at 31 December 2019

	Note	*31 December 2019*	*31 December 2018*
EQUITY AND LIABILITIES			
Shareholders' equity (attributable to the shareholders of the parent)			
Issued capital	25	1 547 949.30	1 547 949.30
Reserve capital	26	341 103 292.03	329 717 688.71
Capital from revaluation of incentive scheme		1 946 382.16	1 138 998.28
Cumulative translation differences		-4 108 272.84	-2 054 927.06
Retained earnings/ (unabsorbed losses)	26.1	179 303 392.71	203 395 017.15
Total shareholders' equity		**519 792 743.36**	**533 744 726.38**
Non-current liabilities			
Interest-bearing loans and borrowings	27	15 560 559.00	24 329 400.00
Provisions	28	960 337.00	879 926.00
Deferred tax liability	14.3	178 831.22	196 777.24
Lease liabilities	18.1	3 574 642.40	–
Accruals and deferred income	29.3	21 782 744.38	24 791 865.30
		42 057 114.00	**50 197 968.54**
Current liabilities			
Current portion of interest-bearing loans and borrowings	27	75 955 295.07	119 265 126.07
Provisions	28	166 163.00	311 715.00
Trade and other payables	29.1, 29.2	124 095 070.33	157 636 305.54
Lease liabilities	18.1	201 689.59	–
Current tax liabilities		59 215.99	14 098.00
Accruals and deferred income	29.3	3 616 069.99	4 587 463.33
		204 093 503.97	**281 814 707.94**
Total liabilities		**246 150 617.97**	**332 012 676.48**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**765 943 361.33**	**865 757 402.86**

Consolidated Statement of Cash Flow

For the year ended 31 December 2019

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Cash flow from operating activities			
Gross profit		**62 113 551.75**	**90 545 454.43**
Adjustments for:			
Depreciation/ amortization	12.3	32 078 316.99	30 541 276.69
(Profit)/ loss from investing activities		384 890.42	-91 364.91
FX (gains)/ losses		-799 208.34	1 577 221.07
(Increase)/decrease in receivables and other financial and non-financial assets		69 552 955.03	-23 861 307.24
(Increase)/ decrease in inventories		55 789 490.70	12 856 987.60
Increase/(decrease) in liabilities, except for loans and borrowings		-35 729 340.93	-11 106 760.79
Interest, net		428 117.84	780 105.42
Change in prepayments, accruals and deferred income		-4 018 705.26	-2 667 787.90
Change in provisions		-65 141.00	333 470.83
Income tax paid		-2 397 811.89	-4 215 581.63
Other (including cost of incentive scheme)	33	1 847 761.63	1 315 168.95
Net cash flow from operating activities		**179 184 876.94**	**96 006 882.52**
Cash flow from investing activities			
Disposal of property, plant and equipment and intangible assets		212 383.46	295 374.01
Purchase of property, plant and equipment and intangible assets		-35 180 780.92	-34 089 738.14
Disposal of subsidiary company		–	4 000.00
Loans granted		–	-5 000.00
Realised gains/ (losses) on derivative financial instruments		953 059.20	-6 784.90
Net cash flow from investing activities		**-34 015 338.26**	**-33 802 149.03**

Consolidated Statement of Cash Flow (cont.)
For the year ended 31 December 2019

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Cash flow from financing activities			
Dividends paid to equity holders of the parent		-63 156 331.44	-45 200 119.56
Repayment of lease liabilities		-180 000.68	–
Repayment of long-term loans and borrowings (including investment loans)		-8 628 021.60	-9 245 570.90
Interest received		340 213.63	164 240.89
Interest paid		-727 593.92	-944 346.31
Subsidies received		38 191.00	1 973 758.31
Net cash flow from financing activities		**-72 313 543.01**	**-53 252 037.57**
Net increase/(decrease) in the balance of cash and cash equivalents		**72 855 995.67**	**8 952 695.92**
FX differences, net		-91 640.52	18 428.49
Cash and cash equivalents at the beginning of the year	24	**-81 701 445.77**	**-90 672 570.18**
Cash and cash equivalents at the end of the year	24	**-8 937 090.62**	**-81 701 445.77**

Consolidated Statement of Changes in Equity
For the year ended 31 December 2019

	Attributable to equity holders of the parent									
	Note	*Issued capital*	*Reserve capital*	*Capital from revaluation of incentive scheme*	*Cumulative translation differences*	*Retained earnings/ (unabsorbed losses)*	*Total*	*Non-controlling interest*	*Total shareholders' equity*
As at 1 January 2019	**25, 26**	**1 547 949.30**	**329 717 688.71**	**1 138 998.28**	**-2 054 927.06**	**203 395 017.15**	**533 744 726.38**	–	**533 744 726.38**
Net profit for the year		–	–	–	–	**50 450 310.32**	**50 450 310.32**	–	**50 450 310.32**
Other comprehensive income, net, for the year		–	–	–	-2 053 345.78	–	-2 053 345.78	–	-2 053 345.78
Comprehensive income for the year		–	–	–	**-2 053 345.78**	**50 450 310.32**	**48 396 964.54**	–	**48 396 964.54**
Cost of incentive scheme		–	–	807 383.88	–	–	807 383.88	–	807 383.88
Settlement of incentive scheme		–	–	–	–	–	–	–	–
Transfer to reserve capital		–	30 679 779.30	–	–	-30 679 779.30	–	–	–
Allocation of part of reserve capital to dividend payment		–	–	–	–	–	–	–	–
Dividend payment		–	-19 294 175.98	–	–	-43 862 155.46	-63 156 331.44	–	-63 156 331.44
As at 31 December 2019		**1 547 949.30**	**341 103 292.03**	**1 946 382.16**	**-4 108 272.84**	**179 303 392.71**	**519 792 743.36**	–	**519 792 743.36**

	Attributable to equity holders of the parent								
	Note	*Issued capital*	*Reserve capital*	*Capital from revaluation of incentive scheme*	*Cumulative translation differences*	*Retained earnings/ (unabsorbed losses)*	*Total*	*Non-controlling interest*	*Total shareholders' equity*
As at 1 January 2018	**25, 26**	**1 547 949.30**	**301 570 981.51**	**–**	**-1 703 930.94**	**202 396 264.59**	**503 811 264.46**	–	**503 811 264.46**
Net profit for the year		–	–	–	–	**74 345 579.32**	**74 345 579.32**	–	**74 345 579.32**
Other comprehensive income, net, for the year		–	–	–	-350 996.12	–	-350 996.12	–	-350 996.12
Comprehensive income for the year		**–**	**–**	**–**	**-350 996.12**	**74 345 579.32**	**73 994 583.20**	**–**	**73 994 583.20**
Cost of incentive scheme		–	–	1 138 998.28	–	–	1 138 998.28	–	1 138 998.28
Settlement of incentive scheme		–	–	–	–	–	–	–	–
Transfer to reserve capital		–	33 244 647.69	–	–	-33 244 647.69	–	–	–
Allocation of part of reserve capital to dividend payment		–	-5 097 940.49	–	–	5 097 940.49	–	–	–
Dividend payment		–	–	–	–	-45 200 119.56	-45 200 119.56	–	-45 200 119.56
As at 31 December 2018		**1 547 949.30**	**329 717 688.71**	**1 138 998.28**	**-2 054 927.06**	**203 395 017.15**	**533 744 726.38**	–	**533 744 726.38**

Accounting policies and notes

1. General information

The Alumetal S.A. Capital Group (the „Group") is composed of ALUMETAL S.A. („parent company", "parent", the „Company" or „Alumetal") and its subsidiary companies (see Note 2). The attached consolidated financial statements of the Group cover the year ended 31 December 2019 and contain the comparative data for the year ended 31 December 2018.

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

The parent company was granted statistical REGON No. 357081298.

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

The main area of business activities of the Group includes:

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

In the year ended 31 December 2019, there were no changes to the scope of business activities of the Group compared to the year ended 31 December 2018.

2. Composition of the Group

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

Entity	*Registered office*	*Scope of business activities*	*% in the share capital*	
			31 Dec 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%

In 2018 Alumetal S.A. was the owner of Alumetal Kety sp. z o.o., however on 26 July 2018, the Extraordinary Annual 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, this company did not conduct operating activities.

As at 31 December 2019 and 31 December 2018, the Company's share in the total number of votes in the subsidiary companies equated to the Company's' share in the equity of those companies.

3. Management Board of the parent

As at 31 December 2019, the composition of the Management Board of the Company was as follows:

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

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 Drzyżdżyk President of the Management Board, about which the Company informed the public in its current report No. 3/2019 of 17 April 2019.

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

4. Authorisation of consolidated financial statements

These consolidated financial statements were authorised for issue by the Management Board on 23 March 2020.

5. Professional judgment and accounting estimates

5.1. Professional judgment

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

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

Revenue recognition

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

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

Functional currency

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

Presentation of overdraft facilities

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

Leases – Group as lessee

Professional judgments regarding lease contracts under which the Group is a lessee in such areas as ascertainment whether a contract contains a lease, contract for an indefinite period of time, using the option to extend or shorten lease period were presented in Note 8.1.

5.2. Uncertainty of estimates and assumptions

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

Depreciation/ amortisation rates

The value of depreciation/ amortisation rates and charges is determined based on the expected useful life of the given item of property, plant and equipment or intangible assets, and estimates regarding residual values of property, plant and equipment. Capitalized overhauls/ periodic repair expenditures are amortised over the period remaining to the expected commencement of the next overhaul or periodic repair of the given item of property, plant and equipment. Group entities perform annual verification of the adopted useful lives of their assets based on current estimates. Verification of assets' useful life performed in 2019 did not have any material effect on the change in the depreciation/ amortization charges in the subsequent years. The applied economic useful life of individual classes of the Company's assets is presented in the table in Note 10.4.

Impairment losses of trade receivables

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

Detailed information on the value of impairment write-downs of receivables and inventories is presented in Note 22 and Note 23 to these consolidated financial statements.

Deferred tax assets

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

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

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

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

Valuation of provisions for employee benefits

The provisions for employee benefits were estimated using the actuarial methods. In the years 2018 and 2019, except for a change in the retirement age, no significant changes occurred in the assumptions/ estimates with an impact on the Group's financial result or other comprehensive income in those periods. Interest rates fluctuations in the presented periods did not have any significant impact on the said provisions. Detailed information on provisions for employee benefits is presented in Note 21.1 and Note 28 to these consolidated financial statements.

Valuation of provision for litigation

Based on the accounting policy presented in Note 10.19, the Group creates a provision for litigation.

Valuation of currency forward contracts

The fair value of foreign currency forward contracts (currency forwards) is determined based on discounted future cash flows under the transactions made, calculated using the difference between the forward and the transaction price. The forward price is calculated using the NBP fixing and interest rate yield curve implied in the FX swap transactions. Valuation of currency forwards is included in the result from financial activities of the Group, and the foreign exchange risk is described in Note 35.2.

Valuation of incentive programs

The fair value of the Incentive Program III for instruments without market condition is determined using the finite difference method (the FDM method), while that of entitlements with market condition – using the Monte Carlo simulation method combined with the least squares linear regression method i.e. the so-called Longstaff-Schwartz method. Detailed information on these programs and their measurement is presented in Note 21.2 to these consolidated financial statements.

Impairment of assets

An assessment is made at each reporting date to determine whether there is any objective evidence that an asset may be impaired, and, if such evidence exists, an impairment test is performed. During the course of impairment indicator analysis performed in accordance with IAS 36 *Impairment of assets*, the Management Board of the parent analysed, among others, evidence deriving from the internal reporting as well as the factors obtained from the external sources of information which were described in more detail in Note 10.7 to these consolidated financial statements. Given the identified loss indicators, an impairment test was performed for the assets relating to the activities of the subsidiary company, Alumetal Group Hungary Kft. The performed test did not confirm said assets impairment. The test used the forecasts for 5 years (i.e. 2020 - 2024) and for the residual period. Applied in the calculations was a 4.98% discount rate, which according to the Management reflected in the best way the risk and the weighted average cost of capital (WACC) for the industry, in which the Alumetal Group entities operate. For the residual period, the 0% growth rate was adopted. Over the forecast period, the values arise from the adopted long-term production and operating strategy of the Alumetal Group companies basing on such assumptions as future changes in the prices of aluminium, raw materials and energy, future revenues, costs, cash flows, weighted average cost of capital, impact of the prospective and enacted Polish and European regulatory changes as well as the expected macroeconomic situation, which all depend on future market and economic conditions.

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

The impairment tests were performed as at 31 December 2019 and did not account for the effects of the events described in Note 6, i.e. the coronavirus pandemic and COVID-19 disease. The Management does not consider such situation as an event resulting in adjustments to the 2019 financial statements, but rather as a post-balance sheet event requiring additional disclosures.

Since the situation is still evolving, the management of the parent company believes that it is not possible to present quantitative estimates of the impact of the current situation on the Alumetal S.A. Capital Group. Possible impact will be accounted for in the impairment tests performed for the next reporting periods.

Lessee's incremental borrowing rate

Estimates made in determining lessee's incremental borrowing rate were presented in Note 8.1.

Uncertain tax treatment

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

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

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

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

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

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

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

6. Basis of preparing consolidated financial statements

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

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

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

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

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 these consolidated financial statements, 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.

Based on the conducted analyses of risks, negative scenarios and undertaken activities, the Management Board of the parent company is of the opinion that there is no material risk to the going concerns of the companies from the Alumetal SA Capital Group in the foreseeable future, i.e. 12 months from the date of authorization of these consolidated financial statements for publication.

6.1. Statement of compliance

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

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

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

6.2. Functional and presentation currency

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

7. Changes in estimates

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

- impairment write-downs of receivables and inventories – Note 22 and Note 23;
- provision for litigation – Note 28;
- valuation of incentive scheme – Note 21.2;
- deferred tax asset – Note 14.3

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

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

8. Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those which were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018, except for the application of the new or amended standards and interpretations binding for the annual reporting periods commencing on 1 January 2019 or later.

The Group applied for the first time IFRS 16 *Leases* („IFRS 16").

Other new or amended standards or interpretations which are applicable for the first time in 2019 do not have any significant impact on the consolidated financial statements of the Group.

8.1. IFRS 16 *Leases*

IFRS 16 has replaced IAS 17 *Leases* („IAS 17") and the related interpretations. The Standard defines principles of lease recognition, measurement, presentation and disclosure and requires lessees to account for the majority of lease contracts based on one balance sheet model.

The Group is a lessee for perpetual usufruct of land and lease contracts for technical gas tanks.

The Group implemented IFRS 16 using the modified retrospective method, i.e. with the total effect of the first-time application of the Standard recognized on the date of first-time application. The Group decided to use the exemptions regarding the recognition of lease agreements, for which the lease term, at the commencement date, has a maximum possible term of 12 months or less and which do not contain the purchase option („short-term lease") and for these lease agreements, for which the underlying asset is a low value asset („low-value assets"). In addition, the Group used the following allowed practical expedients with regard to these lease contracts which under IAS 17 were classified as operating leases:

- the Group applied one discount rate for the portfolio of leases with similar characteristics,
- the Group applied simplified approach to the lease contracts whose term ends 12 months after the first time application, which consists in recognition of these leases in accordance with the requirements provided for short-term leases and in disclosing the related costs in the disclosure covering incurred costs of short-term leases,
- the Group excluded the initial direct costs arising from valuation of the right-of-use asset on the date of first-time application.

Following the implementation of IFRS 16, the Group recognised the right-of-use assets with a value equating lease liability. The weighted average discount rate adopted upon first-time Standard application was 2.01%.

In implementing IFRS 16, the Group applied the following professional judgment and estimates:

Lease term for lease contracts with extension option

The Group determines the lease term as irrecoverable lease, inclusive of the periods covered by the extension option, if it can be assumed with sufficient certainty that the extension option will be exercised, and the periods covered by the option to terminate the lease (termination option), if it can be assumed with sufficient certainty that the option will not be exercised.

For some of its lease agreements, the Group has the possibility to apply the extension option. The Group applies judgement in making an assessment whether there is sufficient certainty that the extension option will be used. This means that the Group accounts for all significant facts and circumstances which represent an economic incentive to extend it or an economic penalty for not extending it. After lease commencement, the Group reassess the lease period if a significant event or change in circumstances under its control occurs and affects its ability to exercise (or not exercise) the extension option (e.g., change of business strategy).

The Group included the extension period in the lease term due to the importance of these assets for its operations. These lease contracts have a short, irrevocable term and may have a significant negative impact on the production if the replacement of these assets is not readily available. The extension options were not included in the lease term because the Group's policy regarding the lease of these assets provides for a maximum useful life of no more than ten years, and therefore the Group does not use the extension option.

Lease term for indefinite contracts

The Group has lease contracts concluded for an indefinite period of time and contracts that have evolved into contracts for an indefinite period in situations provided for in the Civil Code, in which both parties have the option to terminate. When determining the lease term, the Group determines the period of contract enforceability. Lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the contract without having to obtain permission from the other party without incurring more than insignificant penalties. The Group assesses the significance of broadly understood penalties, i.e. apart from strictly contractual or financial matters, it takes into account all other significant economic factors discouraging contract termination (e.g. significant investments in a lease, availability of alternative solutions, relocation costs). If the Group, neither as the lessee nor the lessor, incurs a significant penalty for termination (broadly understood), the lease ceases to be enforceable and its period is the period of termination notice. On the other hand, in a situation where either party - in accordance with professional judgment - incurs a significant penalty for termination (broadly understood), the Group determines the lease term as sufficiently reliable (i.e. the period for which it can be assumed with sufficient certainty that the contract will continue in force).

Lessee's incremental borrowing rate

The Group is unable to easily determine the interest rate for lease contracts, which is why it uses the lessee's incremental borrowing rate when measuring the lease liability. It is the rate of interest that the Group would have to pay to borrow over a similar term, in the same currency and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Impact of IFRS 16 on the consolidated statement of financial position (increase / (decrease)) as at the date of first-time application, i.e. 1 January 2019:

	*As at 31 December 2018**	*Adjustment IFRS 16*	*As at 1 January 2019*
ASSETS			
Non-current assets			
Property, plant and equipment	328 901 284.20	-2 519 705.01**	326 381 579.19
Right-of-use assets		6 448 043.79	6 448 043.79
TOTAL ASSETS	**865 757 402.86**	**3 928 338.78**	**869 685 741.64**
EQUITY AND LIABILITIES			
Long-term liabilities			
Lease liabilities	-	3 728 340.40	3 728 340.40
Short-term liabilities			
Lease liabilities	-	199 998.38	199 998.38
Total liabilities	**332 012 676.48**	**3 928 338.78**	**335 941 015.26**
TOTAL EQUITY AND LIABILITIES	**865 757 402.86**	**3 928 338.78**	**869 685 741.64**

** As per authorised consolidated financial statements of the Group for the year ended 31 December 2018*

*** Relates to the right of perpetual usufruct of land recognised in the books of account as at 31 December 2018*

The new accounting policies of the Group after the adoption of IFRS 16 are described in Note 10.6.

8.2. Other changes

Other changes that do not have any material impact on the Group's consolidated financial statements are as follows:

a) IFRIC Interpretation 23 *Uncertainty Over Income Tax Treatments*

The Interpretation explains how to recognize and measure income tax in accordance with IAS 12 if there is uncertainty about its recognition. It does not apply to taxes or charges which are outside the scope of IAS 12, nor does it cover interest and penalty requirements linked to non-compliance with income tax. The Interpretation addresses, in particular:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. An approach should be followed that better predicts the resolution of the uncertainty.

b) Amendments to IFRS 9: *Prepayment Features with Negative Compensation*
c) Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*
d) Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*
e) Annual Improvements to IFRSs (Cycle 2015-2017):
- IFRS 3 *Business combinations* – acquisitions achieved in stages
- IFRS 11 *Joint Arrangements* – regarding obtaining joint control over joint operation
- IAS 12 *Income Taxes* – on the tax effects of dividends
- IAS 23 *Borrowing costs*

  The amendments clarify that the entity shall treat all loans originally incurred to produce a qualifying asset as part of general loans where all the activities necessary to prepare the asset for its intended use or sale are completed.

The Group has not decided to early apply any standard, interpretation or amendment that has been published, but has not yet entered into force in the light of European Union legislation.

9. New standards and interpretations which have been issued, but have not yet become effective

The following standards and interpretations have been published by the International Accounting Standards Board, but have not yet become effective:

- IFRS 14 *Regulatory Deferral Accounts* (published on 30 January 2014) - according to the decision of the European Commission, standard endorsement process in its draft form will not be initiated before publication of standard’s final version - until the date of the authorization of these consolidated financial statements, not endorsed by the EU - effective for annual periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (published on 11 September 2014) – work leading to the endorsement of these changes was postponed by the EU indefinitely – the date of amendments becoming effective was indefinitely deferred by the IASB;
- IFRS 17 *Insurance contracts* (published on 18 May 2017) - until the date of the authorization of these consolidated financial statements, not endorsed by the EU - effective for annual periods beginning on or after 1 January 2021;
- *Amendments to References to the Conceptual Framework in International Financial Reporting Standards* (published on 29 March 2018) effective for annual periods beginning on or after 1 January 2020;
- Amendments to IFRS 3 *Business Combinations* (published on 22 October 2018) until the date of the authorization of these consolidated financial statements, not endorsed by the EU - effective for annual periods beginning on or after 1 January 2020;

- Amendments to IAS 1 and IAS 8 *Definition of Materiality* (published on 31 October 2018) - effective for annual periods beginning on or after 1 January 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform* (published on 26 September 2019) - effective for annual periods beginning on or after 1 January 2020;
- Amendments to IAS 1 *Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current* (published on 23 January 2020) - until the date of the authorization of these consolidated financial statements, not endorsed by the EU, the effective date has not yet been determined.

The effective dates are the dates resulting from the content of the standards announced by the International Accounting Standards Board (IASB). The dates of standards application in the European Union may differ from the dates of application arising from those provided by the standards and are announced at the time of approval for use by the European Union.

10. Significant accounting policies

10.1. Basis of consolidation

These consolidated financial statements comprise the annual financial statements of Alumetal S.A. and annual financial statements of its subsidiaries prepared, in each case, as at 31 December 2019 and for the year then ended.

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

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

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

• power over this entity,

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

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

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

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

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

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

• rights arising from other contractual arrangements; and

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

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

10.2. Re-measurement to fair value

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

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

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

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

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

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

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

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

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

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

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

10.3. Foreign currency translation

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

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

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

The following exchange rates were used for valuation purposes:

	31 December 2019	*31 December 2018*
USD	3.7977	3.7597
EUR	4.2585	4.3000
CZK	0.1676	0.1673
100 HUF	1.2885	1.3394

In 2019, the functional currency of foreign subsidiary company was Hungarian forint (HUF). At the reporting date, assets and liabilities of the foreign subsidiary are translated into Group presentation currency at the exchange rate prevailing at the reporting date, while its statement of comprehensive income is translated at the weighted average rate of exchange for the given reporting period. Any resultant exchange differences are recognized under other comprehensive income and accumulated under separate item of the shareholder's equity *(Cumulative translation differences).* Where a foreign subsidiary is disposed of, the deferred foreign exchange differences accumulated in the shareholders' equity are taken to the profit or loss.

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

	Year ended 31 December 2019	*Year ended 31 December 2018*
100 HUF	1.3198	1.3339

10.4. Property, plant and equipment

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

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

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

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

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

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

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

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

10.5. Intangible assets

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

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

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

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

Research and development costs

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

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

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

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

Reach costs

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

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

10.6. Leases

10.6.1. The Group as lessee – accounting policies applied until 31 December 2018

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

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

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

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

10.6.2. The Group as lessee – accounting policies applied as of 1 January 2019

At inception of a contract, the Group assesses whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for remuneration.

The Group applies a uniform approach to the recognition and measurement of all leases, except for short-term leases and leases of low-value assets. At the commencement date, the Group recognizes a right-of-use asset and a lease liability.

Right-of-use assets

The Group recognizes the right-of-use assets (ROU assets) at the commencement date (i.e. the date when the underlying asset is available for use). The right-of-use assets are valued at cost, less accumulated depreciation and impairment losses, adjusted for any revaluation of lease liabilities. The cost of the right-of-use assets includes the amount of the initial measurement of lease liability, any initial direct costs incurred and any lease payments made at or before the commencement date, less any lease incentives received. Unless the Group is reasonably certain that it will obtain ownership of the subject of the lease at the end of the lease term, the recognized ROU assets are depreciated using the straight-line method over the shorter of their estimated useful life or the lease term. The ROU assets are subject to impairment tests.

Lease liability

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments included in the lease liability are: fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, and the amounts that are expected to be payable by the lessee under residual value guarantees. The lease payments comprise also the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. Variable lease payments that do not depend on an index or a rate are recognised in the costs of the period, in which the event or condition that triggers those payments occurs.

In measuring the present value of lease liability, the Group applies the lessee's incremental borrowing rate at the commencement date, if the interest rate implicit in the lease cannot be easily determined. After the commencement date, the lease liability is increased to account for the interest and reduced by the lease payments made. In addition, the carrying amount of the lease liability is remeasured if there is change in the lease term, change in the in-substance fixed lease payments or if there is a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group has applied the short-term lease exemption to its short-term lease contracts (i.e. the contracts, for which the lease-term is 12 months or less from the commencement date and which do not contain a purchase option). The Group has also applied the low-value asset exemption with respect to its low-value lease contracts. Lease payments under short-term and low-value asset lease contracts are recognized on a straight-line basis over the term of the lease.

10.6.3. Group as lessor

Lease contracts under which the Group retains substantially all the risks and rewards incidental to ownership of an underlying asset are classified as operating leases. The initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as an expense over the lease term on the same basis as the lease income. The contingent lease payments are recognised as income in the period, in which they become due and receivable.

10.7. Impairment of non-financial long-term assets

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

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

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

10.8. Borrowing costs

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

10.9. Financial assets

Classification of financial assets

Financial assets are classified into one of the following categories:

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

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

Measurement upon initial recognition

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

De-recognition

Financial assets are de-recognised, where:

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

Measurement after initial recognition

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

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

Debt instruments – financial assets measured at amortised cost

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

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

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

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

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

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

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

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

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

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

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

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

Financial assets measured at fair value through profit or loss

A financial asset component which is not measured at amortised cost or at fair value through other comprehensive income is measured at fair value through profit or loss.

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

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

10.10. Offsetting financial assets and financial liabilities

Where the Group:

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

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

10.11. Impairment of financial assets

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

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

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

10.12. Derivative financial instruments and hedges

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

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

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

10.13. Inventories

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

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

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

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

10.14. Trade and other receivables

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

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

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

10.15. Cash and cash equivalents

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

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

10.16. Interest-bearing loans and borrowings and debt securities

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

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

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

10.17. Trade and other payables

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

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

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

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

A financial liability is derecognized [removed from the statement of financial position] by the Group when the obligation under the liability is discharged or cancelled or expires..

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

10.18. Modification of financial liabilities and change in the expected cash flows from financial liabilities

Cash flows relating to a financial liability may change as a result of changes in contractual conditions or expectations regarding estimated cash flows for the purpose of measuring a financial liability at amortized cost.

A) Changes in contractual conditions

In the event of a change in the contractual terms of the financial liability, the Group analyses whether the modification of the cash flows was material or not. The Group applies both a quantitative and qualitative criterion to identify a significant modification leading to the derecognition of an existing financial liability.

The Group considers a change to be a significant modification to the discounted present value of cash flows resulting from the new conditions, including all payments made, less payments received and discounted using the original effective interest rate, by not less than 10% of the discounted present value of the remaining cash flows arising from the initial financial liability.

Irrespective of the quantitative criterion, the modification is considered significant in the following cases:

a) conversion of the financial liability, unless it has been specified in advance in the terms of the contract,

b) swap of a lender,

c) significant extension of the financing period compared to the original one,

d) change of interest rate from variable to fixed and vice versa,

e) change in the legal form/ type of financial instrument.

Any significant modifications to the terms and conditions of an existing financial liability were treated as an extinguishment of the original financial liability and the recognition of a new financial liability.

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

B) Change in the expected cash flows

In the case of floating-rate financial liabilities, periodic revaluation of cash flows to reflect changes in market interest rates results in a change in the effective interest rate.

Where the Group changes the estimation of financial liability payments (excluding changes regarding contractual cash flow modifications), the carrying amount of the financial liability is adjusted so that this value reflects the actual and changed estimated contractual cash flows. The Group determines the carrying amount of a financial liability at amortized cost as the present value of estimated future cash flows under the contract that are discounted at the original effective interest rate of the financial instrument. The difference in valuation is recognized as income or expenses in profit or loss.

10.19. Provisions

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

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

10.20. Employee benefits

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

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

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

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

10.21. Incentive programs

Executives of the Company participate in the incentive programs (schemes) which were described in detail in Note 21.2.

10.21.1.Transactions settled in equity instruments

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

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

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

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

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

10.22. Allocation of profit for employee purposes and special funds

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

10.23. Revenue

10.23.1. Revenue from contracts with customers

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

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

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

Identification of a customer contract

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

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

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

Identification of performance obligations in the contract

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

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

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

Determining the transaction price

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

Variable consideration

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

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

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

Allocating the transaction price to performance obligations

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

Principal versus agent considerations

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

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

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

Variable consideration

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

Non-cash consideration

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

Warranties

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

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

Contract asset

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

Receivables

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

Contract liability

Included in contract liability is the consideration received or receivable from a customer, in respect of which performance obligation exists to transfer the goods or services to that customer.

Assets from sale with a right of return

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

Refund liability

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

10.23.2.Interest

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

10.23.3.Dividends

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

10.23.4. Government grants

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

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

10.24. Income taxes

10.24.1.Current tax

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

10.24.2.Deferred tax

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

Deferred tax liability is recognised for all taxable temporary differences:

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

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

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

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

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

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

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

10.24.3.Tax credits

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

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

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

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

The terms and conditions regarding maintenance of appropriate employment levels and making investments in the Special Economic Zones under the license of 14 July 2004, 15 July 2008, 1 July 2010, 8 December 2011, 22 March 2012 and 29 April 2014 were fulfilled. The description below relates only to these licenses, for which the qualifying conditions must still be satisfied in the ensuing reporting periods.

Under the license of 28 May 2014, the Group was required to: (i) incur investment expenditure in the Tarnobrzeska SEZ at the minimum level of PLN 8 million by 31 December 2017, and cumulatively not less than PLN 12 million to 31 December 2021, but not more than PLN 18 million, of which, as at 31 December 2019 the qualifying expenditure amounted to PLN 9.3 million, as well as to (ii) maintain employee headcount at minimum 126 persons by 31 December 2017, of which employee headcount as at 31 December 2019 was 135 persons, while as at 31 December 2018 – 152 persons.

Under the license of 27 September 2016, the Group was required to: (i) incur investment expenditure in the Tarnobrzeska SEZ at the minimum level of PLN 33.1 million by 31 December 2019, and cumulatively not less than PLN 55 million to 31 December 2023 but not more than PLN 71.5 million, of which, as at 31 December 2019 the qualifying expenditure amounted to PLN 59.0 million, as well as to (ii) maintain employee headcount at minimum 134 persons by 31 December 2023, of which employee headcount as at 31 December 2019 was 135 persons, while as at 31 December 2018 – 152 persons.

Under the license of 4 July 2018, the Group was required to: (i) incur investment expenditure in the Kostrzyńsko Słubicka SEZ at the minimum level of PLN 20.0 million to 31 December 2021, but not more than PLN 26.0 million as well as to (ii) maintain employee headcount at minimum 170 persons by 31 December 2024, of which employee headcount as at 31 December 2019 was 170 persons, while as at 31 December 2018 - 167 persons.

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

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

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

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

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

Given the above, the Alumetal Group Hungary Kft., while having significantly reduced demand for workers as a result of said changes, *did not* meet the requirement of minimum yearly average headcount level of 150 persons in 2019 and, in consequence, will not be able to use the tax credit, about which Alumetal S A. informed in its current report No. 17/2014 of 10 October 2014. In these circumstances, a decision was made *not to* recognise a deferred tax asset relating to the unused public aid in the form of income tax exemption of HUF 940 287 853. The consequences of this decision do not have any impact on the net result of the Alumetal Group Hungary Kft. or on the reported consolidated net result of the Alumetal S.A. Capital Group for 2019.

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

In 1Q 2018 and in 1Q 2019, annexes were signed that modified the contract in the part relating to beneficiary's obligations concerning employee headcount, changed contract security (performance bond) and the date for project realization. In the case of cash subsidy for Alumetal Group Hungary Kft, the company is currently obligated to: (i) construct a production plant with a production capacity of at least 55 000 tons per year (this obligation was already fulfilled); (ii) maintain yearly average employee headcount at 100 persons starting from 2019 to 2025 (with at least 2.7% of employees of higher education) while retaining total wage bill at a pre-defined level; (iii) maintain project life-period for at least 7 years, (iv) realize sales revenue at certain pre-defined level in the period 2019-2026, and (v) start plant operation not later than on 31 December 2019 (this obligation was realised). To the best knowledge of the Management Board, as at the date of the preparation of these consolidated financial statements, the fulfilment of and compliance with the above regulations necessary for the Alumetal Group Hungary Kft. to be able to continuously use the tax credits are not at risk.

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

10.24.4. Value Added Tax

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

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

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

10.24.5. Uncertain tax treatment

If according to the Group's assessment it is probable that the taxation authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Group determines taxable income (tax loss), tax base, carry-forward of unused tax losses and unused tax credits and tax rates, after considering in its tax return the applied or planned approach to taxation. In assessing this probability, the Group assumes that the taxation authorities authorized to audit and challenge the tax treatment will carry out such control and will have access to all information.

If the Group ascertains that it is not probable that the taxation authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, then the Group reflects the impact of this uncertainty in the accounting treatment of tax in the period, in which such ascertainment was made. The Group recognises a tax liability using one of the two below methods, depending on which method reflects better the uncertainty that may materialise:

- the Group determines the most probable scenario, which is a single amount from among possible results; or
- the Group recognises the expected value - it is the sum of amounts weighted by probability among possible results.

10.25. Net earnings per share

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

11. Operating segments

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

1) Casting alloys

The main output of the production process of the Group are aluminium casting alloys (casting alloys and master alloys) produced in the form of one-notch ingots *(aluminiowe 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 Komarom, 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 aimed to raise 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 as of 2019.

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

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

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.

2) Fluxes and salts

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

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

3) Other

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

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

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

2019	Casting alloys	Flux and salts	Other	Unallocated items	Consolidation exclusions	**Total**
Total volume (tons), of which:	194 849	2 546	41 445	-	-16 419	222 421
- inter-segment sales	*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
- inter-segment sales	*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
- inter-segment sales	-	-	*7 550*	-	*-7 550*	-
Volume of goods for resale (tons), of which:	-	-	-	-	-	-
- inter-segment sales	-	-	-	-	-	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 363 561 886.30	6 011 791.56	144 061 610.05	-	-129 826 865.30	1 383 808 422.61
- inter-segment sales	*15 500 302.89*	*5 681 427.83*	*43 875 731.19*	-	*-65 057 461.91*	-
- dividend income	-	-	*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**
% margin	*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**
% margin				-	-	*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**

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

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

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

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

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

Geographical information

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

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

Customer location	*Sales value (year ended 31 December 2019)*	*Sales value (year ended 31 December 2018)*	*Sales structure (year ended 31 December 2019)*	*Sales structure (year ended 31 December 2018)*
Poland	448 837 324.94	536 928 958.95	32.4%	32.4%
Germany	294 044 194.22	301 462 764.55	21.2%	18.2%
Other European countries	640 926 903.45	816 948 771.41	46.4%	49.4%
Total	1 383 808 422.61	1 655 340 494.91	100%	100%

The above information on revenues is based on data according to the place of delivery to customers' plants.

In 2019, the Group realised sales with a value exceeding 10% of its total annual revenue to the following business entities:

- the Volkswagen Group.

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

- the Volkswagen Group
- the Federal Mogul Group.

In 2019, similarly to 2018, the Group was not a recipient of supplies from one supplier with a value exceeding 10% of the total annual sales revenues.

12. Revenues and expenses

12.1. Revenue from contracts with customers

	Year ended 31 December 2019	*Year ended 31 December 2018*
Sales of finished goods	1 348 318 102.87	1 614 268 081.62
Sales of raw materials and scrap	26 728 677.66	36 924 614.14
Sales of services	8 761 642.08	4 147 799.15
	1 383 808 422.61	**1 655 340 494.91**

12.2. Costs by type

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Depreciation/ amortization	12.3	32 078 316.99	30 541 276.69
Inventory impairment write-downs/ Reversal of inventory impairment write-downs for the period	12.3	-641 596.78	634 188.41
Materials and energy		1 115 808 066.07	1 395 644 224.88
External services, of which:		53 364 723.30	48 848 944.32
- repair services		6 159 575.49	6 056 638.86
- transport services		29 702 908.13	29 869 310.15
- advisory services		1 543 511.16	892 828.96
Taxes and charges		5 319 104.04	3 649 893.16
Employee allowances	12.4	57 549 277.57	59 884 394.13
Other costs by type		3 343 958.56	3 763 458.96
Cost of goods for resale, raw materials and scrap sold		23 206 157.58	31 840 840.62
Total costs by type, of which:		**1 290 028 007.33**	**1 574 807 221.17**
Items recognised in cost of sales		1 267 444 309.29	1 509 170 967.37
Items recognised in selling expenses		31 233 894.53	31 830 633.14
Items recognised in administrative expenses		24 314 925.06	27 838 140.02
Change in stocks of finished goods		-32 965 121.55	5 967 480.64

12.3. Depreciation/ amortization charges and impairment losses included in the profit or loss

	Year ended 31 December 2019	*Year ended 31 December 2018*
Depreciation of property, plant and equipment and right-of-use assets*	27 911 415.97	26 788 940.74
Amortization of intangible assets	424 987.29	301 673.67
Inventory impairment	-641 596.78	634 188.41
Included in cost of sales	**27 694 806.48**	**27 724 802.82**
Depreciation of property, plant and equipment	1 395 711.31	1 302 636.63
Included in selling expenses	**1 395 711.31**	**1 302 636.63**
Depreciation of property, plant and equipment and right-of-use assets*	2 255 223.17	2 081 080.11
Amortization of intangible assets	90 979.25	66 945.54
Included in administrative expenses	**2 346 202.42**	**2 148 025.65**

*** Depreciation of right-of-use assets relates to 2019**

12.4. Employee allowances

	Year ended 31 December 2019	*Year ended 31 December 2018*
Wages and salaries	44 711 899.50	46 824 292.90
Social security costs	8 505 875.72	8 682 292.04
Cost of incentive scheme	807 383.88	1 138 998.28
Retirement benefits	276 477.49	108 019.04
Amounts transferred to the Social Fund	1 323 776.53	1 165 624.19
Other employee benefits (training, health care, work hygiene and safety, meals and other)	1 923 864.45	1 965 167.68
Total employee allowances, of which:	**57 549 277.57**	**59 884 394.13**
Items recognised in cost of sales	46 676 697.85	51 658 644.12
Items recognised in selling expenses	3 074 145.82	2 573 823.54
Items recognised in administrative expenses	7 798 433.90	5 651 926.47

12.5. Other operating income

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Gains on the sale of property, plant and equipment		123 155.76	145 184.91
Subsidy (incl. recognition of accrued income)	29.3	2 776 643.07	3 284 517.03
Inflow from execution of contractors' recovery plan	23	365 897.97	731 795.83
Net effect of insurance expense and indemnities		33 246.42	167 197.85
Received awards and compensations		9 895.38	145 407.07
Return of VAT from abroad		27 894.52	–
Recoveries from renovations		384 700.93	–
Other (total of non-material items)		28 019.02	276 663.43
Total other operating income		**3 749 453.07**	**4 750 766.12**

12.6. Other operating expenses

	Year ended 31 December 2019	*Year ended 31 December 2018*
Penalties and compensations paid	82 019.03	24 669.57
Loss on the sale of non-financial long-term assets	18 134.22	–
Allowance for expected credit losses	170 500.39	–
Donations granted	27 261.51	32 709.09
Cost of liquidation of property, plant and equipment	539 344.82	7 820.00
Other	358 013.77	346 208.85
Total other operating expenses	**1 195 273.74**	**411 407.51**

12.7. Finance income

	Year ended 31 December 2019	*Year ended 31 December 2018*
Interest, of which:	360 918.01	205 649.74
- interest from business partners (receivables)	20 704.38	41 408.85
- bank interest	340 213.63	164 240.89
FX gains	–	598 948.42
Total finance income	**360 918.01**	**804 598.16**

12.8. Finance costs

	Year ended 31 December 2019	*Year ended 31 December 2018*
Interest on bank loans	708 216.75	944 346.31
Interest on trade and administrative liabilities	7 098.41	17 319.71
Lease-related interest	60 114.72	–
FX losses	770 368.07	–
Other	71 041.37	137 590.70
Total finance costs	**1 616 839.32**	**1 099 256.72**

13. Components of other comprehensive income

	Year ended 31 December 2019	*Year ended 31 December 2018*
Cumulative translation differences	-2 053 345.78	-350 996.12
Total components of other comprehensive income	**-2 053 345.78**	**-350 996.12**

14. Income tax

14.1. Tax expense

The main components of income tax expense for the year ended 31 December 2019 and 31 December 2018 are as follows:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Recognised in profit or loss:		
Current income tax:	*1 518 868.00*	*3 407 133.00*
Current tax expense	1 518 868.00	3 407 133.00
Deferred tax:	*8 885 143.53*	*12 023 670.60*
Relating to origination and reversal of temporary differences	8 885 143.53	12 023 670.60
Local business tax, Innovation tax	1 259 229.90	769 071.51
Income tax reported in the consolidated profit or loss	11 663 241.43	16 199 875.11

14.2. Reconciliation of effective income tax rate

The reconciliation of income tax on accounting gross profit calculated using the statutory tax rate and income tax on taxable profit calculated using the effective interest rate of the Group for the year ended 31 December 2019 and 31 December 2018 is as follows:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Accounting gross profit from continuing operations	62 113 551.75	90 545 454.43
Accounting gross profit	62 113 551.75	90 545 454.43
Tax at statutory tax rate in Poland of 19% (both in 2019 and 2018)	11 801 574.83	17 203 636.34
Utilisation of tax credit relating to SEZ operations	-14 297 536.38	-18 366 938.40
Effect of difference in tax rate of the foreign subsidiary	252 051.60	121 557.57
Local business tax at a foreign subsidiary	1 259 229.90	769 071.51
Effect of tax-exempted revenues and non-tax-deductible expenses, of which:	221 545.49	298 382.70
- PFRON (National Disabled Persons Rehabilitation Fund) expenses	*68 142.55*	*81 973.03*
- cost of incentive scheme	*153 402.94*	*216 409.67*
Effect of change in deferred tax asset relating to unused tax credits	12 209 424.00	16 009 446.17
Other	216 951.99	164 719.22
Tax expense at effective tax rate of 18.8% in 2019 (2018: 17.9%)	11 663 241.43	16 199 875.11
Tax (expense)/ tax income reported in the consolidated profit or loss	11 663 241.43	16 199 875.11

14.3. Deferred tax

	Consolidated Statement of Financial Position as at		*Effect of translation of foreign subsidiary recognised in the statement of financial position*	*Consolidated Statement of Comprehensive Income for the year ended*	
	31 Dec 2019	*31 Dec 2018*	*31 Dec 2019*	*31 Dec 2019*	*31 Dec 2018*
Difference between carrying amount and tax base of property, plant and equipment and intangible assets, after considering the impact of IFRS 16, on a net basis	14 588 295.58*	11 337 359.65*	17 022.79	3 233 913.14	2 978 602.98
Calculated compensations	-54 654.88	-163.09		-54 491.79	1 356.23
Accrued interest	-10 211.55	-4 614.27		-5 597.28	1 011.18
FX gains	-331 651.27	-234 901.05		-96 750.22	471 155.70
Provision for retirement benefits	204 060.00	226 411.79		-22 351.79	63 359.46
Receivables impairment write-down	58 092.35	69 520.61		-11 428.26	-139 041.21
Inventories impairment write-downs	25 235.37	17 398.51		7 836.86	-4 413.87
Property, plant and equipment impairment write-down	27 783.79	27 783.79		0.00	-116 899.90
Unpaid wages, salaries and allowances	386 615.30	508 397.90		-121 782.60	111 261.39
FX losses	478 295.83	338 300.10		139 995.73	-665 267.23
Unpaid bank costs/ interest	99.54	1 547.13		-1 447.59	971.94
Provision for services	19 442.39	46 211.82		-26 769.43	31 176.23
Purchase of intangible services in excess of limit	481 041.33	832 929.00		-351 887.67	832 929.00
Tax loss of the foreign subsidiary	2 654 139.12	2 114 514.17	-95 416.42	635 041.37	419 573.67
Deferred tax asset relating to unused tax credits	12 148 230.60	24 357 654.60		-12 209 424.00	-16 009 446.17
Deferred tax expense				**-8 885 143.53**	**-12 023 670.60**
Deferred tax asset/ liability, net, of which:					
Deferred tax asset from continuing operations	30 853 644.72	39 835 127.90			
Deferred tax liability with respect to continuing operations	-178 831.22	-196 777.24			

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

Tax loss of the foreign subsidiary

As part of deferred tax assets, the Group recognized deferred tax assets in the amount of PLN 2 654 139.12 calculated based on the tax loss of the foreign entity. This item applies to cumulative tax losses incurred in the years 2014-2019 by the subsidiary company, Alumetal Group Hungary Kft. Under Hungarian tax law, a taxpayer may deduct from the taxable income tax loss from previous years, provided that (i) this loss was incurred no more than 5 years before the tax settlement date (ii) the limit of tax loss deduction is up to 50% of the income earned in a given year.

The Group has concluded that there are no material risks of non-realisability of the assets described above, basing primarily on the assumed budgets and forecasts for 2020 and for the subsequent years, and after taking into account the historical data.

In recognizing deferred tax assets, the Management Board of the parent company applied professional judgment regarding, among others, the future economic situation of the Alumetal Group Hungary Kft, sales revenues, the profitability of the Hungarian company and macroeconomic variables. As these forecasts are subject to uncertainty, it may turn out that, despite the best knowledge of the parent's Management Board, they may not materialise.

Changes to the above assumptions may result in non-utilization of recognized asset and, as a consequence, in its impairment. The Group anticipates that the tax losses recognized under deferred tax assets will be realized in the period from 2020 to 2024. The Group has not reported any unrecognized deferred tax assets. The conducted sensitivity analysis showed a relatively low sensitivity of the results of said asset realisability assessment to a change in the key parameters listed above, including possible consequences of the impact of the COVID-19 coronavirus pandemic as described in Note 6 to the consolidated financial statements.

Since the situation is still evolving, the management of the parent company believes that it is not possible to present quantitative estimates of the impact of the current situation on the Alumetal S.A. Capital Group. Any such possible impact will be accounted for in the impairment tests performed for the next reporting periods.

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

Alumetal Poland sp. z o.o. has conducted its business operations in the Kostrzyńsko-Słubicka Special Economic Zone and in the Tarnobrzeska Special Economic Zone based on appropriate licences, which define the terms and conditions that are required to be fulfilled to benefit from income tax relief (i.e. tax credit). These terms and conditions were presented in Note 10.24.3 of these consolidated financial statements.

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

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

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

	31 December 2019	**31 December 2018**
Qualified expenditure incurred to the reporting date at nominal value (after considering public aid intensity – 50% of the qualified expenditure and utilization through received subsidies*)	117 720 013.73	116 045 109.75
Utilised public aid from income tax relief at nominal value (after considering utilisation for the year ended on the last calendar day)	119 295 738.00	105 190 971.49

	31 December 2019	**31 December 2018**
Qualified expenditure incurred to the reporting date at discounted value as at the date of SEZ license award (after considering public aid intensity – 50% of the qualified expenditure and utilization through received subsidies*)	104 930 570.34	103 379 123.60
Utilised public aid from income tax relief at discounted value at the date of SEZ license award (after considering utilisation for the year ended on the last calendar day)	94 246 052.97	81 512 292.20

** as at 31 December 2019, the total value of utilised public aid delivered in the form of subsidies in the years 2006-2011 amounted to PLN 21 151 281.44 at nominal value, and PLN 19 706 691.06 at discounted value as at the date of SEZ licenses award.*

In addition, the Alumetal Group Hungary Kft. was allowed to benefit from public aid in the form of partial income tax relief (tax credit) in the period from 2019 to 2028, based on the application for such tax relief for development purposes filed on 2 October 2014, as documented by the incurred qualified investment expenditure. The conditions that this entity was to fulfil to be able to use the tax relief were presented in more detail in Note 10.24.3 of these consolidated financial statements.

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

The estimate of the Group as at 31 December 2019 was performed based on the long-term financial forecasts – forecasted tax results were prepared to 2026 for Alumetal Poland. The amounts of recognised deferred tax asset are as follows:

- as at 31 December 2019 – PLN 12 148 230.60
- as at 31 December 2018 – PLN 24 357 654.60

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

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

15. Earnings per share

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

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

In 2019, the exercise price of instruments convertible to equity instruments was above their market value, therefore there was no dilution effect in 2019. The table below shows the profit- and share-related data used in the calculation of basic and diluted earnings per share:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Net profit from continuing operations	50 450 310.32	74 345 579.32
Net profit	**50 450 310.32**	**74 345 579.32**
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share (accounting for share split)	15 479 493	15 479 493
Effect of dilution		
Share options relating to share-based payment, as provided under IFRS 2 *Share-based Payment*	-42 357	12 376
Weighted average number of outstanding ordinary shares, adjusted for dilution effect (accounting for share split)	15 437 136	15 491 869
Earnings per share		
- basic from the profit for the year	3.26	4.80
- diluted from the profit for the year	3.26	4.80

Details concerning share incentive scheme with effect on the dilution of earnings per share were described in Note 21.2. The Group does not hold other than described above financial instruments that cause dilution of calculated earnings per share.

16. Intangible assets

Year ended 31 December 2019	*Patents and licenses*	*Reach licenses*	*Other*	*Intangible assets under construction*	*Total*
Gross carrying amount as at 1 January 2019	**709 909.94**	**379 913.61**	**3 050 455.43**	**740 066.92**	**4 880 345.90**
Purchases	–	–	–	1 324 488.56	1 324 488.56
Transfer from assets under construction	–	–	–	–	–
Transfer from intangible assets under construction	82 427.72	1 053 930.82	697 212.18	-1 833 570.72	–
Cumulative translation differences	–	–	-541.88	–	-541.88
Gross carrying amount as at 31 December 2019	**792 337.66**	**1 433 844.43**	**3 747 125.73**	**230 984.76**	**6 204 292.58**
Amortization and impairment as at 1 January 2019	**370 423.81**	–	**2 000 736.17**	–	**2 371 159.98**
Amortization charge for the period	108 894.23	67 025.28	340 047.03	–	515 966.54
Cumulative translation differences	–	–	-177.94	–	-177.94
Amortization and impairment as at 31 December 2019	**479 318.04**	67 025.28	**2 340 605.26**	–	**2 886 948.58**
Net carrying amount as at 1 January 2019	**339 486.13**	**379 913.61**	**1 049 719.26**	**740 066.92**	**2 509 185.92**
Net carrying amount as at 31 December 2019	**313 019.62**	**1 366 819.15**	**1 406 520.47**	**230 984.76**	**3 317 344.00**

Year ended 31 December 2018	*Patents and licenses*	*Reach licenses*	*Other*	*Intangible assets under construction*	*Total*
Gross carrying amount as at 1 January 2018	**625 249.98**	–	**2 980 201.18**	–	**3 605 451.16**
Purchases	–	–	–	238 781.03	238 781.03
Transfer from assets under construction	–	–	–	1 036 172.26	1 036 172.26
Transfer from intangible assets under construction	84 659.96	379 913.61	70 312.80	-534 886.37	–
Cumulative translation differences	–	–	-58.55	–	-58.55
Gross carrying amount as at 31 December 2018	**709 909.94**	379 913.61	**3 050 455.43**	**740 066.92**	**4 880 345.90**
Amortization and impairment as at 1 January 2018	**290 997.27**	–	**1 711 532.10**	–	**2 002 529.37**
Amortization charge for the period	79 426.54	–	289 192.67	–	368 619.21
Cumulative translation differences	–	–	11.40	–	11.40
Amortization and impairment as at 31 December 2018	**370 423.81**	–	**2 000 736.17**	–	**2 371 159.98**
Net carrying amount as at 1 January 2018	**334 252.70**	–	**1 268 669.08**	–	**1 602 921.80**
Net carrying amount as at 31 December 2018	**339 486.13**	379 913.61	**1 049 719.26**	**740 066.92**	**2 509 185.92**

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

17. Property, plant and equipment

Year ended 31 December 2019

	Land (incl. perpetual usufruct right)	Buildings, premises and civil engineering objects	Plant and machinery	Motor vehicles	Other [tangible] fixed assets	AUC	Prepayments for AUC	Total
Gross carrying amount as at 31 December 2018	**11 996 928.54**	**169 837 111.33**	**291 420 476.56**	**10 537 520.68**	**6 410 896.95**	**12 757 034.68**	**222 544.54**	**503 182 513.28**
Right-of-use assets	-2 519 705.01	–	–	–	–	–	–	-2 519 705.01
Gross carrying amount as at 1 January 2019	**9 477 223.53**	**169 837 111.33**	**291 420 476.56**	**10 537 520.68**	**6 410 896.95**	**12 757 034.68**	**222 544.54**	**500 662 808.27**
Purchases	–	–	–	–	–	15 667 803.05	20 041 208.24	35 709 011.29
Sale	–	–	-390 920.81	-520 771.63	–	-74 384.63	–	-986 077.07
Liquidation	–	-324 592.91	-2 101 789.84	–	-7 164.94	-267 912.00	–	-2 701 459.69
Costs of periodic repairs – overhauls	–	–	1 286 742.91	–	–	-1 286 742.91	–	–
Spare parts – purchase	–	–	335 386.79	–	–	–	–	335 386.79
Transfer to intangible assets	–	–	–	–	–	–	–	–
Transfers	–	629 976.95	15 393 874.92	1 201 524.04	34 061.11	-15 933 137.45	-1 326 299.57	–
Cumulative translation differences	-165 239.91	-1 976 981.67	-2 687 654.41	-75 297.06	-37 364.80	-3 852.63	-1 592.60	-4 947 983.08
Gross carrying amount as at 31 December 2019	**9 311 983.62**	**168 165 513.70**	**303 256 116.12**	**11 142 976.03**	**6 400 428.32**	**10 858 808.11**	**18 935 860.61**	**528 071 686.51**
Depreciation and impairment as at 1 January 2019	**–**	**27 026 732.68**	**138 281 761.04**	**5 770 567.13**	**3 202 168.23**	–	–	**174 281 229.08**
Depreciation charge for the period	–	4 922 002.51	24 362 802.40	1 512 933.33	560 349.36	–	–	31 358 087.60
Impairment – reversal	–	–	–	–	–	–	–	–
Sale	–	–	-388 678.24	-486 338.89	–	–	–	-875 017.13
Liquidation	–	-118 890.11	-2 089 190.70	–	-7 164.94	–	–	-2 215 245.75
Cumulative translation differences	–	-163 376.86	-685 288.35	-34 325.34	-18 573.75	–	–	-901 564.29
Depreciation and impairment as at 31 December 2019	–	**31 666 468.22**	**159 481 406.15**	**6 762 836.23**	**3 736 778.90**	–	–	**201 647 489.50**
Net carrying amount as at 1 January 2019	**9 477 223.53**	**142 810 378.65**	**153 138 715.52**	**4 766 953.55**	**3 208 728.72**	**12 757 034.68**	**222 544.54**	**326 381 579.19**
Net carrying amount as at 31 December 2019	**9 311 983.62**	**136 499 045.48**	**143 774 709.97**	**4 380 139.80**	**2 663 649.42**	**10 858 808.11**	**18 935 860.61**	**326 424 197.01**

Year ended 31 December 2018

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

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

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

Land and buildings with a carrying amount of PLN 90 331 thousand (as at 31 December 2018 – PLN 89 046 thousand) are pledged as mortgage collateral for bank loans and borrowings of the Group (Note 27).

There were no capitalized borrowing costs in the year ended 31 December 2019 or 31 December 2018.

During the course of impairment indicator analysis performed in accordance with IAS 36 *Impairment of assets*, the Management Board of the parent analysed, among others, evidence deriving from the internal reporting as well as the factors obtained from the external sources of information which were described in more detail in Note 10.7 to these consolidated financial statements. Given the identified loss indicators, an impairment test was performed for the assets relating to the activities of the subsidiary company, Alumetal Group Hungary Kft. The performed test did not confirm said assets impairment. The test used the forecasts for 5 years (i.e. 2020 - 2024) and for the residual period. Applied in the calculations was a 4.98% discount rate, which according to the Management reflected in the best way the risk and the weighted average cost of capital (WACC) for the industry, in which the Alumetal Group entities operate. For the residual period, the 0% growth rate was adopted. Over the forecast period, the values arise from the adopted long-term production and operating strategy of the Alumetal Group companies basing on such assumptions as future changes in the prices of aluminium, raw materials and energy, future revenues, costs, cash flows, weighted average cost of capital, impact of the prospective and enacted Polish and European regulatory changes as well as the expected macroeconomic situation, which all depend on future market and economic conditions.

The performed sensitivity analysis confirmed a relatively low sensitivity of results to changes in the key parameters listed above, after considering information presented in Note 5.2.

18. Leases

18.1. The Group as lessee (period from 1 January 2019 – after IFRS 16 implementation)

The Group is, within the meaning of IFRS 16, a lessee for perpetual usufruct of land and lease contracts for technical gas tanks. The lease term is estimated as follows:

- for perpetual usufruct of land – until 2089;
- for lease contracts for technical gas tanks – 10 years.

Some short-term lease contracts contain the option to extend or terminate the lease. The Group also concludes contracts for an indefinite period of time. The Management Board exercises professional judgment to determine the period over which it can be assumed with reasonable certainty that such contracts will continue (see Note 5.1). The Group also has lease contracts with a lease term of 12 months or less and low-value lease contracts. The Group uses the exemption for short-term leases and leases for which the underlying asset is of low value.

The Group's lease liabilities are secured by the lessor's ownership title to leased asset. In general, the Group is not entitled to transfer leased assets to sub-leases or to assign rights it has under lease contracts.

Presented below are the carrying amounts of right-of-use assets (ROU assets) and their changes in the reporting period:

	*RPU**	*Technical gas tanks*	*Total*
As at 1 January 2019	5 127 614.55	1 320 429.24	6 448 043.79
Depreciation	72 219.92	132 042.93	204 262.85
As at 31 December 2019	5 055 394.63	1 188 386.31	6 243 780.94

* *Right of perpetual usufruct of land*

Presented below are the carrying amounts of lease liabilities and their changes in the reporting period:

	2019
As at 1 January 2019	3 928 338.79
Interest	60 114.72
Payments	-199 377.85
FX gains	-12 743.67
As at 31 December 2019	3 776 331.99
Short-term	201 689.59
Long-term	3 574 642.40

The maturity analysis of lease liabilities is presented in Note 35.5 *Liquidity risk.*

Presented below are the amounts of revenues, costs, profits and losses resulting from leasing included in the consolidated statement of comprehensive income:

	2019
Depreciation of ROU assets	204 262.85
Interest on lease liabilities	60 114.72
FX differences	-12 743.67
Total amount	251 633.90

The total lease -related cash outflow in 2019 was PLN 199 377.85.

18.2. Operating lease liabilities – Group as lessee (period to 31 December 2018 – prior to IFRS 16 implementation)

As at 31 December 2018, the Group was not a party to operating lease contracts.

18.3. Finance lease liabilities – Group as lessee (period to 31 December 2018 – prior to IFRS 16 implementation)

As at 31 December 2018, the Group was not a party to finance lease contracts.

19. Other assets

19.1. Other non-financial assets

	31 December 2019	*31 December 2018*
Excess of social assets over Social Fund liabilities	175 675.22	99 039.03
Insurance	99 279.80	130 445.97
IT services	8 235.71	–
Connection fee*	1 457 069.14	–
Total, of which:	**1 740 259.87**	**229 485.00**
- short-term portion	368 900.61	229 485.00
- long-term portion	1 371 359.26	–

** Connection fee resulting from the concluded contract with the gas connection contractor and at the same time the supplier of gas fuel to the Plant in Hungary reclassified in 2019 to Other non-financial assets and accounted for over a period of 20 years*

20. Social assets and Social Fund liabilities

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

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

	31 December 2019	*31 December 2018*
Cash and cash equivalents	649 135.16	475 986.03
Social Fund liabilities	473 459.94	376 947.00
Balance after netting off	**175 675.22**	**99 039.03**

	Year ended 31 December 2019	*Year ended 31 December 2018*
Amounts transferred (contributions) to the Social Fund during the year	1 323 776.53	1 165 624.19
Non-refundable expenditure by the Fund	1 229 442.38	1 184 484.12

21. Employee benefits

21.1. Retirement and disability benefits

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

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

	2019	**2018**
At the beginning of the period as at 1 January	**1 191 641.00**	**858 170.17**
Provision recognition/ reversal	158 836.43	441 489.87
Cost of benefits paid out	-276 477.43	-108 019.04
At the end of the period as at 31 December	**1 074 000.00**	**1 191 641.00**

21.2. Incentive programs

Incentive Program III

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

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

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

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

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

- for each G-series share, the issue price of PLN 48.60 will be reduced by paid gross dividend (per share) for the year 2017 (i.e. PLN 2.92), for 2018 (i.e. PLN 4.08) 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 (i.e. PLN 4.08), 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 (i.e. PLN 4.08), 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 given year or from other equity components of the Company which are at its disposal for dividend payment purposes.

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

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 4Q 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.

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

	31 December 2019	*31 December 2018*
Capital under Incentive Program III	1 946 382.16	1 138 998.28

Year ended	*31 December 2019*	*31 December 2018*
Cost of Incentive Program III	807 383.88	1 138 998.28

The value of the instruments without market condition was determined using the finite difference method *(the FDM method),* while that of entitlements with market condition – using the Monte Carlo simulation method combined with the least squares linear regression method i.e. the so-called Longstaff-Schwartz method.

The following assumptions and parameters were adopted for the valuation of the modified Incentive Scheme III:
- grant date (valuation date) - 3 October 2018,
- the price of the underlying assets (shares of Alumetal SA) included in the valuation - PLN 44.00/share,
- risk-free interest rate - 2.3%,
- value of the underlying asset price volatility - 27%,
- value of WIG index volatility - 14%,
- the value of dividend paid per share in 2018 - PLN 2.92/share
- the value of the expected dividend in 2019-2022 respectively - PLN 4.00 ; PLN 4.29; PLN 4.78; PLN 4.97.

22. Inventories

	31 December 2019	*31 December 2018*
Raw materials and scrap (at acquisition cost)	46 317 495.42	66 485 778.82
Work in progress and semi-finished goods (at cost of production)	24 972 417.03	58 605 209.73
Finished goods	49 072 677.99	51 653 386.20
Goods for resale	37 096.11	37 096.11
Advance payments for supplies	592 293.61	–
Total inventories at the lower of cost (cost of production) and net realizable value, of which:	**120 991 980.16**	**176 781 470.86**
Inventory impairment write-downs	*-192 368.71*	*-846 458.68*

Inventory items pledged as collaterals for loans and borrowings were described in detail in Note 27.

23. Trade and other receivables

	31 December 2019	*31 December 2018*
Trade receivables	209 565 604.45	276 143 392.85
State budget receivables – VAT	6 947 729.00	9 931 232.45
Other third party receivables	419 571.77	140 094.50
Warranty receivables*	–	890 957.66
Total short-term receivables, net, of which:	**216 932 905.22**	**287 105 677.46**
Allowance for expected credit losses	*-1 836 860.34*	*-3 001 574.13*
Total short-term receivables, gross	**218 769 765 .56**	**290 107 251.59**
Long-term receivables		
Warranty receivables*	–	890 957.66

** Connection fee resulting from the concluded contract with the gas connection contractor and at the same time the supplier of gas fuel to the Plant in Hungary reclassified in 2019 to Other non-financial assets and accounted for over a period of 20 years*

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

Factoring

On 15 September 2014, the Group concluded a factoring agreement with the Bank UniCredit Luxembourg S.A., whereby a full factoring was established on the Euro-based receivables from one of the customers of the Alumetal Group at the risk of this customer, with no recourse to the Alumetal Group, and with no limit (limited in practice only by the scale of cooperation with the given customer); the concluded factoring agreement provided for a flexible use of this service. As at 31 December 2019, the value of discounted invoices was EUR 0.0 (as at 31 December 2018 –EUR 0.00).

Allowance for expected credit losses

The Group has prepared a provision matrix to value the allowance for expected credit losses in relation to trade receivables. Trade receivables were grouped based on the similarity of credit risk characteristics and were assigned the probability of credit losses determined based on historical data on credit losses, adjusted, where appropriate, for the impact of information on the future.

Details concerning credit risk management were presented in Note 35.4.

As at 31 December 2019, trade receivables of PLN 1 836 860.34 (as at 31 December 2018: PLN 3 001 574.13) were covered by appropriate allowance.

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

	2019	**2018**
Impairment write-down as at 1 January	3 001 574.13	7 898 310.73
Increase	458 157.67	–
Utilisation/ Reversal	-1 622 871.46	-4 896 736.60
Impairment write-down as at 31 December	**1 836 860.34**	**3 001 574.13**

Presented below is the analysis of trade and other receivables (with no state budget receivables), which as at 31 December 2019 and 31 December 2018 were past due, but which were not deemed as irrecoverable, and for which no impairment write-down was recognised.

				Past due, but recoverable			
	Total	*Current*	*< 30 days*	*31 – 90 days*	*91 - 180 days*	*181-365 days*	*> 366 days*
31 Dec 2019	209 985 176.22	196 122 984 .63	12 619 854.22	929 802.84	237 216.39	26 359.90	48 958.24
31 Dec 2018	276 283 487.35	248 527 917.28	27 349 658.66	405 911.41	–	–	–

Receivables from Cimos d.d.

In accordance with the restructuring process of Cimos d.d. described in the consolidated financial statements for the year ended 31 December 2014 and the resultant customer agreements, on 22 May 2019 the Group recorded payment of the eight and last half-year instalment by Cimos d.d. in the amount of EUR 92 415.60. As a consequence, the Group reversed the remaining impairment write-down in the results of the first half of 2019 in the amount equating the received inflow.

Receivables from JN Metal

On 5 June 2017, ALUMETAL Poland Sp. z o.o. filed a lawsuit with the District Court in Cracow, 9th Economic Department in an action against JN Metal Jerzy Nykiel for 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 these consolidated financial statements, the appeal was not considered due to the complaints filed by the defendant regarding refusal of the exemption from the costs of appeal.

Since the first half of 2016, the Group has insured its receivables from sales to unrelated entities (except for sales to the three largest customers of the Group). As a result, the credit risk of the Company became considerably limited. However, one should note that pursuant to the policies operating in the contracts of this type, part of receivables of each customer is not insured due to the so-called own-share of the policyholder. In addition, as provided in the insurance contract, the Company's Management Board has the right to take a sale decision that originates receivables from customers in the amount higher than the coverage limit granted by the insurer.

24. Cash and cash equivalents

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

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

	31 December 2019	*31 December 2018*
Cash on hand and cash at bank	58 484 170.45	28 940 480.30
Short-term deposits	–	6 000.00
Overdraft facilities	-67 421 261.07	-110 647 926.07
Cash and cash equivalents reported in the consolidated statement of cash flow	**-8 937 090.62**	**-81 701 445.77**

Included in the balance of cash and cash equivalents as at 31 December 2019 is the amount of PLN 2 134 529.68 gathered on the VAT accounts (as at 31 December 2018 - PLN 7 468 492.81). These funds can be relatively easily used to pay the tax part of purchase invoices and public-legal obligations (CIT, PIT, Social Security contributions, customs duties), and therefore the Group does not include them in the balance of cash of restricted use.

25. Issued capital and reserves

25.1. Issued capital

Issued capital	*31 December 2019*	*31 December 2018*
Ordinary shares, series A, with a nominal value of PLN 0.10 each	9 800 570	9 800 570
Ordinary shares, series B, with a nominal value of PLN 0.10 each	1 507 440	1 507 440
Ordinary shares, series C, with a nominal value of PLN 0.10 each	3 769 430	3 769 430
Ordinary shares, series D, with a nominal value of PLN 0.10 each	150 770	150 770
Ordinary shares, series E, with a nominal value of PLN 0.10 each	150 770	150 770
Ordinary shares, series F, with a nominal value of PLN 0.10 each	100 513	100 513
	15 479 493	**15 479 493**

Nominal value of shares

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

According to the contents of notifications forwarded to the Company based on the act of 29 July 2005 on public offers and the terms and conditions of introducing financial instruments to organized system of trading and on public companies, as at 23 March 2020 the shareholders of ALUMETAL S.A. required to report significant blocks of shares did not change.

Shareholder rights

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

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

	31 December 2019	*31 December 2018*
IPO 30 FIZAN A/S		
share in equity	32.99%	32.99%
share in the number of votes	32.99%	32.99%
Aviva Otwarty Fundusz Emerytalny Aviva Santander (*formerly* Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK)		
share in equity	10.50%	10.50%
share in the number of votes	10.50%	10.50%
Nationale-Nederlanden Otwarty Fundusz Emerytalny		
share in equity	7.37%	7.37%
share in the number of votes	7.37%	7.37%
Aegon Otwarty Fundusz Emerytalny		
share in equity	6.18%	6.18%
share in the number of votes	6.18%	6.18%
Otwarty Fundusz Emerytalny PZU „Złota Jesień”		
share in equity	5.98%	5.98%
share in the number of votes	5.98%	5.98%
Krzysztof Błasiak		
share in equity	2.63%	2.61%
share in the number of votes	2.63%	2.61%
Szymon Adamczyk		
share in equity	1.80%	1.79%
share in the number of votes	1.80%	1.79%
Przemysław Grzybek		
share in equity	1.08%	1.08%
share in the number of votes	1.08%	1.08%
Agnieszka Drzyżdżyk		
share in equity	0.05%	0.05%
share in the number of votes	0.05%	0.05%
Others		
share in equity	31.42%	31.45%
share in the number of votes	31.42%	31.45%

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

	23 March 2020
IPO 30 FIZAN A/S	
share in equity	32.99%
share in the number of votes	32.99%
Aviva Otwarty Fundusz Emerytalny Aviva Santander (*formerly* Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK)	
share in equity	10.50%
share in the number of votes	10.50%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	
share in equity	7.37%
share in the number of votes	7.37%
Aegon Otwarty Fundusz Emerytalny	
share in equity	6.18%
share in the number of votes	6.18%
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	
share in equity	5.98%
share in the number of votes	5.98%
Krzysztof Błasiak	
share in equity	2.63%
share in the number of votes	2.63%
Szymon Adamczyk	
share in equity	1.80%
share in the number of votes	1.80%
Przemysław Grzybek	
share in equity	1.08%
share in the number of votes	1.08%
Agnieszka Drzyżdżyk	
share in equity	0.05%
share in the number of votes	0.05%
Others	
share in equity	31.42%
share in the number of votes	31.42%

26. Reserve capital

The reserve capital was created from statutory appropriations of the profits generated in prior financial years in the amount of PLN 515 983.10, from share premium realized on D-series, E-series and F-series shares in the total amount of PLN 11 920 851.45, as well as from profit appropriations in excess of statutory amount of PLN 328 666 457.48 as at 31 December 2019 (as at 31 December 2018, profit appropriation in excess of statutory amount was PLN 317 280 854.16).

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

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

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

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

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

26.2. Dividends paid and proposed

Dividends paid

On 17 May 2019, the Ordinary Annual General Meeting resolved to appropriate the Alumetal S.A.'s profit for the year from 1 January to 31 December 2018 in the following manner:

- PLN 43,862,155.46 deriving from the Company's net profit for the year – to dividend payment,
- PLN 54,500.00 – to transfer to the Company's Social Fund.

A decision was made about dividend payment to the Shareholders with a total value of PLN 63,156,331.44, i.e. PLN 4.08 per share, with the proviso that the amount of PLN 43,862,155.46 derived from the Company's net profit for 2018 earmarked for appropriation, while the remaining amount of PLN 19,294,175.98 was released from the Company's reserve capital created from the profits. Eligible to dividend payment were the Shareholders of the Company who were entitled to the Shares on 7 June 2019. The dividend payment day was set for 27 June 2019 and the dividend was paid on that day.

Proposed dividend

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.

27. Interest-bearing bank loans and borrowings

	Available limit****	Currency*	Maturity date	31 December 2019 Limit utilised	31 December 2018 Limit utilised
Aggregate limit facility for several Group companies at **ING Bank Śląski S.A**. with an interest rate based on 1M LIBOR (USD) + margin, 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin	36 000 000.00**	PLN*	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
**** Within the available limits, the Alumetal Group companies have the right to use the letters of credit and guarantees in favour of suppliers and other beneficiaries, which automatically reduces the balance of overdraft facilities available by same amounts; guarantees issued by banks within the available credit limits in favour of contractors and other non-financial institutions in the amount of PLN 4.3 million (31 December 2019) and PLN 5.8 million (31 December 2018) as part of the operational activities of the companies of the Alumetal SA Capital Group

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

As at 31 December 2019:

Type of liability	*Creditor*	*Type of assets pledged as collateral*	*Value of assets pledged as collateral**
Maximum mortgage	ING Bank Śląski S.A.	Assets under construction, buildings and constructions, right of perpetual usufruct of land	67 302 126.33
Contractual mortgage	ING Bank Śląski S.A.	Assets under construction, buildings and constructions, right of perpetual usufruct of land	9 678 780.07
Maximum mortgage	Bank Handlowy w Warszawie S.A.	Assets under construction, buildings and constructions, right of perpetual usufruct of land	23 562 569.63
Transfer of receivables	ING Bank Śląski S.A.	Receivables	6 920 527.04
Transfer of receivables	DNB Bank Polska S.A.	Receivables	9 116 768.63
Pledge	ING Bank Śląski S.A.	Property, plant and equipment	3 188 407.64
Pledge	ING Bank Śląski S.A.	Raw materials and raw materials scrap	5 445 311.12
Pledge	DNB Bank Polska S.A.	Raw materials scrap, semi-finished goods scrap, finished goods	45 000 000.00
Pledge	Bank Handlowy SA	Finished goods	8 600 000.00
Pledge	Bank Handlowy SA	Raw materials scrap	5 411 917.24

** On the basis of carrying amount*

As at 31 December 2018:

Type of liability	*Creditor*	*Type of assets pledged as collateral*	*Value of assets pledged as collateral**
Maximum mortgage	ING Bank Śląski S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	69 041 012.78
Contractual mortgage	ING Bank Śląski S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	10 038 619.40
Maximum mortgage	Bank Handlowy w Warszawie S.A.	Assets under construction, buildings and constructions, perpetual usufruct of land	20 838 845.80
Transfer of receivables	ING Bank Śląski S.A.	Receivables	46 292 200.37
Transfer of receivables	DBN Bank Polska S.A.	Receivables	6 191 764.09
Pledge	Bank Handlowy SA	Property, plant and equipment	490 986.49
Pledge	ING Bank Śląski S.A.	Property, plant and equipment	4 004 198.12
Pledge	ING Bank Śląski S.A.	Raw materials scrap	4 826 351.75
Pledge	DBN Bank Polska S.A.	Raw materials scrap, semi-finished goods scrap, finished goods	45 000 000.00
Pledge	Bank Handlowy SA	Finished goods	Not more than 5 000 000.00
Pledge	Bank Handlowy SA	Raw materials scrap	11 953 137.25

** On the basis of carrying amount*

The collateral for the long-term investment loan taken out by Alumetal S.A. at ING Bank Śląski S.A. in the amount of EUR 10 000 000.00 for the purpose of financing the construction of a production plant in Hungary is the mortgage on the property at the production plant of Alumetal Poland sp. z o.o. in Nowa Sól with a net carrying amount as at 31 December 2019 of PLN 44 702 511.95 (as at 31 December 2018 - of PLN 46 111 777.59).

In May 2019, an assignment of debt agreement was signed covering cooperation with an additional client as security for a short-term loan with a limit of PLN 40 million granted to the Alumetal Group by DNB Bank Polska SA.

In May 2019, a decision was also made in agreement with Bank Handlowy in Warsaw to resign from the pledge on fixed assets as collateral for the loan and to modify the amount of the highest collateral sums for pledges on inventories.

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

In the year ended 31 December 2019, Alumetal SA and Alumetal Poland sp. z o.o. issued sureties and guarantees in respect of trade liabilities of Alumetal Group Hungary Kft in favour of the suppliers of the Hungarian subsidiary. The total value of these guarantees and sureties amounted as at 31 December 2019 to the equivalent of PLN 590 638.24 (as at 31 December 2018 – PLN 2 038 023.66).

In 2009, Alumetal Poland sp. z o.o. (*formerly* Alumetal Nowa Sól Sp. z o.o.) issued in favour of the National Fund for Environmental Protection and Water Management *(Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej)* an *in blanco* promissory note as security for any possible claims of the said Fund against this company that may arise from a contract between these two parties for a financial compensation (subsidy) in the amount of

PLN 20 million for the execution of the project called *Construction of a plant for the scrap and aluminium waste management and production of casting alloys – phase I („Budowa zakładu przerobu złomów, odpadów aluminiowych i produkcji stopów odlewniczych – etap I”).* This promissory note was returned upon a written request of the Beneficiary in May 2018 after 5 years of the date of investment projects completion and after the fulfilment of all obligations set forth in the financial compensation contract.

Due to the change in the collateral for the short-term loan in bank ING Bank Śląski S.A., on 5 February 2018 Alumetal S.A. signed an *in blanco* promissory note together with declaration which represented one of the securities for this agreement in favour of ING Bank Śląski S.A. In addition, in June 2019, the assignment of claims from one of the clients was withdrawn from the loan collateral list, and replaced with the assignment of claims from another client.

In connection with signing on 14 February 2020 of project co-financing agreement between National Center for Research and Development *(NCBiR- Narodowe Centrum Badań i Rozwoju)* and T + S sp. z o.o. referred to in Note 39, T + S sp. z o.o. issued on 21 February 2020 a blank promissory note together with declaration in favour of the NCBiR.

28. Provisions

The Group entities pay to retiring employees the amount of retirement benefits determined in accordance with the remuneration regulations in force in individual Group entities, and in special cases – disability pension benefits. Therefore, based on the valuation made by a professional actuarial company, the Group creates a provision for the present value of liability from retirement and disability pension benefits.

The amount of this provision and the reconciliation presenting movements in said balances during the reporting period are presented in the table below:

	Provision for retirement benefits and similar obligations	Provision for employee benefits	Total
As at 1 January 2019	**1 191 641.00**	–	**1 191 641.00**
Recognition/ reversal during the year	158 836.43	52 500.00	211 336.43
Utilisation	-276 477.43	–	-276 477.43
As at 31 December 2019	**1 074 000.00**	**52 500.00**	**1 126 500.00**
Short-term as at 31 December 2019	**113 663.00**	**52 500.00**	**166 163.00**
Long-term as at 31 December 2019	**960 337.00**	–	**960 337.00**
As at 1 January 2018	**858 170.17**	–	**858 170.17**
Recognition/ reversal during the year	441 489.87	–	441 489.87
Utilisation	-108 019.04	–	-108 019.04
As at 31 December 2018	**1 191 641.00**	–	**1 191 641.00**
Short-term as at 31 December 2018	**311 715.00**	–	**311 715.00**
Long-term as at 31 December 2018	**879 926.00**	–	**879 926.00**

The main assumptions adopted for the valuation of employee benefits as at the reporting date are as follows:

- CSO mortality tables - from 2018
- probability of retirement on grounds of disability (disability retirement) - 0.2%
- employee mobility model of the Entity - Multiple Decrement Model
- discount rate (in the period) - risk-free rate
- discount rate from 2020-01-01 and further (each year) - 1.99%
- forecast increases in the basis of benefits in nominal terms - 5.0%

The sensitivity analysis of provisions for retirement and disability pension benefits for the initial amount of provisions as at 31 December 2019 amounting to PLN 1 074 000.00 is presented in the table below:

Modification of actuarial valuation parameter	**Provision value with modified parameter (PLN)**	**Provision change value in absolute values (PLN)**	**% change**
Rotation rate -1.0%	1 134 062.00	60 062.00	5.6%
Rotation rate +1,0%	1 020 775.00	-53 225.00	-5.0%
Probability of disability retirement -0.5%	1 070 956.00	-3 044.00	-0.3%
Probability of disability retirement +0,5%	1 077 013.00	3 013.00	0.3%
Discount rate -1.00%	1 218 942.00	144 942.00	13.5%
Discount rate +1.00%	956 109.00	-117 891.00	-11.0%
Remuneration in the Group -1.0%	958 321.00	-115 679.00	-10.8%
Remuneration in the Group +1.0%	1 212 679.00	138 679.00	12.9%

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

29.1. Trade and other financial liabilities (current)

	31 December 2019	*31 December 2018*
Trade payables with no reverse factoring balances	111 311 312.01	146 341 623.32
Lease liabilities	201 689.59	–
Trade payables covered by reverse factoring	1 616 335.18	2 956 254.05
Payroll liabilities	2 275 482.14	2 229 869.10
Investment liabilities	5 094 974.42	1 980 966.86
Other liabilities	464 788.77	553 477.61
Total	**120 964 582.11**	**154 062 190.94**

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

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

29.2. Other non-financial liabilities

	31 December 2019	*31 December 2018*
VAT	221 230.96	206 323.70
Personal income tax	683 193.81	758 571.87
Social security	2 365 948.61	2 526 436.62
PFRON	53 489.21	53 944.47
Excise tax	7 624.00	28 136.00
Other	691.22	701.94
Total, of which:	**3 332 177.81**	**3 574 114.60**
- short-term portion	3 332 177.81	3 574 114.60
- long-term portion	–	–

29.3. Accruals and deferred income

	31 December 2019	*31 December 2018*
Accrued expenses, of which:		
- unused annual leave	733 203.73	680 816.83
- employee bonus, incl. annual bonus	174 999.76	903 000.00
Deferred income, of which:		
- subsidies	24 490 610.88	27 795 511.80
Total, of which:	**25 398 814.37**	**29 379 328.63**
- short-term portion	3 616 069.99	4 587 463.33
- long-term portion	21 782 744.38	24 791 865.30

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

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

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

Based on the agreement with the National Fund for the Environmental Protection and Water Management, the Group was required to fulfil contractual obligations, including the obligation relating to project sustainability over the period defined in the agreement. The security for the obligations defined in the agreement for project financing was an *in blanco* promissory note, described in more detail in Note 27.

In addition, in 2014, the Alumetal Group Hungary Kft. received from the Hungarian government a binding offer, and accepted it, concerning cash subsidy for this project, and the underlying agreement became finally effective on 2 February 2016. In 1Q 2018 and in 1Q 2019, annexes were signed that modified the contract in the part relating to beneficiary’s obligations concerning employee headcount, contract security (performance bond) and the date for project realization. In the case of cash subsidy for Alumetal Group Hungary Kft, the company is currently obligated to: (i) construct a production plant with a production capacity of at least 55 000 tons per year (obligation realised); (ii) maintain yearly average employee headcount at 100 persons starting from 2019 to 2025 (with at least 2.7% of employees of higher education) while retaining total wage bill at a pre-defined level; (iii) maintain project life-period for at least 7 years, (iv) realize sales revenue at certain pre-defined level, and (v) start plant operation not later than on 31 December 2018 (obligation realised). In the event that Alumetal Group Hungary Kft. does not realise the above obligations or obligations in the field of labour law, environmental protection or tax law, it may be required to return part or all of the subsidy together with interest; however, to the best knowledge of the Management Board, as at the date of the preparation of these consolidated financial statements there is no such risk.

Until the date of the preparation of these consolidated financial statements, the Alumetal Group Hungary received fifteen advance payments under the underlying agreement: on 20 September 2016 for the amount of HUF 197 781 071.00, on 13 December 2016 for the amount of HUF 587 019 329.00, on 20 March 2017 for the amount of HUF 154 511 670.00, on 20 June 2017 for the amount of HUF 59 609 726.00, on 21 July 2017 for the amount of HUF 30 453 981.00, on 21 July 2017 for the amount of HUF 33 440 937.00, on 31 July 2017 for the amount of HUF 139 506 710.00, on 18 August 2017 for the amount of HUF 101 039 459.00, on 21 November 2017 for the amount of HUF 26 522 749.00, on 20 March 2018 for the amount of HUF 116 454 833.00, on 20 April 2018 for the amount of HUF 22 567 461.00, on 13 July 2018 for the amount of HUF 2 961 233.00, on 18 December 2018 for the amount of HUF 5 377 852.00, on 16 April 2019 for the amount of HUF 2 961 233.00 and on 21 June 2019 for the amount of HUF 2 756.00.

The total amount of fifteen advance payments made towards subsidy in the years 2016-2019 amounted to HUF 1 480 211 000 being the equivalent of PLN 20 505 801.49. The fifteenth instalment was the last instalment the Company expected to receive from the Hungarian government.

30. Investment liabilities

As at 31 December 2019, the committed capital expenditure of the Group amounted to PLN 37 238 413,82. The most significant item were the liabilities arising from the concluded contracts for the realization of the investment project called Modernization of Kęty Plant *(„Modernizacja zakładu w Kętach”)* at Alumetal Poland sp. z o.o. Zakład Kęty in the amount of PLN 34 377 060.23.

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

31. Contingent liabilities and contingent assets

31.1. Court proceedings

Both in 2019 and 2019, no significant court proceedings were conducted against the Alumetal Group companies.

31.2. Tax settlements

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

Taxation authorities may examine the accounting records within up to five years after the end of the year in which the tax payment was made. Therefore, as a result of tax inspections, current tax liabilities of the Company may be increased by additional amounts. As at 31 December 2019, neither the Company, nor any of its subsidiaries were parties to conducted tax proceedings.

In connection with the activities conducted in the Special Economic Zones, the Group is required to fulfil certain requirements and obligations attached to the received licenses, which were described in detail in Note 10.24.3. The non-fulfilment by the Group of the license-based obligations and requirements may cause that it will be required to return the already utilised tax relief (tax credits) and may not be able to benefit from similar tax relief in the future. As at the date of the preparation of these consolidated financial statements, the Group believes that there is no risk of its non-fulfilment of the obligations defined in the obtained licenses.

The contingent liabilities relating to the subsidies received were presented in Note 29.3.

32. Related party disclosures

32.1. Terms and conditions of related party transactions

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

32.2. Director's loan

In the year 2019 and 2018, the Group did not extend any loans to the members of its Management Board.

32.3. Other transactions with Management Board Members

In the year 2019 and 2018, the Group did not conclude any other transactions with Management Board members.

32.4. Executive Board emoluments

	Year ended 31 December 2019	*Year ended 31 December 2018*
Management Board of the parent and subsidiaries: Short-term employee benefits (salaries and surcharges)	2 966 912.81	4 832 998.96
Agnieszka Drzyżdżyk - President of the Management Board, CEO[1]	649 376.14	403 704.19
Marek Kacprowicz – President of the Management Board, CEO[2]	336 681.77	186 318.14
Szymon Adamczyk - President of the Management Board, CEO[3]	–	1 519 525.38
Krzysztof Błasiak - Vice-president of the Management Board, Development and Metal Management Officer	1 322 899.54	1 846 812.20
Przemysław Grzybek – Member of the Management Board, CFO	657 955.36	876 639.05

[1]*Ms Agnieszka Drzyżdżyk was appointed President of the Management Board as of 17 April 2019*
[2] *Mr Marek Kacprowicz was appointed President of the Management Board as of 3 October 2018 (fulfilled this function until 17 April 2019)*
[3] *Mr Szymon Adamczyk was the President of the Management Board until 30 September 2018.*

In addition, in the analysed reporting period, Members of the Company's Management Board participated in the operated share incentive scheme described in Note 21.2.

Supervisory Board

		Year ended 31 December 2019	*Year ended 31 December 2018*
Total remuneration, of which:		**190 309.53**	**148 782.61**
Grzegorz Stulgis	Chairman of the Supervisory Board	–	–
Paweł Małyska	Member of the Supervisory Board	63 785.72	21 769.57
Michał Wnorowski	Member of the Supervisory Board	54 523.81	20 813.04
Franciscus Bijlhouwer	Member of the Supervisory Board	36 000.00	36 000.00
Szymon Adamczyk	Member of the Supervisory Board	36 000.00	5 739.13
Marek Kacprowicz	Member of the Supervisory Board	–	30 260.87
Tomasz Pasiewicz	Member of the Supervisory Board	–	17 100.00
Emil Ślązak	Member of the Supervisory Board	–	17 100.00

In 2016, the Group signed an agreement for the purchase of advisory services from IPO 30 FIZAN A/S. The total value of invoices issued in 2019 amounted to EUR 0.00 (in 2018 – EUR 10 000.00).

Based on the agreement signed in 2018 for the purchase of advisory services from the company operating under the name Szymon Adamczyk Doradztwo, the Group received in 2019 invoices for the total amount of PLN 625 200.00 (2018 - 170 000.00).

33. Additional explanations to the Statement of Cash Flow

The balance of the item *Other (including the costs of incentive scheme)* in the cash flow from operating activities in 2019 in the amount of PLN 1 847 761.63 is composed of the following items:

- cost of the incentive scheme in the amount of PLN 807 383.88

- realized gains on forward transactions in the amount of PLN 953 059.20

- cumulative translation differences (from translation of foreign subsidiary operations) in the amount of PLN 1 993 436.95.

The balance of the item *Other (including the costs of incentive scheme)* in the cash flow from operating activities in 2018 in the amount of PLN 1 315 168.95 is composed of the following items:

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

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

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

34. Remuneration of certified auditor or audit firm

The table below shows the 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:

Type of service	*Year ended 31 December 2019**	*Year ended 31 December 2018**
Statutory audit of consolidated and separate 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**

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

In addition, the fee for statutory audit of separate financial statements of the Alumetal Group Hungary Kft. for 2019 performed by Ernst & Young Konyvvizsgalo Kft. amounted EUR 12,000 (for 2018 - EUR 12,000).

35. Financial risk management objectives and policies

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

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

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

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

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

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

35.1. Interest rate risk

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

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

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

	Increase/ decrease in FX rate	*Effect on the gross financial result (in '000 PLN)*
Year ended 31 December 2019		
PLN	+ 0.50%	+181
EUR	+ 0.25%	-256
HUF	+ 0.25%	-20
PLN	- 0.50%	-181
EUR	- 0.25%	+256
HUF	- 0.25%	+20
Year ended 31 December 2018		
PLN	+ 0.50%	+25
EUR	+ 0.25%	-320
HUF	+ 0.25%	-23
PLN	- 0.50%	-25
EUR	- 0.25%	+320
HUF	- 0.25%	+23

The Group does not hedge against interest rate risk because the instruments used are, in the majority of cases, of short-term character. On the other hand, in the case of long-term loans and borrowings, 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 those instruments, and therefore they were not used in this area.

35.2. Foreign currency risk

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

The Alumetal Capital Group has widely used the so-called natural hedge mechanism, as sale transactions in foreign currencies have been largely balanced by purchase transactions. Nevertheless, as a result of the 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 almost exclusively *forward* contracts, and only in the periods of great volatility of exchange rates, the Group applies option strategies as a tool which is more flexible than basic *forward* contracts.

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

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

As at 31 December 2019, the Group reported open currency forward contracts for sale of Euro in Polish zloty in the total amount of EUR 10 945 000 (as at 31 December 2018 - EUR 18 200 000). In addition, the Group reported open currency forward contracts for the purchase of USD in Polish zloty in the total amount of USD 130 000 (at the end of 2018 – USD 1 040 000).

Due to the execution of an investment project in Hungary, in 2015 the Group started to incur certain foreign currency risk as regards HUF/PLN, and especially EUR/HUF exchange rates. As at 31 December 2019, the Group had open currency forward contracts for sale of EUR in HUF for the total amount of EUR 1 800 000 (as at 31 December 2018 - EUR 1 300 000).

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

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

	Increase/ decrease in FX rate	*Effect on the gross financial result (in '000 PLN)*
31 December 2019 – EUR/ PLN	+ 5%	+4 287
	- 5%	-4 287
31 December 2019 – USD/ PLN	+ 5%	-172
	- 5%	172
31 December 2019 – EUR/ HUF	+ 5%	-2 519
	- 5%	2 519
31 December 2018 – EUR/ PLN	+ 5%	+3 112
	- 5%	-3 112
31 December 2018 – USD/ PLN	+ 5%	-228
	- 5%	228
31 December 2018 – EUR/ HUF	+ 5%	-1 506

35.3. 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.

35.4. Credit risk

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

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

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

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

Detailed information on the ageing analysis of receivables and receivables impairment write-down was presented in Note 23

35.5. Liquidity risk

The Group is exposed to the risk of possible liquidity problems, mainly in the event 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, could cause that the Group would suffer from difficulties in securing appropriate amounts of external borrowings.

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

A certain liquidity risk may pose the fact that the Alumetal Group Hungary Kft received cash subsidy– should it transpire in the future that this company does not meet its obligations arising from the obtained public aid (described in Note 10.24.3), it may be required to return the received public aid in whole or in part, and this – in turn – may be a significant burden and threat to the liquidity of the Group. However, the long-standing experience of the Alumetal Group in benefiting from public aid greatly reduces this risk.

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

The table below shows the maturity profile of the Group’s financial liabilities at 31 December 2019 and 31 December 2018, based on maturity dates of contract undiscounted payments.

	< 3 months	*3 – 12 months*	*1 – 5 years*	*> 5 years*	*Total*
31 December 2019					
Trade and other financial liabilities	120 964 582.11	–	–	–	120 964 582.11
Lease liabilities	–	201 689.59	806 758.36	2 767 884.04	3 776 331.99
Overdraft facilities	–	67 421 261.07	–	–	67 421 261.07
Investment loan	2 133 508.50	6 400 525.50	15 560 559.00	–	24 094 593.00*
31 December 2018					
Trade and other financial liabilities	154 062 190.94	–	–	–	154 062 190.94
Overdraft facilities	–	110 647 926.07	–	–	110 647 926.07
Investment loan	2 154 300.00	6 462 900.00	24 329 400.00	–	32 946 600.00*

*this amount is not directly covered by current liquidity management, because (as stated in Note27) it represents a long-term liability under the loan taken out to finance the investment project in Hungary.

36. Financial instruments

36.1. Fair value of financial instruments, by class

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

	Category in accordance with IFRS 9	*Carrying amount*	
		31 December 2019	*31 December 2018*
Financial assets			
Other financial assets (short-term)	FAaAC	–	–
Trade and other receivables	FAaAC	209 985 176.22	278 065 402.67
Derivative financial instruments	aFVtPL	870 753.96	216 634.17
Cash and cash equivalents	FAaAC	58 484 170.45	28 946 480.30
Total		**269 340 100.63**	**307 228 517.14**

	Category in accordance with IFRS 9	*Carrying amount*	
		31 December 2019	*31 December 2018*
Financial liabilities			
Interest-bearing loans and borrowings	FLaAC	91 515 854.07	143 594 526.07
Trade and other financial liabilities	FLaAC	120 740 592.88	154 062 190.94
Derivative financial instruments	aFVtPL	–	–
Total		**212 256 446.95**	**297 656 717.01**

The fair value of financial instruments the Alumetal S.A. Capital Group held as at 31 December 2019 and 31 December 2018 *did not* differ materially from their carrying amount presented in the respective financial statements for the following reasons:

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

As at 31 December 2019 and 31 December 2018, the Group's financial instruments classified as at fair value through profit or loss (aFVtPL) were derivative financial instruments - currency forward contracts. All these instruments are classified to Level 2 of the fair value hierarchy described in Note 10.2.

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

Year ended 31 December 2019

	Category in accordance with IFRS 9	*Interest income/ (expense)*	*FX gains/ (losses)*	*Impairment write-downs reversal/ (recognition)*	*Valuation gains/ (losses)*	*Gains/ (losses) on disposal of fin. instr.*	*Other*	*Total*
Financial assets								
Trade and other receivables	FAaAC	20 704.38	230 591.75	80 578.23	–	–	–	**331 874.36**
Derivative financial instruments	aFVtPL	–	953 059.20	–	659 196.65	–	–	**1 612 255.85**
Cash and cash equivalents	FAaAC	340 213.63	–	–	–	–	–	**340 213.63**
Financial liabilities								
Interest-bearing loans and borrowings	FLaAC	-708 216.75	-2 673 957.47	–	–	–	–	**-3 382 174.22**
Trade and other financial liabilities	FLaAC	-7 098.41	47 998.14	–	–	–	–	**40 899.73**
Total		**-354 397.15**	**-1 442 308.38**	**80 578.23**	**659 196.65**	–	–	**-1 056 930.65**

Year ended 31 December 2018

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

36.3. Change in liabilities from financing activities

Year ended 31 December 2019

	1 January 2019	*Changes from cash flow from financing activities*	*Effect of exchange rates fluctuations*	*Other changes*	*31 December 2019*
Interest-bearing loans and borrowings (long-term)	24 329 400.00	–	-234 807.00	-8 534 034.00	15 560 559.00
Interest-bearing loans and borrowings (short-term)	8 617 200.00	-8 628 021.60	10 821.60	8 534 034.00	8 534 034.00
Lease liabilities	3 928 338.79	-199 377.85	-12 743.67	60 114.72	3 776 331.99
Total liabilities arising from financing activities	**36 874 938.79**	**-8 827 399.45**	**-236 729.07**	60 114.72	**27 870 924.99**

Year ended 31 December 2018

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

36.4. Interest rate risk

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

The Group has mainly overdraft facilities which are short-term items with the instalment amounts calculated using variable market indexes of WIBOR, BUBOR, LIBOR USD, LIBOR EUR and EURORIBOR. In addition, the Group reported an investment loan at ING Bank Śląski in Euro with the instalment amounts calculated on the basis of 1M EURIBOR. Detailed information regarding debt balance from individual loan liabilities is presented in Note 27.

31 December 2019

Variable interest rate

	<1 year	*1–2 years*	*2-3 years*	*>3 years*	*Total*
Cash assets	58 484 170.45	–	–	–	58 484 170.45
Overdraft facilities	67 421 261.07	–	–	–	67 421 261.07
Investment loan	8 534 034.00	8 534 034.00	7 026 525.00	–	24 094 593.00
Total	**134 439 465.52**	8 534 034.00	7 026 525.00	–	**150 000 024.52**

31 December 2018

Variable interest rate

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

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

37. Capital management

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

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

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

	31 December 2019	*31 December 2018*
Interest-bearing loans and borrowings	91 515 854.07	143 594 526.07
Trade and other financial liabilities	120 740 592.88	154 062 190.94
Less: cash and cash equivalents	-58 484 170.45	-28 946 480.30
Net debt, total	**153 772 276.50**	**268 710 236.71**
Shareholders’ equity	519 844 999.41	533 744 726.38
Capital and total net debt	**673 617 275.91**	**802 454 963.09**
Gearing ratio (Total net debt/ Shareholders’ equity and total net debt)	23%	33%

38. Employment structure

The average employment in the Group in the year ended 31 December 2019 and 31 December 2018 was as follows:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Management Board of the parent company	3	4
Management Boards of other Group companies	3	3
Administration and logistics department	112	113
Trading department	13	13
Production department	527	567
Total	**658**	**700**

39. Events after the reporting date

Among the significant events that took place after the reporting date the following should be mentioned:

A. Signing of project co-financing contract with the National Center for Research and Development

On 23 January 2020, the subsidiary of Alumetal SA, T + S Sp. z o.o., 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.

On 14 February 2020, appropriate project co-financing agreement was signed with the National Center for Research and Development, which contained detailed conditions for the use and settlement of awarded funds.

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 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

1Q 2020 saw the outbreak of the coronavirus pandemic and COVID-19 disease, which may have significant impact on the situation of the automotive industry in Europe and in the world. The standpoint and analysis of the parent company’s Management Board regarding the current epidemic crisis situation of the Group are presented in Note 6 to the consolidated financial statements.

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

These consolidated financial statements comprise:

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

Kęty, 23 March 2020