ALUMETAL S. A.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

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(in PLN thousand)

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Kęty, 22 March 2021

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

(in PLN thousand)

Statement of Comprehensive Income
For the year ended 31 December 2020

	Note	*Year ended 31 December 2020*	*Year ended 31 December 2019*
Holding activities			
Dividend income	29	33 000	64 769
Revenue from contracts with customers	12.1	9 566	10 505
Revenue from holding activities		**42 566**	**75 274**
Cost of sales	12.2	-8 702	-9 127
Gross profit on sales		**33 864**	**66 147**
Other operating income	12.5	395	48
Selling expenses	12.2	–	–
Administrative expenses	12.2	-1 829	-2 450
Other operating expenses	12.6	-264	-12
Operating profit		**32 166**	**63 733**
Finance income	12.7	671	337
Finance costs	12.8	-222	-320
Profit before tax		**32 615**	**63 750**
Income tax	13	92	-29
Net profit		**32 707**	**63 721**
Net profit for the year		**32 707**	**63 721**
Other comprehensive income		–	–
COMPREHENSIVE INCOME FOR THE PERIOD		**32 707**	**63 721**
Earnings per share:	15		
- basic from the profit for the year		2.11	4.12
- diluted from the profit for the year		2.11	4.12

(in PLN thousand)

Statement of Financial Position

As at 31 December 2020

	Note	*31 December 2020*	*31 December 2019*
ASSETS			
Non-current assets			
Intangible assets	16	904	1 284
Property, plant and equipment	17	4 897	5 296
Right-of-use assets (ROU assets)	18.1	843	855
Other financial assets (long-term)	19.1	282 229	266 847
		288 873	**274 282**
Current assets			
Trade and other receivables	22	2 658	1 769
Other financial assets	19.1	9 248	8 534
Other non-financial assets	19.2	43	67
Current tax assets		69	28
Cash and cash equivalents	23	2 578	287
		14 596	**10 685**
Non-current assets classified as held for sale	14	6 831	–
TOTAL ASSETS		**310 300**	**284 967**

(in PLN thousand)

Statement of Financial Position (contd.)
As at 31 December 2019

	Note	*31 December 2020*	*31 December 2019*
EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	24.1	1 548	1 548
Reserve capital	0	195 777	175 902
Capital from revaluation of incentive scheme	21.2	1 475	1 562
Other reserves	24.3	43 807	–
Retained earnings/ (unabsorbed losses)		48 395	79 370
Total shareholders' equity		**291 002**	**258 382**
Non-current liabilities			
Interest-bearing loans and borrowings	25	–	15 561
Provisions	21.1, 0	142	148
Deferred tax liability	13.3	66	158
Lease liabilities	18.1	641	641
		849	**16 508**
Current liabilities			
Current portion of interest-bearing loans and borrowings	25	16 880	8 634
Provisions	21.1, 0	1	30
Trade and other payables	27.1, 27.2	1 182	1 114
Lease liabilities	18.1	18	18
Accruals and deferred income	27.3	368	281
		18 449	**10 077**
Total liabilities		**19 298**	**26 585**
TOTAL EQUITY AND LIABILITIES		**310 300**	**284 967**

(in PLN thousand)

Statement of Cash Flow
For the year ended 31 December 2020

	Note	*Year ended 31 December 2020*	*Year ended 31 December 2019*
Cash flow from operating activities			
Gross profit		**32 615**	**63 750**
Adjustments for:			
Depreciation/ amortization	12.3	900	807
(Profit)/ loss from investing activities		3	-18
FX (gains)/ losses		-1	–
(Increase)/decrease in trade and other receivables and in other non-financial assets		-863	641
Increase/(decrease) in liabilities, except for loans and borrowings		8	-201
Interest, net		-47	-12
Change in prepayments, accruals and deferred income		86	-300
Change in provisions		-36	-127
Income tax paid		-42	-52
Other (including cost of incentive scheme)	21.2	-481	646
Net cash flow from operating activities		**32 142**	**65 134**
Cash flow from investing activities			
Disposal of property, plant and equipment and intangible assets		–	113
Purchase of property, plant and equipment and intangible assets		-52	-1 230
Purchase of non-current assets classified as held for sale		-6 831	–
Additional payment to issued capital of subsidiary company		-22 935	–
Interest received		205	240
Repayment of loans granted		8 955	8 628
Net cash flow from investing activities		**-20 658**	**7 751**

(in PLN thousand)

Statement of Cash Flow (contd.)
For the year ended 31 December 2020

	Note	*Year ended 31 December 2020*	*Year ended 31 December 2019*
Cash flow from financing activities			
Repayment of long-term loans and borrowings (incl. investment loans)		-8 954	-8 628
Repayment of finance lease liabilities		–	-10
Dividends paid		–	-63 156
Interest received		–	2
Interest paid		-158	-219
Net cash flow from financing activities		**-9 112**	**-72 011**
Net increase/(decrease) in the balance of cash and cash equivalents		**2 372**	**874**
FX differences, net		–	–
Cash and cash equivalents at the beginning of the period	23	**188**	**-686**
Cash and cash equivalents at the end of the period	23	**2 560**	**188**

(in PLN thousand)

Statement of Changes in Equity

For the year ended 31 December 2020

	Note	*Issued capital*	*Reserve capital*	*Other reserves*	*Capital from revaluation of incentive scheme*	*Retained earnings/ (unabsorbed losses)*	*Total*
As at 1 January 2020	**24**	**1 548**	**175 902**	**–**	**1 562**	**79 370**	**258 382**
Net profit for the period		–	–	–	–	32 707	32 707
Other comprehensive income, net, for the period		–	–	–	–	–	–
Comprehensive income for the period		–	–	–	–	**32 707**	**32 707**
Cost of incentive scheme	21.2	–	–	–	-87	–	-87
Transfer to reserve capital			19 875	–	–	-19 875	–
Transfer to other reserves		–	–	43 807	–	-43 807	–
Dividend payment		–	–	–	–	–	–
As at 31 December 2020		**1 548**	**195 777**	**43 807**	**1 475**	**48 395**	**291 002**

	Note	*Issued capital*	*Reserve capital*	*Other reserves*	*Capital from revaluation of incentive scheme*	*Retained earnings/ (unabsorbed losses)*	*Total*
As at 1 January 2019	**24**	**1 548**	**195 196**	**–**	**917**	**59 511**	**257 172**
Net profit for the period		–	–	–	–	63 721	63 721
Other comprehensive income, net, for the period		–	–	–	–	–	–
Comprehensive income for the period		–	–	–	–	**63 721**	**63 721**
Cost of incentive scheme	21.2	–	–	–	645	–	645
Dividend payment		–	-19 294	–	–	-43 862	-63 156
As at 31 December 2019		**1 548**	**175 902**	**–**	**1 562**	**79 370**	**258 382**

Accounting policies and notes to financial statements

1. General information

Alumetal S.A. (the „Company", or „Alumetal") is a joint stock company with its registered office located in Kęty at ul. Kościuszki 111 whose shares are in public trading. The attached financial statements of the Company cover the year ended 31 December 2020 and contain comparative data for the year ended 31 December 2019.

The Company 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 Company was granted statistical REGON No. 357081298.

The Company has an unlimited period of operation.

As of 1 January 2014, following reorganization of the Alumetal S.A. Capital Group, the activities of the Company have covered only holding-related activities and rendering of bookkeeping services to the entities making up the Alumetal S.A. Capital Group. In the year ended 31 December 2020, there were no changes to the Company's scope of business compared to the year ended 31 December 2019.

2. Identification of consolidated financial statements

The Company prepared consolidated financial statements for the year ended 31 December 2020 which were authorised for publication on 22 March 2021.

3. Composition of the Company's Management Board

As at 31 December 2020, 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 - Member of the Management Board.

On 17 April 2019, Mr Marek Kacprowicz resigned as President of the Management Board. On the same day, the Company's Supervisory Board appointed Ms Agnieszka 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 financial statements there were no changes in the composition of the Company's Management Board.

4. Authorization of financial statements

These financial statements were authorized by the Management Board for issue on 22 March 2021.

(in PLN thousand)

5. Company's investments

The Company held investments in the following subsidiary companies:

Entity	*Registered office*	*Scope of business activities*	*% in the issued capital*	
			31 December 2020	*31 December 2019*
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%

As at 31 December 2020 and 31 December 2019, the Company's share in the total number of votes in the subsidiary companies equated to the Company's share in the issued capital of those companies.

6. Professional judgment and accounting estimates

6.1. Professional judgment

The preparation of the Company's financial statements requires exercising by the Management Board of professional judgment and making assumptions and estimates, which may have impact on the presented amounts of revenues, costs, assets and liabilities, and on the related notes and disclosures on contingent liabilities. The uncertainty of these assumptions and estimates may result in material adjustments to the carrying amounts of assets and liabilities in the future.

In the process of application of accounting policies, the Management Board applied its professional judgment which has 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 Company will obtain economic benefits related to the given transaction and the amount of revenue can be measured in a reliable manner. Revenue is recognised at the fair value of the consideration received or receivable, less value added tax and discounts/ rebates/ price concessions, if any.

In the case of sale of services, the sale contract contains only one performance obligation – service performance. Revenue is recognised at a specific point in time i.e. upon service performance.

Presentation of overdraft facilities

Given the fact that the Company's Management Board considered overdraft facilities as an integral part of cash management (short maturity of loans, high volatility of account balance), in accordance with the IFRS guidelines, in the Company's Statement of Cash Flow overdraft facilities were presented as reduction of the balance of cash and cash equivalents.

Leases – Company as lessee

The Company 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 Company has the possibility to apply the extension option. The Company applies judgement in making an assessment whether there is sufficient certainty that the extension option will be used. This means that the Company 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 Company 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 Company 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.

6.2. Uncertainty of estimates and assumptions

Presented below are the key assumptions concerning the future and other key sources of uncertainty of estimates 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. The Company adopted assumptions and estimates about the future based on the knowledge held during the preparation of the financial statements. 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 Company. 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. Capitalised 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. The Company performs annual verification of the adopted useful lives of its assets based on current estimates. Verification of assets' useful life performed in 2020 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 11.3.

Impairment losses of trade receivables

The Company 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 Company 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 is presented in Note 22 to these 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 Company 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.

In the opinion of the Company, there is no risk of non-realisability of a deferred tax asset recognised in the attached financial statements.

Detailed information on the items of deferred tax asset is presented in Note 13.3 to these financial statements.

Valuation of provisions for employee benefits

The provisions for employee benefits were estimated using the actuarial methods. In the years 2019-2020, no significant changes occurred in the assumptions/ estimates with possible impact on the Company's financial result or other comprehensive income in those periods. Interest rates fluctuations in the presented periods did not have any impact on the said provisions. Detailed information on provisions for employee benefits is presented in Note 21.1 to these financial statements.

Valuation of provision for litigation

Based on the accounting policy presented in Note 11.16, the Company creates a provision for litigation. Detailed information on the changes in the value of the provision for litigation and their effect on the result for the period are presented in Note 0 of the attached financial statements.

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 incentive programs

The fair value of incentive programs is estimated both for instruments without market condition and with market condition by an actuary valuing a given program using appropriate methods most appropriate for the version of the given program e.g. using the finite difference method (the FDM method) or the Monte Carlo simulation method combined with the least squares linear regression method i.e. the so-called Longstaff-Schwartz method. Detailed information on the Incentive Programs (Schemes) III and IV and their measurement are presented in Note 21.2 to these financial statements.

Impairment of non-financial long-term 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 it is required, 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 Company 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 11.6 to these financial statements.

Lessee's incremental borrowing rate

The Company is unable to easily determine the interest rate for lease contracts, and therefore it uses the lessee's incremental borrowing rate when measuring the lease liability. It is the rate of interest that the Company would have to pay to borrow for 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.

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 tax exposure is greater in Poland than in 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.

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 restructuring or group reorganization.

The Company measures and recognises current and deferred income 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 and unused 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 Company recognises these settlements while considering uncertainty assessment.

7. Basis of preparing financial statements

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

These financial statements are presented in PLN thousand and all amounts are stated in PLN thousands, except when otherwise indicated.

The financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. At the date of the authorization of these financial statements, no facts or circumstances were identified that would indicate a threat to the continued activity of Company.

The results of Alumetal S.A. and the ALUMETAL Group were in 2020 affected and may continue to 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 was the strongest in Q2 2020, when it caused production downtime in the automotive industry, which is the main customer of the Alumetal Group. At the time of the publication of these financial statements, in the opinion of the Management Board, the pandemic no longer has a strong, direct impact on the current operations of the Alumetal Group. Despite the existence of many restrictions on mobility and the persistent epidemiological threat that cause uncertainty in the global, European and national economy, this has not translated into a significant negative effect on the demand for Alumetal Group products for several months. However, it should be kept in mind that the constantly changing pandemic 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 financial results of the Group in 2021 and the following years and its development prospects.

7.1. Statement of compliance

The attached financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) endorsed by the European Union (“EU IFRSs”). At the date of the authorisation of these 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 Company and the EU IFRSs.

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

7.2. Functional and presentation currency

The functional and the presentation currency of these financial statements is Polish zloty.

8. Changes in estimates

Changes in estimates in the areas referred to in Note 6 above, including:

- impairment write-downs of receivables – Note 22;

- valuation of incentive scheme – Note 21.2;

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

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

9. Changes in accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those which were applied in the preparation of the Company’s financial statements for the year ended 31 December 2019, except for the application of the new or amended standards and interpretations binding for the annual reporting periods commencing on 1 January 2020 or later.

Other new or amended standards or interpretations which are applicable for the first time in 2020 do not have any significant impact on the financial statements of the Company.

a) Amendments to IFRS 3: Definition of a business

Amendments to IFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include at least one input and one substantive process that together significantly contribute to the ability to create outputs. These changes also make it clear that a business can exist without all the inputs and processes necessary to produce the outputs.

b) Amendments to IIFRS 7, IFRS 9 and IAS 39 – IBOR reform

Amendments to IFRS 9 and IAS 39 introduce a number of exceptions to all hedging relationships that are directly affected by the IBOR reform. The IBOR reform affects a hedging relationship if it creates an uncertainty regarding the timing and/ or amount of interest rate benchmark-based cash flows resulting from the hedged item or a hedging instrument basing on an interest rate benchmark.

c) Amendments to IAS 1 and IAS 8: Definition of „material"

Amendments to IAS 1 and IAS 8 introduce a new definition of „material", which states that „information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments clarify that materiality will depend on the nature or amount of information, individually or in combination with other information, in the context of the financial statements as a whole.

d) Conceptual Framework for Financial Reporting of 29 March 2018

The Conceptual Framework does not constitute a separate standard, and none of the terms presented therein supersedes or overrides the terms set forth in any standard, or the requirements of any standard. The purpose of the Framework is to assist the IASB in developing standards, to assist preparers in developing consistent accounting policies where there is no relevant standard, and to assist all parties to financial reporting in understanding and applying the standards. The updated Conceptual Framework includes some new concepts, updates the definitions and criteria for recognizing assets and liabilities, and clarifies some important concepts.

e) Amendments to IFRS 16 Lease: Covid-19-Related Rent Concessions of 28 May 2020 – applicable retrospectively for annual periods beginning on or after 1 January 2020.

As a practical expedient, the lessee may choose not to assess whether the rent relief granted directly in connection with the Covid-19 pandemic that meets certain conditions constitutes a lease modification. A lessee that makes the decision shall account for any change in lease payments that results from a rent relief in the same way it would have accounted for a change under IFRS 16 if the change had not been a change to the lease.

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.

10. 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:

a) Amendments to IAS 1 „Presentation of financial statements"

The IASB published amendments to IAS 1, which clarify the issue of presenting liabilities as long- and short-term. The published changes are effective for financial statements for periods beginning on or after 1 January 2023.

b) Amendments to IFRS 3 „Business combinations"

The amendments to the standard published in May 2020 are intended to update the relevant references to the Conceptual Framework in IFRS, without introducing substantive changes to the accounting for business combinations.

c) Amendments to IAS 16 "Property, plant and equipment"

The amendment prohibits adjusting the cost of production of property, plant and equipment by the amounts obtained from the sale of components produced in the period of preparing the property, plant and equipment to start operating as intended by the management. Instead, the entity shall recognize the above-mentioned sales revenues and related costs directly in the profit and loss account. The amendment is effective for financial statements for periods beginning on or after 1 January 2022.

d) Amendments to IAS 37 „Provisions, Contingent Liabilities and Contingent Assets"

The amendments to IAS 37 provide clarifications regarding the costs that an entity considers in analyzing whether the contract is an onerous contract. The amendment is effective for financial statements for periods beginning on or after 1 January 2022.

e) Annual Improvements to IFRSs (Cycle 2018 – 2020)

Annual Improvements to IFRSs (Cycle 2018 – 2020) introduce changes to the standards: IFRS 1 *"First-time Adoption of International Financial Reporting Standards"*, IFRS 9 *"Financial Instruments"*, IAS 41 *"Agriculture"* and the illustrative examples to IFRS 16 *"Leases"*.

The amendments provide explanations and clarify the guidelines of the standards for recognition and measurement.

f) Amendments to IFRS 16 „Leases"

On 28 May 2020, the IASB published an amendment to IFRS 16, which is a response to changes in lease contracts in connection with the coronavirus (COVID-19) pandemic. Lessees have the right to take advantage of reliefs and exemptions, which may take various forms, such as deferment or exemption from lease payments. In connection with the above, the Board has simplified the assessment of whether these changes constitute lease modifications. Lessees can take advantage of the simplification of not applying the guidelines of IFRS 16 on modification of leases. Consequently, this will result in the recognition of lease reliefs and exemptions as variable lease payments in the period in which there is an event or condition that causes the payment to be reduced. The change is effective from 1 June 2020, with the option of early application.

g) Amendments to IFRS 4: Applying IFRS 9 „Financial instruments"

The amendment to IFRS 4 *"Insurance Contracts"* defers the application of IFRS 9 *"Financial Instruments"* until 2021.

h) Amendments to IFRS 9, IAS 39, IFRS 7, MSSF 4 and IFRS 16 related to IBOR reform

In response to the expected reform of the reference rates (IBOR reform), the International Accounting Standards Board published the second part of the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

i) IFRS 14 „Regulatory Deferral Accounts"

This standard allows entities that prepare financial statements in accordance with IFRS for the first time (on or after 1 January 2016) to recognize amounts resulting from activities with regulated prices in accordance with the accounting principles applied so far. To improve comparability with entities that already apply IFRSs and do not report such amounts, in accordance with the published IFRS 14, the amounts resulting from activities with regulated prices should be presented in a separate line both in the statement of financial position, profit and loss account and in the statement of other comprehensive income. By the decision of the European Union, IFRS 14 will not be approved.

j) Amendments to IFRS 10 and IAS 28 regarding Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments solve the problem of the current inconsistency between IFRS 10 and IAS 28. The accounting treatment depends on whether the non-monetary assets sold or contributed to the associate or joint venture constitute a "business".

Where the non-monetary assets constitute a "business", the investor shows the full gain or loss on the transaction. If the assets do not meet the definition of a business, the investor recognizes a gain or loss only to the extent of the interests of other investors. The changes were published on 11 September 2014. As at the date of the preparation of these financial statements, the approval of this amendment has been postponed by the European Union.

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.

As at the date of the authorization of these financial statements for publication, the Management Board does not expect the introduction of other standards and interpretations to have a significant impact on the accounting principles (policy) applied by the Group.

11. Significant accounting policies

11.1. Re-measurement to fair value

At each reporting date, the Company 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 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 Company 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 Company 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 Company 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.

To disclose the results of re-measurement to fair value, the Company 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.

11.2. Foreign currency translation

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

At the reporting date, 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 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 reported at fair value are recognised consistently with the profit or loss on fair value re-measurement i.e. under other comprehensive income or in profit or loss, depending on the recognition of a change in the fair value.

(in PLN thousand)

The following exchange rates were used for valuation purposes:

	31 December 2020	*31 December 2019*
USD	3.7584	3.7977
EUR	4.6148	4.2585
100 HUF	1.2638	1.2885

11.3. 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 taking 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	20 – 40 years
Plant and machinery	4 - 25 years
Office equipment	2 - 5 years
Motor vehicles	5 - 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.

11.3.1. Non-current assets held for sale

Fixed assets and groups for sale are classified as non-current assets held for sale if their carrying amount will be recovered as a result of a sale transaction rather than as a result of their further use. This condition can only be met when the sale is highly probable, and the asset is available for immediate sale in its present condition. The classification of an asset as held for sale assumes the intention of the Company's management to complete the sale transaction within one year from the date of the classification. Fixed assets classified as held for sale are measured at the lower of their carrying amount or the fair value, less costs to sell.

11.4. 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 Company 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 financial year that has just ended.

The summary of accounting policies applied by the Company to significant 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.

11.5. Leases

11.5.1. The Company as lessee

At inception of a contract, the Company 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 Company 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 Company recognizes a right-of-use asset and a lease liability.

Right-of-use assets

The Company recognizes the right-of-use assets (ROU assets) at lease 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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.

11.6. 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, including right-of use asset, may be impaired. If such indication exists, or in case an annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or of the cash generating unit to which such asset belongs.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of 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 Company 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, after considering 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 in such way as to allocate the asset's verified carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

11.7. 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 interest expense adjustment.

11.8. Investments in subsidiary companies

Investments in subsidiaries, associates and interests in joint ventures are measured at historical cost, after considering impairment losses.

Subsidiaries are the companies which the Company controls.

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

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

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

• rights arising from other contractual arrangements; and

• any additional facts and circumstances that indicate that the Company 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 Annual General Meetings or Shareholders' Meetings.

An associate is an entity on which the Company has a significant influence, and which is neither its subsidiary nor joint venture. Significant influence is the ability to participate in the financial and operating policy decisions of an entity; however, it does not imply control or joint control over those policies.

11.9. 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 Company 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 Company 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 Company measures its financial assets at fair value, which – in case of financial assets which are not measured at fair value through profit or loss – is increased by the transaction costs directly attributable to the acquisition of these financial assets.

De-recognition

Financial assets are de-recognised, where:

- the rights to obtain contractual cash flows from those financial assets have expired, or
- the rights to obtain contractual cash flows from the financial assets have been transferred, and the Company 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 Company 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 which does not meet the criteria of measurement at amortised cost or at fair value through other comprehensive income is measured at fair value through profit or loss.

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

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

11.10. Offsetting financial assets and financial liabilities

Where the Company:

- 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.

11.11. Impairment of financial assets

The Company 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 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.

11.12. 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 due to the passage of time is recognized as finance income.

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

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

11.13. 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 statement of cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, reduced by outstanding overdraft facilities.

11.14. 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.

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

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

A financial liability is derecognized [removed from the statement of financial position] by the Company 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.

11.16. Provisions

Provisions are recognised when the Company 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 Company 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 given liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

11.17. Employee benefits

In accordance with appropriate internal remuneration regulations, employees of the Company are entitled to retirement and disability pension 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 Company 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 Company recognises the following changes in net liabilities from defined benefit plans under, as appropriate, cost of sales and general administrative expenses, which are composed of the following:

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

The Group incurs costs related to the operating of the Employee Capital Plans *("PPK” – Pracownicze Plany Kapitałowe)* by making contributions to the pension fund. These are post-employment benefits in the form of a defined contribution plan. The Group recognizes the costs of contributions to the PPK under the same cost item as the costs of employee remuneration based on which said contributions are calculated. Employee Capital Plans (PPK) liabilities are presented under other non-financial liabilities.

11.18. Incentive programs

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

11.18.1. 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-related vesting conditions are taken into account (which relate to the Company’s share price) as well as non-market vesting conditions.

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

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

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

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

11.19. 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.

11.20. Revenue

11.20.1. Revenue from contracts with customers

The Company 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, other rights and contractual liabilities which are within the scope of IFRS 9 *Financial instruments,* IFRS 10 *Consolidated financial statements,* IFRS 11 *Joint arrangements,* IAS 27 *Separate financial statements and* IAS 28 *Investments in associates and joint ventures.*

The core principle of IFRS 15 is recognition of revenue at the time of transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company 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.

Alumetal S.A. as a holding company, provides other companies of the Alumetal S.A. Capital Group management services (including development and investment services, production support and controlling services), commercial, financial, IT, HR and payroll services, and accounting services. In addition, the Company considers dividends received from subsidiaries to be its core business and presents them as income from holding activities.

Alumetal S.A. does not grant discounts for its services on account of their volume, or discounts relating to the payment terms used. It does not charge additional fees for special quality guarantees, comprehensive services and other additional specific services. The services provided *are not* carried out over time and are invoiced systematically on a monthly basis.

The Company does not sell typical advisory services to non-Group entities.

11.20.2. 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.

11.20.3. Dividends

Dividend income is recognised when the shareholders' rights to receive the payment are established and presented in revenue from holding activities.

11.20.4. 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.

11.21. Income taxes

11.21.1.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.

11.21.2.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 Company 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.

11.21.3.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 authority, 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 authority is recognized in the statement of financial position as part of receivables or payables.

11.21.4.Uncertain tax treatment

If according to the Company's assessment it is probable that the taxation authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Company 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 Company 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 Company 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 Company reflects the impact of this uncertainty in the accounting treatment of tax in the period, in which such ascertainment was made. The Company recognises a tax liability using one of the two below methods, depending on which method reflects better the uncertainty that may materialise:

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

11.22. Net earnings per share

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

(in PLN thousand)

12. Revenues and expenses

12.1. Revenue from contracts with customers

	Year ended 31 December 2020	*Year ended 31 December 2019*
Sales of services	9 566	10 505
	9 566	**10 505**

12.2. Costs by type

	Note	*Year ended 31 December 2020*	*Year ended 31 December 2019*
Depreciation/ amortization	12.3	900	807
Inventory impairment write-downs	12.3	-	-
Materials and energy		187	231
External services, of which:		1 947	1 877
- IT services		555	557
- repair services		63	70
- transport services		4	3
- advisory services		938	996
Taxes and charges		279	242
Employee allowances	12.4	6 676	7 961
Other costs by type		485	884
Cost of goods for resale, raw materials and scrap sold		-	-
Total costs by type, of which:		**10 474**	**12 002**
Items recognised in cost of sales		8 702	9 127
Items recognised in selling expenses		-	-
Items recognised in administrative expenses		1 829	2 450
Change		-57	425

(in PLN thousand)

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

	Year ended 31 December 2020	*Year ended 31 December 2019*
Depreciation of property, plant and equipment	373	309
Amortization of intangible assets	370	309
Inventory impairment	–	–
Included in cost of sales	**743**	**618**
Depreciation of property, plant and equipment	–	–
Included in selling expenses	–	–
Depreciation of property, plant and equipment and right-of-use assets	79	101
Amortization of intangible assets	78	88
Included in administrative expenses	**157**	**189**

12.4. Employee allowances

	Note	*Year ended 31 December 2020*	*Year ended 31 December 2019*
Wages and salaries		5 540	6 046
Social security costs		988	1 052
Cost of incentive scheme	21.2	-87	645
Retirement benefits		28	–
Cost of contributions to the Employee Capital Plans (PPK)		14	–
Amounts transferred to the Social Fund		122	123
Other employee benefits (training, health care, work hygiene and safety, meals and other)		71	95
Total employee allowances, of which:		**6 676**	**7 961**
Items recognised in cost of sales		5 517	6 313
Items recognised in selling expenses		–	–
Items recognised in administrative expenses		1 159	1 648

12.5. Other operating income

	Year ended 31 December 2020	*Year ended 31 December 2019*
Gains on the sale of property, plant and equipment	–	18
Compensations received under insurance policy	–	3
Received awards and compensations	–	1
Return of VAT from abroad	19	18
Co-financing of wages and salaries due to the anti-crisis shield in connection with COVID-19	338	–
Other (total of non-material items)	38	8
Total other operating income	**395**	**48**

(in PLN thousand)

12.6. Other operating expenses

	Year ended 31 December 2020	*Year ended 31 December 2019*
Donations granted	258	9
Cost of liquidation of tangible fixed assets	3	–
Other (total of non-material items)	3	3
Total other operating expenses	**264**	**12**

12.7. Finance income

	Year ended 31 December 2020	*Year ended 31 December 2019*
Interest received, of which:	180	248
- bank interest	–	2
- loan interest	180	246
Foreign exchange gains	426	–
Other (total of non-material items)	65	89
Total finance income	**671**	**337**

12.8. Finance costs

	Year ended 31 December 2020	*Year ended 31 December 2019*
Interest on bank loans	158	216
FX losses	–	4
Lease-related interest	–	14
Other (total of non-material items)	64	86
Total finance costs	**222**	**320**

(in PLN thousand)

13. Income tax

13.1. Tax expense

The main components of income tax expense for the years ended 31 December 2020 and 31 December 2019 are as follows:

Recognised in profit:	*Year ended 31 December 2020*	*Year ended 31 December 2019*
Current tax expense	–	39
Relating to origination and reversal of temporary differences	-92	-10
Income tax reported in profit or loss	-92	29

13.2. 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/ (tax loss) calculated using the effective interest rate of the Company for the years ended 31 December 2020 and 31 December 2019 is as follows:

	Year ended 31 December 2020	*Year ended 31 December 2019*
Accounting gross profit before tax	32 615	63 750
Tax at statutory tax rate in Poland of 19% (2019: 19%)	6 197	12 113
Impact of non-taxable revenue and non-tax-deductible expenses, of which:	-6 279	-12 176
- dividend received	*-6 270*	*-12 306*
- PFRON (National Disabled Persons Rehabilitation Fund) expenses	*8*	*7*
- cost of incentive scheme	*-17*	*123*
Other	-10	92
Tax expense at effective tax rate of -0.28% in 2020 (in 2019: 0.05%)	-92	29
Income tax reported in profit or loss	-92	29

(in PLN thousand)

13.3. Deferred tax

Deferred tax results from the following items:

	Statement of Financial Position as at		*Statement of Comprehensive Income for the year ended*	
	31 December 2020	*31 December 2019*	*31 December 2020*	*31 December 2019*
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	-362	-392	30	25
Accrued income	-1	-1	–	9
Accrued interest	-2	-7	5	-2
FX gains	-148	-112	-36	6
Provision for retirement benefits	27	34	-7	-24
Unpaid wages, salaries and allowances	92	73	19	1
FX losses	281	247	34	-5
Tax loss	47	–	47	–
Deferred tax expense			**92**	**10**
Net deferred tax liability, of which:	**-66**	**-158**		
Deferred tax assets from continuing operations	–	–		
Deferred tax liability with respect to continuing operations	-66	-158		

(in PLN thousand)

14. Non-current assets classified as held for sale

In 2020, the Company acquired a plot of land intended for new investments in the Alumetal S.A. Capital Group. Sale of real estate to the subsidiary company, Alumetal Poland sp. z o.o., took place on 18 February 2021.

15. Earnings per share

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

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

Both in 2020 and in 2019, the exercise price of instruments convertible to equity instruments was above their market value, therefore there is no dilution effect in 2020 or 2019. Details of the Incentive Scheme III are described in note 21.2.

The Company has no dilutive financial instruments other than those described above.

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 2020	*Year ended 31 December 2019*
Net profit from continuing operations	32 707	63 721
Net profit	**32 707**	**63 721**
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share (accounting for share split)	15 479 493	15 479 493
Earnings per share		
- basic from the profit for the year	2.11	4.12
- diluted from the profit for the year	2.11	4.12

(in PLN thousand)

16. Intangible assets

Year ended 31 December 2020	*Patents and licenses*	*Other*	*Intangible assets under construction*	*Total*
Gross carrying amount as at 1 January 2020	**786**	**2 763**	**231**	**3 780**
Purchases	–	–	68	**68**
Transfer from intangible assets under construction	7	107	-114	–
Gross carrying amount as at 31 December 2020	**793**	**2 870**	**185**	**3 848**
Amortization and impairment as at 1 January 2019	**478**	**2 018**	–	**2 496**
Amortization charge for the period	132	316	–	448
Amortization and impairment as at 31 December 2020	**610**	**2 334**	–	**2 944**
Net carrying amount as at 1 January 2020	**308**	**745**	**231**	**1 284**
Net carrying amount as at 31 December 2020	**183**	**536**	**185**	**904**

Year ended 31 December 2019

	Patents and licenses	*Other*	*Intangible assets under construction*	*Total*
Gross carrying amount as at 1 January 2019	**710**	**2 722**	**78**	**3 510**
Purchases	–	–	270	**270**
Transfer from intangible assets under construction	76	41	-117	–
Gross carrying amount as at 31 December 2019	**786**	**2 763**	**231**	**3 780**
Amortization and impairment as at 1 January 2018	**370**	**1 729**	–	**2 099**
Amortization charge for the period	108	289	–	397
Amortization and impairment as at 31 December 2019	**478**	**2 018**	–	**2 496**
Net carrying amount as at 1 January 2019	**340**	**993**	**78**	**1 411**
Net carrying amount as at 31 December 2019	**308**	**745**	**231**	**1 284**

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

(in PLN thousand)

17. Property, plant and equipment

Year ended 31 December 2020

	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 2020	**821**	**3 922**	**2 626**	**1 102**	**102**	**2**	–	**8 575**
Purchases	–	–	–	–	–	44	–	44
Sale	–	–	–	–	–	–	–	–
Liquidation	–	–	-14	–	–	–	–	-14
Transfers	–	–	20	–	–	-20	–	–
Gross carrying amount as at 31 December 2020	**821**	**3 922**	**2 632**	**1 102**	**102**	**26**	–	**8 605**
Depreciation and impairment as at 1 January 2020	–	**992**	**1 854**	**380**	**53**	–	–	**3 279**
Depreciation charge for the period	–	136	145	150	9	–	–	439
Sale	–	–	–	–	–	–	–	–
Liquidation	–	–	-10	–	–	–	–	-10
Depreciation and impairment as at 31 December 2020	–	**1 128**	**1 987**	**530**	**62**	–	–	**3 708**
Net carrying amount as at 1 January 2020	**821**	**2 930**	**772**	**722**	**49**	**2**	–	**5 296**
Net carrying amount as at 31 December 2020	**821**	**2 793**	**645**	**572**	**40**	**26**	–	**4 897**

(in PLN thousand)

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 1 January 2018	**1 030**	**3 918**	**2 209**	**1 072**	**101**	**5**	**9**	**8 344**
Right-of-use assets	-209	–	–	–	–	–	–	-209
Gross carrying amount as at 1 January 2019	**821**	**3 918**	**2 209**	**1 072**	**101**	5	**9**	**8 135**
Purchases	–	–	–	–	–	794	–	794
Sale	–	–	-21	-280	–	–	–	-301
Liquidation	–	–	-53	–	–	–	–	-53
Transfers	–	4	491	310	1	-797	-9	–
Gross carrying amount as at 31 December 2019	**821**	**3 922**	**2 626**	**1 102**	**102**	**2**	–	**8 575**
Depreciation and impairment as at 1 January 2019	**–**	**863**	**1 823**	**410**	**44**	–	–	**3 141**
Depreciation charge for the period	–	129	102	157	9	–	–	397
Sale	–	–	-19	-187	–	–	–	-206
Liquidation	–	–	-53	–	–	–	–	-53
Depreciation and impairment as at 31 December 2019	–	**992**	**1 854**	**380**	**53**	–	–	**3 279**
Net carrying amount as at 1 January 2019	**821**	**3 055**	**386**	**662**	**57**	**4**	**9**	**4 994**
Net carrying amount as at 31 December 2019	**821**	**2 930**	**772**	**722**	**49**	**2**	–	**5 296**

(in PLN thousand)

Land and buildings with a carrying amount of PLN 1 548 thousand as at 31 December 2019 are pledged as mortgage collateral for bank loans and borrowings of the Company.

However, based on the annex to the loan agreement of 4 August 2020, the pledge ceased to serve as collateral for the loan agreement with Bank Handlowy w Warszawie S.A. and on the same day, the Company applied with the court for its removal, which was implemented by the Court's decision of 19 August 2020.

There were no capitalized borrowing costs in the year ended 31 December 2020 or 31 December 2019.

18. Leases

18.1. The Company as lessee

The Company is, within the meaning of IFRS 16, a lessee for perpetual usufruct of land until 2089.

The Company's lease liabilities are secured by the lessor's ownership title to leased asset. In general, the Company 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**	*Total*
As at 1 January 2019	867	867
Depreciation	12	12
As at 31 December 2019	855	855
Depreciation	12	12
As at 31 December 2020	843	843

** Right of perpetual usufruct (RPU) of land*

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

	2020	*2019*
As at 1 January	659	658
Interest	–	14
Payments	–	-13
As at 31 December	659	659
Short-term	18	18
Long-term	641	641

The maturity analysis of lease liabilities is presented in Note 31.4 *Liquidity risk.*

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

	2020	*2019*
Depreciation of right of perpetual usufruct	12	12
Interest on lease liabilities	–	14
Total amount recognised in the statement of comprehensive income	12	26

In 2020, the Company did not make any payments for the perpetual usufruct right to land, including interest on this right. The deferral of payment related to the epidemiological situation caused by COVID-19.

The total outflow of cash under the lease in 2019 amounted to PLN 12 thousand.

(in PLN thousand)

19. Other assets

19.1. Other financial assets

	31 December 2020	*31 December 2019*
Loans granted, of which to:	**16 862**	**24 095**
- Alumetal Group Hungary Kft.*	16 862	24 095
Shares in related entities, of which shares in:	**251 286**	**251 286**
- Alumetal Poland sp. z o.o., Poland	175 856	175 856
- Alumetal Group Hungary Kft., Hungary	75 080	75 080
- T+S sp. z o.o., Poland	350	350
Additional payment to the issued capital of Alumetal Group Hungary Kft.	**23 329**	**–**
Total	**291 477**	**275 381**
- short-term	9 248	8 534
- long-term	282 229	266 847

* interest rate at 3M EURIBOR (EUR) + margin

Movements in the balance of loans granted in the year ended 31 December 2020 and 31 December 2019 are presented in the table below:

	Loans granted
Balance as at 1 January 2019	**32 947**
Decreases, of which:	-8 852
- repayment of loan by Alumetal Group Hungary Kft., Hungary	-8 628
- effect of valuation of loan balance caused by different rate at balance sheet valuation	-224
Balance as at 31 December 2019	**24 095**
Decreases, of which:	-7 233
- repayment of loan by Alumetal Group Hungary Kft., Hungary	-8 955
- effect of valuation of loan balance caused by different rate at balance sheet valuation	1 722
Balance as at 31 December 2020	**16 862**

During the course of impairment indicator analysis performed in accordance with IAS 36 *Impairment of assets*, the Management Board of the Company 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 11.6 to these financial statements. Given the identified loss indicators, an impairment test was performed for the assets relating to the investment in the subsidiary company, Alumetal Group Hungary Kft. The performed test did not confirm said investment impairment (understood as the value of held shares and the additional payments to issued capital). The test used the forecasts for 5 years (i.e. 2021 - 2025) and for the residual period. Applied in the calculations was a 6.86% 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.

As regards the potential impairment of the long-term loan granted to the subsidiary, classification of the degree of impairment performed after credit loss calculation made using the ECL methodology (expected credit loss methodology) confirmed that the impairment loss was immaterial and thus was not recognized in the financial statements.

(in PLN thousand)

19.2. Other non-financial assets

	31 December 2020	*31 December 2019*
Excess of social assets over Social Fund liabilities	4	20
Prepayments for insurance costs	34	47
Other	5	–
Total, of which:	**43**	**67**
- short-term portion	43	67
- long-term portion	4	20

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 Company operates such Fund and makes periodic transfers to this Fund based on the established basic transfer amount. The Funds' purpose is to subsidize the Company's social activities, loans to employees and other social expenditures.

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

	31 December 2020	*31 December 2019*
Cash and cash equivalents	39	48
Social Fund liabilities	35	28
Balance after netting off	**4**	**20**

	Year ended 31 December 2020	*Year ended 31 December 2019*
Amounts transferred (contributions) to the Social Fund during the year	122	123
Non-refundable expenditure by the Fund	115	131

21. Employee benefits

21.1. Retirement and disability benefits

The Company provides retirement benefits to the retiring employees in the amount defined in the Remuneration Regulations adopted by the Company. 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	**178**	**306**
Present service costs	15	41
Interest expense	3	8
Actuarial gains/ losses	-25	-177
Past service costs	–	–
Cost of benefits paid out	-28	–
At the end of the period as at 31 December	**143**	**178**
Net short-term employee benefit liabilities	1	30
Net long-term employee benefit liabilities	142	148

(in PLN thousand)

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

- CSO mortality tables - from 2019
- 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 beyond (each year) - 1.57%
- 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 2020 amounting to PLN 143 thousand 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 (employee turnover) ratio -1.0%	151	8	5.6%
Rotation (employee turnover) ratio +1.0%	134	-9	-6.3%
Probability of disability retirement -0.5%	142	-1	-0.7%
Probability of disability retirement +0,5%	143	–	0%
Discount rate -0.50%	154	11	7.7%
Discount rate +0.50%	132	-11	-7.7%
Remuneration -1.0%	123	-20	-14.0%
Remuneration +1.0%	166	23	16.1%

The costs of contributions to the Employee Capital Plans (PPK) are presented in the Note 12.4 *Employee benefits.*

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 key personnel (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 corresponding 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 appropriate level of consolidated EBITDA by the Company; achieving the appropriate level of normalized consolidated net profit by the Company; achieving an appropriate rate of return on the Company's shares in relation to the dynamics of changes 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 G-series Incentive Shares, resulting from the Eligible Holdings of series D subscription warrants, was exercised in February 2021, however, 94.17% of series G shares were acquired as a result of the exercise of rights from 97,180 series D subscription warrants out of a total of 103,196 warrants this series granted by the Supervisory Board to the Entitled Persons. The remaining 5.83%, i.e. 6,016 series G shares, may be acquired by the Eligible Persons on the next date set for their acquisition, which will be announced in accordance with the rules of the Incentive Scheme III by the Management Board of the Company no later than on 31 December 2022, about which the Company informed in the current report No. 4/2021 on 19 February 2021.

Due to the failure to meet the conditions for series E subscription warrants in 2019, the cost related to these warrants was written off in 2019. 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.

Due to the non-fulfilment of non-market conditions for F-series subscription warrants in 2020, the cost related to these warrants was written off in mid-2020. In 2020, the Company met the condition related to the achievement of an appropriate rate of return on the Company's shares in relation to the dynamics of changes in the WIG index, which means that the Company will issue 51 598 series F subscription warrants. The right to take up I-series Incentive Shares, resulting from the Eligible Holdings of F-series subscription warrants, may be exercised not earlier than from 1 July 2021 and not later than 31 December 2022.

(in PLN thousand)

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 2020	*31 December 2019*
Capital under Incentive Program III	1 475	1 562

Year ended	*31 December 2020*	*31 December 2019*
Cost of Incentive Program III	-87	645

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.

Incentive Program IV

The Annual General Meeting of Alumetal S.A. adopted on 12 November 2020 a resolution on the establishment of an incentive program for the years 2021-2023 (Incentive Program IV) for the management and key personnel of the Alumetal Group (Eligible Persons). The assumptions of this incentive program provide for a conditional increase in the Company's share capital through the issue of free-of-charge and non-transferable three tranches of subscription warrants (series G, H and I) and the corresponding three tranches of new shares of the Company (series J, K, and L) with a total nominal value not exceeding PLN 46,438.20, of which:

- up to 154,794 subscription warrants, series G, which will entitle their holders to take up not more than 154,794 shares, series J, of the Company during the period from 1 July 2023 to 31 December 2025;
- up to 154,794 subscription warrants, series H, which will entitle their holders to take up not more than 154,794 shares, series K, of the Company during the period from 1 July 2024 to 31 December 2025;
- up to 154,794 subscription warrants, series I, which will entitle their holders to take up not more than 154,794 shares, series L, of the Company during the period from 1 July 2025 to 31 December 2025.

The issue of subscription warrants (the G-, H- and I-series subscription warrants) 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 IV participation agreement to the date directly 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 appropriate level of consolidated EBITDA by the Company; achieving the appropriate level of normalized consolidated net profit by the Company; achieving an appropriate rate of return on the Company's shares in relation to the dynamics of changes in the WIG index

The unit issue price of the shares covered by the new incentive scheme will be PLN 36.40, which will be reduced by the sum total of benefits paid by the Company per one share of the Company to its shareholders, being in particular dividend paid in the following manner:

- for each J-series share, the issue price of PLN 36.40 will be reduced by paid gross dividend (per share) for the year 2020, 2021 and by paid or declared dividend for 2022;
- for each K-series share, the issue price of PLN 36.40 will be reduced by paid gross dividend (per share) for the year 2020, 2021, 2022 and by paid or declared dividend for 2023;

(in PLN thousand)

- for each L-series share, the issue price of PLN 36.40 will be reduced by paid gross dividend (per share) for the year 2020, 2021, 2022, 2023 and by paid or declared dividend for 2024.

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 rules of this incentive scheme (Program IV) were described in the Incentive Program Policy adopted by the Supervisory Board on 19 January 2021. The Company performed valuation of the cost of this incentive program and calculated it in accordance with IFRS 2 *Share-based Payment.*

The capital and the cost of the Incentive Scheme IV will be recognized in the statement of financial position and the statement of comprehensive income starting from 2021.

The revaluation of the Incentive Scheme IV showed its cost at the level of PLN 8,895,416.88, which will be recognized in the Group's costs in Q1 2021 - Q3 2025, in 2021 there will be PLN 2,607,220.00 of this cost.

The following assumptions and parameters were adopted for the valuation of the modified Incentive Program III performed in Q1 2021:

- grant date (valuation date)	- 20 January 2021
- the price of the underlying assets (shares of Alumetal SA) included in valuation	- PLN 55.00/share,
- risk-free interest rate	- 0.1%, 0.2% and 0.3%,
- value of the underlying asset price volatility	- 29%, 28%, 27%
- value of WIG index volatility	- 20%, 18%, 17%
- the value of the expected dividend in 2021-2025 respectively	- PLN 2.92; PLN 3.11;

PLN 3.41; PLN 3.75 and PLN 4.10.

22. Trade and other receivables

	31 December 2020	*31 December 2019*
Trade receivables	2 642	1 718
Other third-party receivables	16	51
Total receivables, net	**2 658**	**1 769**
Allowance for expected credit losses	–	–
Gross receivables	**2 658**	**1 769**

Trade receivables are non-interest bearing and have usually 14-day maturity period.

Given the holding-related activities of the Company, trade receivables as at 31 December 2020 and 31 December 2019 relate to subsidiary companies.

Presented below is the analysis of trade and other receivables, which as at 31 December 2020 and 31 December 2019 were past due, but which were not deemed as irrecoverable, and for which no impairment write-down was recognised.

				Overdue, but recoverable			
Receivable in:	*Total*	*Current*	*< 30 days*	*31 – 90 days*	*91 - 180 days*	*181-365 days*	*> 366 days*
31 Dec 2020	2 658	1 508	876	274	–	–	–
31 Dec 2019	1 769	1 651	118	–	–	–	–

(in PLN thousand)

23. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents approximates their carrying amounts. The balance of cash and cash equivalents reported in the Statement of Cash Flow is composed of 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 Statement of Cash Flow is composed of the following items:

	31 December 2020	*31 December 2019*
Cash on hand and cash at bank	2 578	287
Overdraft facilities	-18	-99
Cash and cash equivalents reported in the Statement of Cash Flow	**2 560**	**188**

As at 31 December 2020, the Company had no funds in VAT accounts (as at 31 December 2019, it had PLN 104 thousand). These funds could be relatively easily used to pay the tax part of purchase invoices and discharge public law (regulatory) liabilities (CIT, PIT, social security contributions, customs duties) and therefore the Company does not classify them as cash of restricted use.

24. Issued capital, reserve capital and other reserves

24.1. Issued capital

Issued capital	*31 December 2020*	*31 December 2019*
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 22 March 2021 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.

(in PLN thousand)

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

	31 December 2020	*31 December 2019*
IPO UNIPESSOAL LDA (*formerly* 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	10.04%	10.50%
share in the number of votes	10.04%	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%	2.63%
share in the number of votes	2.63%	2.63%
Szymon Adamczyk		
share in equity	1.80%	1.80%
share in the number of votes	1.80%	1.80%
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	31.88%	31.42%
share in the number of votes	31.88%	31.42%

(in PLN thousand)

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

	22 March 2021
IPO UNIPESSOAL LDA (*formerly* 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	10.04%
share in the number of votes	10.04%
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	31.88%
share in the number of votes	31.88%

24.2. Reserve capital

The reserve capital was created from statutory appropriations of the profits generated in prior financial years in the amount of PLN 516 thousand, from share premium realized on D-series, E-series and F-series shares in the total amount of PLN 11 921 thousand, as well as from profit appropriations in excess of statutory amount of PLN 183 340 thousand as at 31 December 2020 (as at 31 December 2019, profit appropriation in excess of statutory amount was PLN 163 465 thousand).

24.3. Other reserves

On 28 August 2020, the Ordinary Annual General Meeting adopted a resolution on the distribution of the Company's profit for the financial year from 1 January to 31 December 2019, allocating the amount of PLN 43 807 thousand to other reserves for the payment of dividends, including advance dividends, in the future.

24.4. 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 S.A. have been prepared in accordance with International Financial Reporting Standards. 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 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 Company until such time as the value of the reserve capital reaches at least one third of the issued capital of the 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 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.

24.5. Dividends paid and proposed

Dividend paid

On 28 August, the Ordinary Annual General Meeting resolved to appropriate the Company’s profit for the year from 1 January to 31 December 2019 in the following manner:

- PLN 43 807 thousand – for the creation of other reserves for the payment of dividends, including advance dividends, in the future,
- PLN 39 thousand – to transfer to the Company’s Social Fund
- PLN 19 875 thousand – to reserve capital.

Proposed dividend

In accordance with the dividend policy of the Company, the Management Board will request for a dividend payment for 2020 at the level of 70% of normalized consolidated net profit (normalized net profit is net profit adjusted by the impact of asset valuation in the form of CIT exemption), i.e. in the amount of PLN 45 484 thousand, which means that the amount of dividend per share (including the G-series incentive shares taken up in Q1 2021 in the amount 97,180 shares) would be PLN 2.92. The Management Board will propose payment of the dividend in June 2021.

(in PLN thousand)

25. Interest-bearing loans and borrowings

	Available limit***	Currency*	Maturity date	31 December 2020 Limit utilised in PLN	31 December 2019 Limit utilised in PLN
Overdraft facility:					
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	PLN*	19.09.2021	17	50
Aggregate limit facility for several group companies 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	PLN*	30.06.2021	–	–
Limit facility for several group companies 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	40 000	PLN*	06.08.2021	1	50
Short-term portion of the investment loan issued by **ING Bank Śląski S.A.** to Alumetal 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**	EUR	14.10.2022	16 862	8 534
Total short-term portion				**16 880**	**8 634**
Long-term investment loan issued to Alumetal S.A. by **ING Bank Śląski S.A.** in the amount of EUR 10 million, with an interest rate based on 1M EURIBOR + margin, taken out to finance the construction of a production plant in Hungary**	10 000**	EUR	14.10.2022	–	15 561
Total				**16 880**	**24 195**

* the „currency" means solely the currency of the limit and thus may differ from loan currency
** the total limit for the short- and long-term portion of the investment loan is EUR 10 million (loan repaid in monthly instalments in the amount of EUR 167 thousand)
***within the available limits, the Alumetal S.A. has 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 13.8 million (31 December 2020) and PLN 4.3 million (31 December 2019) as part of the operational activities of the subsidiary companies of the parent company

(in PLN thousand)

On some of the property belonging to Alumetal S.A. mortgage has been established in favour of Bank Handlowy w Warszawie. As at 31 December 2019, the value of land, buildings and constructions pledged as collateral was PLN 1 580 thousand. However, based on the annex to the loan agreement of 4 August 2020, the pledge ceased to serve as collateral for the loan agreement with Bank Handlowy w Warszawie S.A. and on the same day, the Company applied with the court for its removal, which was implemented by the Court's decision of 19 August 2020.

The collateral for the long-term investment loan issued to Alumetal S.A. by ING Bank Śląski S.A. in the amount of EUR 10 000 thousand and intended to finance the construction of a production plant in Hungary is the mortgage on the property of the production plant of Alumetal Poland sp. z o.o. in Nowa Sól with a net carrying amount of PLN 43 298 thousand as at 31 December 2020 (as at 31 December 2019 – PLN 44 702 thousand).

Alumetal SA. issued guarantees and sureties in respect of trade liabilities of Alumetal Group Hungary Kft. in favour of the supplier of the Hungarian subsidiary. The total value of these guarantees and sureties amounted as at 31 December 2020 to the equivalent of PLN 800 thousand (as at 31 December 2019 - PLN 359 thousand).

Loan agreements with banks contain certain covenants which the Alumetal Group is obliged to meet at the consolidated level, namely:

a) profitability ratios - the amount of the EBITA margin,
b) debt ratios - share of equity, debt servicing capacity and total debt to EBITDA,
c) efficiency indicators - the level of current assets and inventory turnover ratio (inventory days ratio).

Due to the decline in consolidated sales revenues and EBITDA earnings in the first half of 2020 due to the pandemic and the sharp rise in demand for working capital in the second half of 2020, the Group did not meet two covenants in this period: the debt service coverage ratio and the inventory turnover ratio (inventory days ratio) set forth in the loan agreements with ING Bank Ślaski S.A.

On 1 March 2021, ING Bank Śląski S.A. assured the Company in writing that it accepted the exceeding of these ratios without any consequences. In addition, on 4 March 2021, an annex to the investment loan agreement with ING Bank Śląski S.A. came into effect, which modified the wording (description) of the debt service coverage ratio to more adequately account for the current situation of the Alumetal Group (the original agreement was signed in 2015).

26. Provisions

Both in 2020 and 2019, the Company did not create provisions, apart from the provisions described in Note 21.1.

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

27.1. Trade and other financial liabilities (current)

	31 December 2020	*31 December 2019*
Trade payables	181	227
Lease liabilities	18	18
Payroll liabilities	298	252
Investment liabilities	74	–
Other liabilities	15	35
Total	**586**	**532**

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

(in PLN thousand)

27.2. Other non-financial liabilities

	31 December 2020	*31 December 2019*
VAT	161	221
Personal income tax	105	100
Social security	333	274
Employee Capital Plans (PPK) liabilities	11	–
PFRON	4	4
Total, of which:	**614**	**599**
- short-term portion	614	599
- long-term portion	–	–

27.3. Accruals and deferred income

	31 December 2020	*31 December 2019*
Accruals, of which:		
- unused annual leave	279	225
- employee bonus, incl. annual bonus	89	56
Total, of which:	**368**	**281**
- short-term portion	368	281
- long-term portion	–	–

28. Contingent liabilities and contingent assets

28.1. Court proceedings

In the year ended 31 December 2020 and 31 December 2019, the Company was not a party to any significant court proceedings.

28.2. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) may become subject to review and investigation by administrative bodies, 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. The above circumstances create tax risks in Poland that are considerably greater than those typically found in countries with more stable 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. As a result of tax inspections, current tax liabilities of the Company may be increased by additional amounts. As at 31 December 2020, neither the Company, nor its subsidiary companies were parties to conducted tax proceedings.

29. Related party disclosures

As at 31 December 2020, the Company reported in its statement of financial position the amount of PLN 16 862 thousand of the loan granted to the subsidiary company, Alumetal Group Hungary Kft. (as at 31 December 2019 – PLN 24 095 thousand).

(in PLN thousand)

The value of dividend received from related entities in 2020 and 2019 is presented in the table below:

Dividends received by Alumetal S.A. *Of which, from:*	*Year ended 31 December 2020*	*Year ended 31 December 2019*
Alumetal Poland sp. z o.o.	33 000	63 500
T+S sp. z o.o.	–	1 269
Total	**33 000**	**64 769**

The table below shows total balances of trading/ financial transactions with related entities in 2020 and 2019 (except for dividends and loans referred to above):

Related party		*Sales*	*Purchases*	*Receivables*	*Liabilities*
Alumetal Poland sp. z o.o.	*2020*	8 070	94	2 331	28
	2019	8 913	112	1 375	27
T+S sp. z o.o.	*2020*	81	–	12	–
	2019	84	–	11	–
Alumetal Group Hungary Kft.	*2020*	1 659	–	181	–
	2019	1 830	–	302	–

In addition, as described in more detail in Note 25, Group companies were parties to sureties/securities transactions. The respective fee charges for these transactions were included in settlements between those related parties.

29.1. Executive Board emoluments

	Year ended 31 December 2020	*Year ended 31 December 2019*
Remuneration of Management Board members of Alumetal S.A. at the parent and in subsidiaries (short-term employee benefits, salaries and surcharges)	2 920	2 967
Agnieszka Drzyżdżyk - President of the Management Board, CEO[1]	850	649
Marek Kacprowicz – President of the Management Board, CEO[2]	–	337
Krzysztof Błasiak - Vice-president of the Management Board, Waste and Metal Management Officer	1 386	1 323
Przemysław Grzybek – Member of the Management Board, CFO	684	658

[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)*

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.

(in PLN thousand)

Supervisory Board

		Year ended 31 December 2020	*Year ended 31 December 2019*
Total remuneration, of which:		**204**	**190**
Grzegorz Stulgis	Chairman of the Supervisory Board	–	–
Paweł Małyska	Member of the Supervisory Board	72	64
Michał Wnorowski	Member of the Supervisory Board	60	54
Franciscus Bijlhouwer[1]	Member of the Supervisory Board	27	36
Szymon Adamczyk	Member of the Supervisory Board	36	36
Michael Pedersen[2]	Member of the Supervisory Board	9	–

[1] On 31 July 2020, Mr. Frans Bijlhouwer resigned from the function of a member and membership in the Supervisory Board of the Company with effect on the date of the next Annual General Meeting, about which the Company informed the public in the current report No. 11/2020 of 31 July 2020.

[2] On 28 August 2020, the Ordinary Annual General Meeting of the Company appointed to the Supervisory Board of Alumetal S.A. Mr Michael Rohde Pedersen for a joint three-year term of office. To that effect, the Company published the current report No. 17/2020 on 28 August 2020.

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 2020 invoices for the total amount of PLN 552 thousand (2019 – PLN 625 thousand).

30. 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 2020 and 31 December 2019, by type of services:

Type of service	*Year ended 31 December 2020**	*Year ended 31 December 2019***
Statutory audit of consolidated and separate financial statements	165	100
Review of interim financial statements	60	50
Total	**225**	**150**

** relates to PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k.*

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

In addition, fee for the statutory 2020 audit of separate financial statements of the Alumetal Group Hungary Kft. carried out by PricewaterhouseCoopers Könyvvizsgáló Kft. was EUR 11 000.00 (for 2019 - EUR 12 000.00*).

** relates to Ernst & Young Konyvvizsgalo Kft.*

31. Financial risk management objectives and policies

The main type of business activity of the Company is conducting operations of a holding company. As part of these operations, the Company manages the financial risk incurred by the companies of the Alumetal Group. The main types of risk described in detail in the consolidated financial statements of the Alumetal S.A. Capital Group for the year ended 31 December 2020 are the following:

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

(in PLN thousand)

The financial risk management objectives and policies did not change compared to those valid as at 31 December 2019.

By way of conducting its holding activities, the Company has also managed capital of the companies of the Alumetal S.A. Capital Group. In the reporting period covered by these financial statements, there were no significant changes to the objectives, principles and assumptions of capital management compared to those prevailing as at 31 December 2019 and described in the consolidated financial statements of the Alumetal S.A Capital Group for 2019.

31.1. Interest rate risk

The Company is exposed to interest rate risk arising from the financial instruments used to finance operating activities: short-term loans and short-term deposits.

The above financial instruments are based on variable interest rate of WIBOR and EURIBOR (or LIBOR for EUR). The Company does not hedge against interest rate risk because the instruments used are, in the majority of cases, of short-term, irregular character, and the scale of their use is rather insignificant.

In addition, the Company took out a long-term investment loan at ING Bank Śląski S.A. in the amount of EUR 10 million, with an interest rate of 1M EURORIBOR + margin, with a view to financing an investment project i.e. the construction of a production plant in Hungary. In this case, the Company does not exclude the possibility of using an interest rate hedging instrument.

31.2. Foreign currency risk

In executing its holding services, the Company realizes rather limited sales in foreign currencies. Foreign currency purchases are also made to a very limited extent, and so is the use of foreign currency loans and borrowings for the purpose of current holding-related services. For this reason, in 2020 the risk of foreign currency did not practically occur.

31.3. Credit risk

The Company’s customers are related entities and therefore credit risk does not practically exist. In the case of a loan granted and commercial guarantees for subsidiaries, Alumetal S.A. has full control over the situation due to close personal and capital connections as well as direct and indirect management functions (personnel union, holding services).

31.4. Liquidity risk

In managing the Group’s finance and using its financial strength, the Company has free access to, inter alia, bank loans, which ensure that it has appropriate financial liquidity.

The table below shows the maturity profile of the Company’s financial liabilities at 31 December 2020 and 31 December 2019, based on maturity dates of contractual undiscounted payments.

Payable in:	*< 3 months*	*3 – 12 months*	*1 - 5 years*	*> 5 years*	*Total*
31 December 2020					
Trade and other financial liabilities	568	–	–	–	568
Lease liabilities	–	18	70	571	659
Overdraft facilities	–	18	–	–	18
Investment loan	2 312	14 550	–	–	16 862*

(in PLN thousand)

Payable in:	*< 3 months*	*3 – 12 months*	*1 - 5 years*	*> 5 years*	*Total*
31 December 2019					
Trade and other financial liabilities	532	–	–	–	532
Lease liabilities	–	18	70	571	659
Overdraft facilities	–	100	–	–	100
Investment loan	2 133	6 401	15 561	–	24 095*

**this amount is not directly covered by current liquidity management, because (as stated in Note 25) it represents a long-term liability under the loan taken out to finance an investment project in Hungary.*

32. Financial instruments

32.1. Fair value of financial instruments, by class

Presented below is the comparison of carrying amounts and fair values of all financial instruments of the Company, by individual classes of assets and liabilities.

	Category in accordance with IFRS 9	*Carrying amount*	
		31 December 2020	*31 December 2019*
Financial assets			
Other financial assets (short-term)	FAaAC	9 248	8 534
Trade and other receivables	FAaAC	2 658	1 769
Derivative financial instruments	aFVtPL	–	–
Cash and cash equivalents	FAaAC	2 578	287
Total		**14 484**	**10 590**

	Category in accordance with IFRS 9	*Carrying amount*	
		31 December 2020	*31 December 2019*
Financial liabilities			
Interest-bearing loans and borrowings	FLaAC	16 880	24 195
Trade and other financial liabilities	FLaAC	568	532
Derivative financial instruments	aFVtPL	–	–
Total		**17 448**	**24 726**

The fair value of financial instruments the Company held as at 31 December 2020 and 31 December 2019 *did not* materially differ from their carrying amounts presented in the attached financial statements for individual financial years 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.

(in PLN thousand)

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

Year ended 31 December 2020

	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								
Other financial assets	FAaAC	180	1 723	–	–	–	–	**1 903**
Trade and other receivables	FAaAC	–	29	–	–	–	–	**29**
Cash and cash equivalents	FAaAC	–	–	–	–	–	–	–
Financial liabilities								
Interest-bearing loans and borrowings	FLaAC	-158	-1 718	–	–	–	–	**-1 876**
Trade and other financial liabilities	FLaAC	–	392	–	–	–	–	**392**
Total		**22**	**426**	–	–	–	–	**448**

(in PLN thousand)

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								
Other financial assets	FAaAC	246	-224	–	–	–	–	**22**
Trade and other receivables	FAaAC	–	-7	–	–	–	–	**-7**
Cash and cash equivalents	FAaAC	2	–	–	–	–	–	**2**
Financial liabilities								
Interest-bearing loans and borrowings	FLaAC	-216	228	–	–	–	–	**12**
Trade and other financial liabilities	FLaAC	–	-1	–	–	–	–	**-1**
Total		**32**	**-4**	–	–	–	–	**28**

(in PLN thousand)

32.3. Change in liabilities from financing activities

Year ended 31 December 2020

	1 January 2020	*Changes from cash flow from financing activities*	*Effect of exchange rates fluctuations*	*Other changes*	*31 December 2020*
Interest-bearing loans and borrowings (long-term)	15 561	–	1 301	-16 862	–
Interest-bearing loans and borrowings (short-term)	8 534	-8 954	420	16 862	16 862
Lease liabilities	659	–	–	–	659
Total liabilities arising from financing activities	**24 754**	**-8 954**	**1 721**	–	**17 521**

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)	24 330	–	-235	-8 534	15 561
Interest-bearing loans and borrowings (short-term)	8 617	-8 628	11	8 534	8 534
Lease liabilities	658	-13	–	14	659
Total liabilities arising from financing activities	**33 605**	**-8 641**	**-224**	**14**	**24 754**

32.4. Interest rate risk

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

The Company has mainly overdraft facilities which are short-term items with the amounts payable calculated using variable market rates of 1M WIBOR, 1M EURIBOR (or possibly 1M LIBOR for EUR). Detailed information regarding debt balance from individual loan liabilities is presented in Note 25.

31 December 2020

Variable interest rate

	<1 year	*1–2 years*	*2-3 years*	*>3 years*	*Total*
Cash assets	2 578	–	–	_	2 578
Overdraft facilities	18	–	–	–	18
Investment loan	16 862	–	–	–	16 862
Total	**19 458**	**_**	**_**	**–**	**19 458**

(in PLN thousand)

31 December 2019

Variable interest rate

	<1 year	*1–2 years*	*2-3 years*	*>3 years*	*Total*
Cash assets	287	–	–	–	287
Overdraft facilities	100	–	–	–	100
Investment loan	8 534	8 534	7 027	–	24 095
Total	**8 921**	**8 534**	**7 027**	–	**24 481**

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 the maturity of the instrument. The remaining financial instruments of the Company that are not included in the above tables are non-interest bearing and therefore they are not subject to interest rate risk.

33. Capital management

The Company manages its capital mainly from the perspective of the financial situation of the entire Alumetal S.A. Capital Group, because on the one hand it is Alumetal S.A. that shapes the financial policy of the Group as a whole and, on the other hand, the assessment of the financial situation of Alumetal S.A. is usually based on the financial soundness of the Group as a whole.

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

The Company monitors capital at Group level 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 financial liabilities, less cash and cash equivalents. Capital includes equity attributable to the shareholders of the parent.

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

Presented in the table below are the amounts and capital ratios that relate solely to Alumetal S.A.

	31 December 2020	*31 December 2019*
Interest-bearing loans and borrowings	18	100
Trade and other financial liabilities	568	532
Less: cash and cash equivalents	-2 578	-287
Net debt, total	**-1 992**	**345**
Shareholders’ equity	291 002	258 396
Capital and total net debt	**289 010**	**258 741**
Gearing ratio (Total net debt/ Shareholders’ equity and total net debt)	0.0%	0.1%

(in PLN thousand)

34. Employment structure

The average employment in the Company in the year ended 31 December 2020 and 31 December 2019 was as follows:

	Year ended 31 December 2020	*Year ended 31 December 2019*
Management Board	3	3
Managers, specialists and administration	51	52
Total	**54**	**55**

35. Departure from preparing financial statements in the XHTML format

On 9 February 2021, during the first reading in the Public Finance Committee of the Sejm of the Republic of Poland, amendment No. 12 was proposed to the draft act on amending the Banking Law Act and certain other acts (Sejm Paper No. 859), introducing a new art. 23a. The amendment was accepted by the Public Finance Committee. According to the proposed art. 23a, the issuer whose securities are admitted to trading on a regulated market may decide not to use the xHTML format in relation to annual reports and consolidated annual reports containing, respectively, the financial statements and consolidated financial statements for the financial year starting from 1 January to 31 December 2020, and prepare these reports using the existing rules. According to the draft law, this provision will also apply to annual reports drawn up before the effective date of the new regulations under art. 23a.

The draft assumes that the provisions of art. 23a will enter into force on the day following the promulgation of the act. Due to the legislative process in progress, the exact date of enacting and publishing the act currently undergoing processing is currently unknown. The PFSA Office assumes that it will happen as soon as possible.

In addition, on 19 March 2021, came into force Regulation (EU) 2021/337 of the European Parliament and of the Council of 16 February 2021 amending Regulation (EU) 2017/1129 as regards the EU Recovery prospectus and targeted adjustments for financial intermediaries and Directive 2004/109/EC as regards the use of the single electronic reporting format for annual financial reports, to support the recovery from the COVID-19 crisis. Regulation (EU) 2021/337 amended Directive 2004/109/ EC whereby issuers whose securities were admitted to trading on a regulated market having its registered office or operating in one of the Member States were required to prepare and disclose their annual reports in a uniform electronic reporting format, starting from the financial year beginning on or after 1 January 2020. This single electronic reporting format is set out in the Commission Delegated Regulation (EU) 2019/815. Pursuant to the introduced Regulation (EU) 2021/337, in order to make use of the delay option, a Member State should notify the Commission of its intention to allow such a delay, and its intention should be duly justified. In presenting the list of countries, the European Commission indicated that on 15 March Poland had notified its use of the delay option.

In connection with the above and with reference to the Announcement of the Ministry of Finance and the PFSA Office of 15 December 2020 on the deferral of the obligation to use the xHTML format and the Communication of the PFSA Office of 19 February 2021 on the legal status of the deferment of the obligation to apply the ESEF format, the Management Board of Alumetal S.A. withdrew from preparing financial statements in the xHTML format.

36. Events after the reporting date

Major events that took place after the reporting date include:

Taking-up G-series shares as part of the Incentive Program III

On 19 February 2021, the Company received declarations on the taking-up of shares issued under the Incentive Scheme III for 2018-2020, implemented as part of the conditional capital increase specified in Resolution No. 3 of the Extraordinary Annual General Meeting of the Company of 7 November 2017, later amended by Resolution No. 5 of the Extraordinary Annual General Meeting of the Company of 3 October 2018 ("Incentive Program III"), about which the Company informed in current reports No. 48/2017 of 7 November 2017 and No. 25/2018 of 3 October 2018, as well as in periodic reports.

According to the received declarations, the entitled persons ("Eligible Persons") under the Incentive Program III took up a total of 97, 180 G-series shares issued in exchange for 97 180 registered, non-transferable D-series subscription warrants ("Incentive Shares"). All Incentive Shares are ordinary bearer shares with a nominal value of PLN 0.10 (in words: ten groszy), and they will be issued in a dematerialized form pursuant to art. 7 of the Act on trading in financial instruments, i.e. the rights attached to the Incentive Shares will arise when they are entered for the first time on a securities account.

The issue price of one share was PLN 41.60, which means that PLN 4 042 688.00 was received by the Company as a result of payments for the subscription of Incentive Shares, thus resulting in an increase in the Issuer's equity.

Therefore, 94.17% of G-series shares were taken-up as a result of exercising the rights from 97 180 D-series subscription warrants out of the total of 103 196 D-series subscription warrants granted by the Supervisory Board to the Eligible Persons, about which the Company informed in the current report 15/2019. The remaining 5.83%, i.e. 6 016 G-series shares, may be taken up by the Eligible Persons on the next date set for their taking-up, which will be announced in accordance with the rules of the Incentive Program III by the Management Board of the Company no later than by 31 December 2022.

Upon registration of the Incentive Shares on the securities accounts of the Eligible Persons, the amount of the Company's issued capital will change, and will be PLN 1 557 667.30 (in words: one million five hundred fifty-seven thousand six hundred sixty-seven zloty and thirty groszy) and will be divided into 15 576 673 ordinary bearer shares, of which being:

- 9 800 570 A-series ordinary bearer shares;
- 1 507 440 B-series ordinary bearer shares;
- 3 769 430 C-series ordinary bearer shares;
- 150 770 D-series ordinary bearer shares;
- 150 770 E-series ordinary bearer shares;
- 100 513 F-series ordinary bearer shares;
- 97 180 G-series ordinary bearer shares.

In view of the above, the number of votes at the Annual General Meeting of the Company will also change from 15 479 493 to 15 576 673.

Pursuant to the provisions of the Incentive Program, the Company submitted applications to the Central Securities Depository of Poland (KDPW) and the Warsaw Stock Exchange S.A. for registration of the Incentive Shares and their introduction to trading on the regulated market.

To that effect, the Company published current reports No. 4/2021 on 19 February 2021 and No. 7/2021 on 18 March 2021.

Until the date of the publication of these financial statements, the underlying shares had not yet been introduced to public trading.

Apart from the above-mentioned events and the circumstances described herein, there were no significant events that should have been, but were not, included or disclosed in these financial statements.

These financial statements are composed of:

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

Kęty, 22 March 2021