



**DIRECTORS' REPORT
ON ACTIVITIES OF ALUMETAL S.A.
FOR THE YEAR 2020**



Kęty, 22 March 2021

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I. Issuer and its Capital Group corporate data

1. Description of ALUMETAL S.A.

ALUMETAL S.A. is a holding company rendering management (including development and investment services, operational support and controlling services), commercial and marketing, financial, IT, HR and payroll services as well as financial-accounting services to other entities of the ALUMETAL S.A. Capital Group (hereinafter referred to as the "Alumetal Group" or the "Group").

A. Issuer corporate data

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

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

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

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

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

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

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

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

Shares series D, E and F were issued under the Incentive Program (Scheme) II adopted based on the Resolution No. 5 of the Extraordinary Annual General Meeting of the Company of 28 May 2014.

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

Then series D, E and F shares were introduced to exchange trading according to the following schedule:

- on 1 June 2015 - 150,770 series D ordinary bearer shares;
- on 20 July 2016 - 150,770 series E ordinary bearer shares;
- on 21 July 2017 - 100,513 ordinary bearer series F shares.

As a result of the implementation of the Incentive Scheme III, 97 180 series G shares were taken up on 19 February 2021 by the Eligible Persons. Pursuant to the provisions of the Incentive Scheme III, the Company submitted applications to the Central Securities Depository of Poland (*KDPW S.A. – Krajowy Depozyt Papierów Wartościowych S.A.*) and the Warsaw Stock Exchange for registration of the Incentive Shares and their introduction to trading on the regulated market, as described in more detail in section V.7.B.

Until the date of the publication of this Directors' Report, said shares had not yet been introduced to trading on the stock exchange.

B. Subsidiary companies

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

ALUMETAL Poland sp. z o.o.

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

Corporate information:

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

T + S sp. z o.o.

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

Corporate information:

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

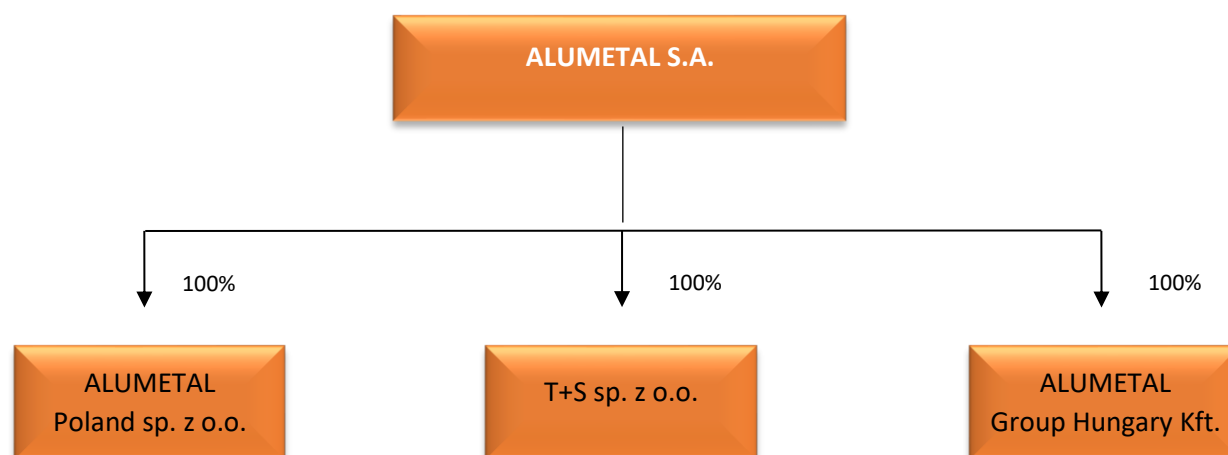
ALUMETAL Group Hungary Kft.

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

Corporate information:

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

As at 31 December 2020, the organizational structure of the Alumetal Group was as follows:



			% share held by ALUMETAL S.A. in the issued capital	
			31 Dec 2020	31 Dec 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%

ALUMETAL S.A. is the holding company rendering management services (including development and investment services, operational support and controlling services), commercial, financial, IT, HR and payroll services as well as accounting services to other entities of the ALUMETAL S.A. Capital Group (hereinafter referred to as the “Alumetal Group” or the “Group”).

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

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

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

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

As at 31 December 2020, the following entities were consolidated:

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

2. Changes in the organisational structure of ALUMETAL S.A.

In 2020 and as at the date of the publication of this Directors' Report, the organisational structure of the Company did not significantly change.

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

The Issuer is related by type of organisation and by capital to the subsidiary companies of the Alumetal Group in the manner specified above, while maintaining the policy of the performance of duties of Group companies' board members by the persons making up the Management Board of ALUMETAL S.A. The exception to this rule is ALUMETAL Group Hungary Kft., as described below in point II.1.

The Issuer is also related by capital with the entity controlled by Mr Grzegorz Stulgis, Chairman of the Supervisory Board, IPO UNIPESSOAL LDA, which as at 31 December 2020 held a total of 5 108 221 shares of ALUMETAL S.A. which translated into a 32.99% share in the issued capital of the Company.

II. Statement of Corporate Governance

1. Principles of management of the Issuer and its Capital Group

ALUMETAL S.A. has conducted business in accordance with Polish laws and the Company's Statutes. For many years, the Alumetal Group has been managed from the level of the parent company, ALUMETAL S.A., which has remained solely a holding entity.

The expression of the above principle of management is the observing by the ALUMETAL S.A. Capital Group of the policy of the performance of duties of Group companies' board members by the persons making up the Management Board of ALUMETAL S.A., as well as possible appointment to the boards of subsidiary companies of additional persons, as required by business tasks of those subsidiary companies. As part of the compliance with this policy, until 4 January 2021 the mandate of

a Management Board Member of ALUMETAL Poland sp. z o.o. and T+S sp. z o.o. was held by Mr Tomasz Kliś, and from the same day it has been held by Mr Rafał Karolczyk.

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

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

The principles of functioning and information about Issuer authorities are presented below in point II.3.

In the period from 31 December 2019 to 31 December 2020, and as at the date of the preparation of this Directors' Report the principles of management of the Issuer and the Alumetal Group did not change.

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

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

3. Authorities of ALUMETAL S.A.

A. Annual General Meeting

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

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

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

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

- 1) creation and elimination of all types of capital and funds, including special purpose capital and funds;

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

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

On 28 August 2020, the Ordinary Annual General Meeting passed resolutions regarding the following:

- appointment of the Chairman of the Ordinary Annual General Meeting;
- adoption of meeting agenda;
- approval of Directors' Report on activities of ALUMETAL S.A. for 2019;
- authorization of the Financial statements of ALUMETAL S.A. for the year ended 31 December 2019;
- approval of Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year ended 31 December 2019;
- authorization of Consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2019;
- approval of the Supervisory Board's Report on the assessment of the activity and financial reports for the financial year 2019;
- approval of the Report on activities of Supervisory Board in 2019;
- approval of the Assessment of Alumetal Group's situation prepared by the Supervisory Board as well as of other assessments and information relating to certain defined aspects of the functioning of the Company set forth in the *Code of Best Practice for WSE Listed Companies 2016*;
- appropriation of profit for 2019,
- acknowledgment of fulfilment of duties by Members of the Company's Management Board in 2019;
- acknowledgment of fulfilment of duties by Members of the Company's Supervisory Board in 2019;
- changes in the composition of the Supervisory Board of the Company,
- adoption of the Remuneration Policy for Members of the Management Board and Members of the Supervisory Board of ALUMETAL S.A.,
- authorizations of the Management Board of ALUMETAL S.A. to re-acquire own shares of ALUMETAL S.A. for redemption purposes.

The Company has made public the full content of resolutions of the Ordinary Annual General Meeting in its current report No. 16/2020 of 28 August 2020.

On 12 November 2020, the Extraordinary Annual General Meeting of the Company was held, during which the resolutions referred to below matters were adopted:

- election of the Chairman of Ordinary Annual General Meeting,
- adopting the agenda,
- on the establishment of the Incentive Scheme IV, the conditional increase of the Company's issued capital and the issue of subscription warrants, with the entire exclusion of the pre-emptive rights of shareholders with regard to subscription warrants and shares issued as part of conditional capital increase, and amendments to the Statutes;
- adopting a uniform (consolidated) text of the Statutes.

The Company informed the market about the content of the adopted resolutions and the voting results at the Extraordinary Annual General Meeting in the current report No. 23/2020 of 12 November 2020.

B. Supervisory Board

During the reporting period, a change was recorded in the composition of the Supervisory Board of Alumetal S.A. On 31 July 2020, the Company received a written resignation from Mr Frans Bijlhouwer from the position of a Member and from membership in the Supervisory Board of the Company, effective as of the date of the next Annual General Meeting of the Company. On 28 August 2020, the Ordinary General Meeting of the Company appointed Mr Michael Rohde Pedersen to the Supervisory Board of Alumetal S.A. for a joint three-year term of office. To that effect, the Company published the current report No. 17/2020 on 28 August 2020.

As at 31 December 2020, the composition of the Supervisory Board was as follows:

- Mr Grzegorz Stulgis – Chairman of the Supervisory Board,
- Mr Michael Rohde Pedersen – Member of the Supervisory Board,
- Mr Szymon Adamczyk - Member of the Supervisory Board,
- Mr Paweł Małycka - Member of the Supervisory Board,
- Mr Michał Wnorowski - Member of the Supervisory Board.

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

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

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

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

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

The powers of the Supervisory Board include, in particular:

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

Pursuant to the regulations of the „2016 Code of Best Practice for WSE Listed Companies” implemented by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015 and the Code of Commercial Companies, the Supervisory Board of ALUMETAL S.A., at its meeting of 15 April 2020, passed resolutions in the following matters:

- assessment of the Directors' Report on activities of ALUMETAL S.A. for the year 2019 and of the financial statements of ALUMETAL S.A. for the year ended 31 December 2019, assessment of Management Board's proposal regarding 2019 profit appropriation, and assessment of the Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2019 and of

the consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2019;

- acceptance of the report of ALUMETAL S.A.'s Supervisory Board on the assessment of Directors' Report on activities of ALUMETAL S.A. for the year 2019 and of the financial statements of ALUMETAL S.A. for the year ended 31 December 2019, on the assessment of Management Board's proposal regarding 2019 profit appropriation, as well as on the assessment of Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2019 and of the consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2019;
- assessment of the need to separate the internal audit function;
- acceptance of the Report of ALUMETAL S.A.'s Management Board on the assessment of internal control and risk management systems;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. an assessment of the position of the ALUMETAL S.A. Capital Group in 2019;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of the Report on activities of Supervisory Board in 2019;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of the assessment of the manner in which the Company complies with disclosure obligations regarding the application of corporate governance rules;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of information on non-pursuing sponsoring, charity or other similar activities.

C. Audit Committee

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

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

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

The tasks of the Audit Committee comprise, in particular:

1. Monitoring of the following:
 - a. financial reporting process at the Company;
 - b. efficiency of the internal control and risk management systems, and of the internal audit and the compliance system, if operated at the Company;

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

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

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

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

Mr Paweł Małycka remains an independent person of the Audit Committee owing to the title of doctor of economics obtained in the Collegium of Management and Finance of the Warsaw School of Economics and his considerable professional experience in the field of financial analysis and investment portfolio management, due to the experience gained during the performance of the function of a Supervisory Board member and Audit Committee member in many companies listed on the Warsaw Stock Exchange, as well as due to his knowledge and skills in the area of accounting and audit.

Mr Michał Wnorowski remains an independent person of the Audit Committee owing to his education i.e. completed university studies at the Warsaw School of Economics and the Cracow University of Economics, and owing to his professional experience in investment project management, market and financial analysis, business potential analysis, enterprise appraisal, investment portfolio management, due to the experience gained during the performance of the function of a Supervisory Board member and Audit Committee member in many companies listed on the Warsaw Stock Exchange, as well as due his knowledge and skills in the area of accounting and audit.

Mr Grzegorz Stulgis, due to his education i.e. completed university studies at the Poznań University of Economics and Business and held license of the investment adviser, professional experience in the field of financial analysis, investment portfolio management, business analysis and appraisal, participating capital interest and fulfilling the role in the Company's Supervisory Board for 18 years and membership of the Chamber Council of the Economic Chamber of Non-Ferrous Metals and Recycling (*Izba Gospodarcza Metali Nieżelaznych i Recyklingu - IGMNiR*), has the required knowledge and skills relating to the Company's industry accounting and audits.

During the reporting period, no allowed non-audit services were provided to the Company by its auditor, except for the interim review of condensed separate and consolidated financial statements of ALUMETAL S.A. for the 6-month period ended 30 June 2020.

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

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

- Independence of an audit firm and certified auditor;
- Audit firm and certified auditor rotation rules in such a way that the maximum period of continuous statutory audit engagements conducted by the same audit firm or an audit firm related to that audit firm or any member of this audit firm network operating in EU member states does not exceed 5 years, and the key certified auditor does not conduct statutory audits for the period longer than 5 years (in that case, the key certified auditor may again engage in the audit of Company's statutory financial statements after 3 years of the completion of his last statutory audit);
- Factual findings and conclusions included in the annual report of the Audit Supervision Committee (*Komisja Nadzoru Audytowego*) which may affect audit firm selection;

- Fee of the audit firm or its subcontractors which should reflect the work input and work complexity and the required qualifications, and which shall not:
 - depend on any conditions, and by no means on audit results;
 - be warranted by or depend on providing to the Company or its related entities any additional non-audit services by the audit firm, entity related to the audit firm or any entity belonging to the network of the audit firm.

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

- Prohibition to render, directly or indirectly, by the certified auditor or an audit firm conducting statutory audit of the financial statements of the Company or of the Capital Group, entity related to that audit firm or belonging to the network of that audit firm, of forbidden non-audit services to the Company, its holding companies, or to the entities controlled in the EU territory in the following periods:
 - over the period from the commencement of audited period to issuance of auditor's report; and
 - in the financial year directly preceding the period referred to above in relation to legal services including:
 - i. providing general legal advisory,
 - ii. negotiating on behalf of audited company,
 - iii. acting in an advocacy role in the resolution of litigation;
- The prohibited non-audit services referred to above are the following:
 - a) Tax services relating to:
 - preparation of tax forms/ returns,
 - income tax,
 - customs duty liabilities,
 - identification of public aid (government grants) and tax incentives, unless the support of a certified auditor or an audit firm for such services is required by law,
 - support in the field of tax inspections carried out by taxation authorities, unless the support of a certified auditor or an audit firm for such inspections is required by law,
 - calculation of direct and indirect tax, and deferred income tax,
 - provision of tax advisory;
 - b) Services covering any participation in management or a decision-making process of audited entity, including, in particular, services of working capital management, providing financial information, operating process optimization, cash management, determining transfer prices, enhancement of supply chain efficiency etc.
 - c) Keeping books of account and preparation of accounting records and financial statements;
 - d) Payroll-related services;
 - e) Development and implementation of internal control procedures or the procedures of risk management relating to financial information preparing and control, or development and implementation of technological systems for financial information handling;
 - f) Valuation services, including those performed in connection with actuarial or support services in legal dispute settlement;

- g) Legal services comprising: providing general legal advisory, negotiations on behalf of audited company, acting in an advocacy role in the resolution of litigation;
- h) Services related to the internal audit function of audited entity;
- i) Services related to financing, capital structure and capital allocation and investment strategy of a client, for whom audit services are rendered, except for such attest services relating to financial statements as issuance of comfort letters for share issue prospectuses of audited company;
- j) Conducting promotional activities and trading in shares of audited company on own account or underwriting share issuance for audited entity;
- k) Human Capital related services with regard to:
 - Executives that may exercise significant influence on preparing accounting documentation or financial statements subject to statutory audit, if such services comprise:
 - Recruitment or selection of candidates for such posts,
 - Checking the credentials/ references of candidates for such positions,
 - Development of organizational structure; and
 - Cost control.
- l) Other non-audit services.

In 2020, 7 (seven) meetings of the Audit Committee were held, i.e. on 21 January 2020, 18 March 2020, 23 March 2020, 7 May 2020, 11 August 2020, 2 October 2020 and 14 December 2020.

The Audit Committee also carried out its procedures in the out of office mode i.e. using electronic mail on 3 February 2020, 12 February 2020, 21 March 2020, 23 June 2020 and 29 December 2020.

D. Management Board

During the reporting period, no change was recorded in the composition of the Management Board of ALUMETAL S.A. which was as follows:

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

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

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

The powers of the Management Board comprise, in particular:

- a) timely convening of Annual General Meetings;

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

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

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

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

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

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

4. Shareholding structure

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

On 10 June 2020, the Company received a notification from Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A. (PTE Aviva), acting on behalf of Aviva Open Pension Fund Aviva Santander (OFE Aviva), that in connection with the sale of the Company's shares on 3 June 2020, then settled on 5 June 2020, the existing share of OFE Aviva in the total the number of votes in the Company decreased below 10% and amounted to 9.83% of the total number of votes. As a result of the above transaction, OFE Aviva controlled 1 521 413 shares of the Company, giving it the right to 1 521 413 votes at the Annual General Meeting of the Company and corresponding to 9.83% of the total number of votes at the Annual General Meeting of ALUMETAL S.A. The notification of the above event was published in the current report No. 9/2020 on 10 June 2020.

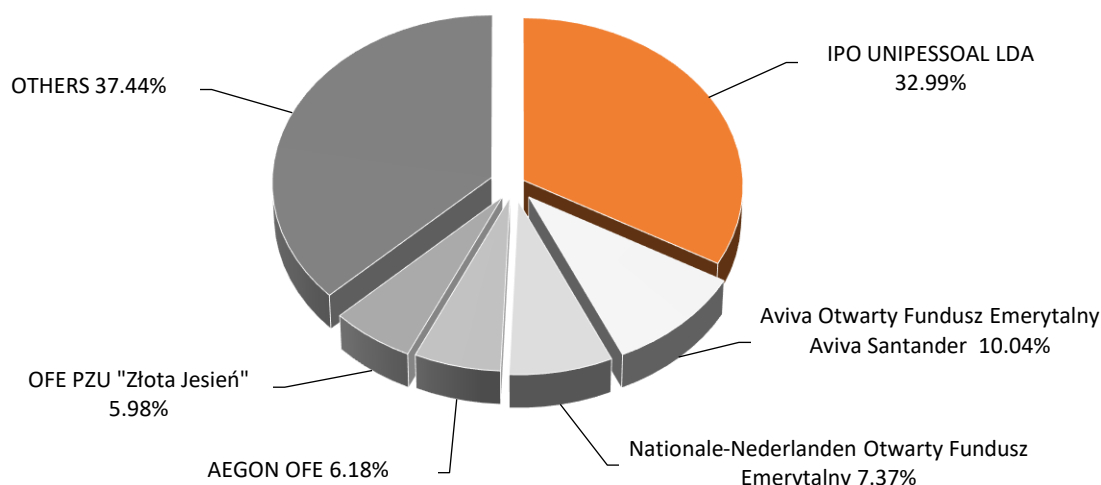
Then, on 6 November 2020, the Company received another notification from Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A. (PTE Aviva), acting on behalf of Aviva Open Pension Fund Aviva Santander (OFE Aviva), that in connection with the transactions of purchase of the Company's shares carried out on 29 October 2020, then settled on 2 November 2020, the existing share of OFE Aviva in the total number of votes in the Company has increased to above 10% and amounted to 10.04% of the total number of votes. As a result of the above transaction, OFE Aviva holds 1 554 860 shares of the Company, giving it the right to 1 554 860 votes at the Annual General Meeting of the Company and corresponding to 10.04% of the total number of votes at the Annual General Meeting of ALUMETAL S.A. The notification of the above event was published in the current report No. 22/2020 on 6 November 2020.

As at 31 December 2020, the Company had below information (in accordance with the notifications based on the Act of 29 July 2005 on public offering, terms and conditions of introducing financial instruments into organised system of trading and on public companies) ("Act on public offering") on the shareholders holding, directly or indirectly through subsidiary companies, at least 5% of the total number of votes at the Annual General Meeting of ALUMETAL S.A.

Shareholders holding, directly or indirectly through subsidiary companies, at least 5% of the total number of votes at the Annual General Meeting of ALUMETAL S.A. as at 31 December 2020				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
IPO UNIPESSOAL LDA*	5 108 221	32.99	5 108 221	32.99
Aviva Otwarty Fundusz Emerytalny Aviva Santander	1 554 860	10.04	1 554 860	10.04
Nationale-Nederlanden Otwarty Fundusz Emerytalny	1 140 650	7.37	1 140 650	7.37
AEGON Otwarty Fundusz Emerytalny	956 216	6.18	956 216	6.18
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	925 305	5.98	925 305	5.98
Others	5 794 241	37.44	5 794 241	37.44
Total	15 479 493	100.00	15 479 493	100.00

*entity controlled by Mr Grzegorz Stulgis

Shareholding structure as at 31 December 2020



According to the contents of the notifications forwarded to the Company, as at 22 March 2021 the shareholding structure of ALUMETAL S.A. covered by the obligation to report significant blocks of shares did not change.

B. Share issue and re-acquisition of own shares

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

On 28 August 2020, the Ordinary Annual General Meeting adopted Resolution No. 22 on authorizing the Management Board of ALUMETAL S.A. to re-acquire own shares of ALUMETAL S.A. for their redemption, which assumes re-acquisition of ALUMETAL S.A.'s shares under the following conditions defined in point 2 of this Resolution:

- a) The Management Board is authorized to re-acquire, on behalf of and for the benefit of the Company, own shares in the total number of not more than 2 321 923 shares (in words: two million three hundred twenty one thousand nine hundred twenty three), i.e. 15% (in words: fifteen percent) of the issued capital held by the Company on the day the Annual General Meeting adopts a resolution authorizing the Management Board to re-acquire Company's own shares for redemption; subject to re-acquisition may be fully paid-up Shares,
- b) the remuneration (purchase price) for the Shares will not be lower than PLN 25.00 (in words: twenty five zloty) per Share and not higher than PLN 45.00 (in words: forty five zloty) per Share,
- c) the total minimum amount of remuneration for the re-acquired Shares will not be lower than PLN 25.00 (in words: twenty-five zloty), and the total maximum amount of remuneration for the re-acquired Shares shall not exceed PLN 104 486 535.00 (in words: one hundred and four million four hundred and eighty-six thousand five hundred thirty five zloty),
- d) the funds allocated to the payment of remuneration for the re-acquired Shares will come exclusively from the Company's own funds and will come exclusively from the amounts which, pursuant to art. 348 § 1 of the Code of Commercial Companies may be allocated for distribution,
- e) the Shares may be re-acquired outside the regulated market - as part of one or more invitations to submit offers for the sale of shares to the Company for their redemption, whereby invitations will be addressed to all shareholders of the Company holding bearer shares, with the proviso that:
 - i. the re-acquisition of the Shares may take place at the price determined by the Management Board, taking into account the limits specified in para. 2 letter b), and the price will be the same for all Shares purchased under a given invitation to tender for the sale of shares,
 - ii. The Management Board shall determine the number of shares purchased under a given invitation to submit offers for the sale of shares, taking into account the limits specified in para. 2 letter a),
 - iii. In the event that the received offers to sell shares exceed the number of shares covered by the invitation to submit offers, the Management Board or the investment firm on behalf of the Company will make an adjustment to the number of shares that the Company will re-acquire under said invitation from each of the shareholders submitting shares sale offer, using the mechanism of proportional reduction,
- f) the authorization of the Management Board to re-acquire the Shares covers the period from 1 October 2020 to 30 September 2024, but no longer than until the funds allocated for their re-acquisition are exhausted,
- g) the date of the commencement and completion of Shares re-acquisition will be made public by the Company's Management Board, pursuant to art. 56 of the Act of 29 July 2005 on public offering, terms and conditions of introducing financial instruments into organised system of

trading and on public companies ("Act on public offering"), and the date for the re-acquisition of the Shares will be given prior to the commencement of re-acquisition,

h) the Shares may be re-acquired under a public call for the Company's shares.

The Company informed the market about the above by publishing the current report No. 16/2020 of 28 August 2020.

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

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

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

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

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

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

Shares in ALUMETAL S.A. held by members of Issuer's Management and Supervisory Boards as at 31 December 2020					
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM	Nominal value of shares in PLN
Grzegorz Stulgis, indirectly through IPO UNIPESOAL LDA	5 108 221	32.99	5 108 221	32.99	510 822.10
Krzysztof Błasiak	407 033	2.63	407 033	2.63	40 703.30
Szymon Adamczyk	279 233	1.80	279 233	1.80	27 923.30
Przemysław Grzybek	167 386	1.08	167 386	1.08	16 738.60
Agnieszka Drzyżdzyk	8 473	0.05	8 473	0.05	847.30
Michael Rohde Pedersen	0	0	0	0	0
Michał Wnorowski	0	0	0	0	0
Paweł Małyska	0	0	0	0	0

On 19 February 2021, Ms Agnieszka Drzyżdzyk, Mr Krzysztof Błasiak, Mr Przemysław Grzybek and Mr Szymon Adamczyk took up G-series shares under the Incentive Scheme III, issued in exchange for registered, non-transferable D-series subscription warrants. As a result, on 22 February 2021 the Company received notifications pursuant to art. 19 paragraph 3 of MAR from the above-mentioned persons which concerned, as appropriate:

- taking up 7 955 series G shares by Ms Agnieszka Drzyżdzyk;

- taking up 15 178 series G shares by Mr Krzysztof Błasiak;
- taking up 12 599 series G shares by Mr Przemysław Grzybek;
- taking up 15 866 series G shares by Mr Szymon Adamczyk.

As at the date of the preparation of this Directors' Report, series G shares have not been introduced to organized trading on the Warsaw Stock Exchange.

6. Emoluments of the members of Management and Supervisory Boards

Remuneration of Supervisory Board Members		Year ended 31 December 2020 (in PLN thousand)
Grzegorz Stulgis*	Chairman of the Supervisory Board	-----
Frans Bijlhouwer**	Member of the Supervisory Board	27
Michael Pedersen***	Member of the Supervisory Board	9
Michał Wnorowski	Member of the Supervisory Board	60
Paweł Matyska	Member of the Supervisory Board	72
Szymon Adamczyk	Member of the Supervisory Board	36
Total remuneration paid		204

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

** Mr Frans Bijlhouwer served as a member of the Supervisory Board of the Company until 28 August 2020

*** Mr Michael Pedersen has been a member of the Supervisory Board of the Company since 28 August 2020

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

Based on the agreement signed in 2018 for the purchase of advisory services from the company operating under the name of Szymon Adamczyk Doradztwo, the Company received in 2020 invoices for the total amount of PLN 552 thousand.

Remuneration of Issuer's Management Board Members in the parent and subsidiary companies		Year ended 31 December 2020 (in PLN thousand)
Agnieszka Drzyżdzyk	President of the Management Board, CEO	850
Krzysztof Błasiak	Vice-President of the Management Board, Waste and Metal Management Director	1 386
Przemysław Grzybek	Member of the Management Board, Financial Director	684
Short-term employee benefits (payroll and surcharges), total		2 920

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

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

In 2020, the Alumetal Group did not operate retirement benefits or similar programs dedicated solely to the members of its management or supervisory boards, except for the Employee Capital Plans (*PPK-Pracownicze Plany Kapitałowe*), in which all employees of Polish companies of the Alumetal Group can participate.

7. Incentive Programs

A. Incentive Program III for the years 2018-2020

On 7 November 2017, the Extraordinary Annual General Meeting of the Company passed a resolution on a conditional increase in the issued capital of the Company and on subscription warrants issuance, excluding the entire pre-emptive right of shareholders with regard to subscription warrants and shares issued under conditional capital increase and amendments to the Statutes,

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

- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) ordinary bearer shares, series G, with a nominal value of PLN 0.10 (in words: ten groszy) each („G-series Shares”);
- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) ordinary bearer shares, series H, with a nominal value of PLN 0.10 (in words: ten groszy) each („H-series Shares”);

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

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

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

On 3 November 2018, the Extraordinary Annual General Meeting of the Company resolved to modify the policy on determining share issue price for the Incentive Program III. The unit issue price of the Incentive Shares 3 will be PLN 48.60, which will be reduced by the sum total of benefits per share paid by the Company to its shareholders, being, in particular, shareholder dividend, paid or declared in the following manner:

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

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

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

In 2018, the Company fulfilled the conditions related to achieving the appropriate level of consolidated EBITDA and achieving the appropriate level of normalized consolidated net profit. However, the condition of achieving an appropriate return on the Company's shares in relation to the dynamics of changes in the WIG index was not met, which means that the Company has issued only 103 196 series D subscription warrants. All these warrants were taken up by the Eligible Persons in Q4 2019. The right

to take up series G Incentive Shares resulting from the holding of series D subscription warrants was exercised on 19 February 2021 by taking-up 97 180 G-series shares. The remaining 6 016 G-series shares may be taken up by the Eligible Persons on the next date set for their subscription, which will be announced in accordance with the rules of the Incentive Scheme III by the Management Board of the Company no later than by 31 December 2022.

In 2019, both non-market and market conditions were not met, so *none* of the 154 794 E-series subscription warrants that could entitle their holders to subscribe for up to 154 794 H-series shares of the Company will be granted to the Eligible Persons.

In view of the likely failure to meet the non-market conditions in 2020 for the F-series subscription warrants, already in mid-2020 the value of the Incentive Program III was revalued by derecognition of the cost associated with these warrants. As stated in December 2020, the market condition for the F-series subscription warrants was met and, as a result, finally 51 598 subscription warrants of this series, which may entitle their holders to subscribe for 51 598 H-series shares of the Company, will be granted to the Eligible Persons.

The Company has valued the Incentive Program III and calculated it in accordance with the principles specified in IFRS 2 *Share-based Payment*.

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

Value of capital and cost of incentive programs	Year ended 31 December 2020 (in PLN thousand)	Year ended 31 December 2019 (in PLN thousand)
Capital under Incentive Program III	1 475	1 562
Cost of Incentive Program III	- 87	645

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

B. Incentive Program IV for the years 2021-2023

On 12 November 2020, the Extraordinary Annual General Meeting of the Company took place, which adopted a resolution on the establishment of the Incentive Program IV, a conditional increase in the Company's issued capital and the issue of subscription warrants, excluding the entire pre-emptive right of shareholders with regard to subscription warrants and shares issued under conditional capital and amendments to the Statutes.

The conditionally increased issued capital of the Company adopted by resolution No. 3 of the Extraordinary Annual General Meeting of ALUMETAL S.A. shall not exceed the amount of PLN 46 438.20 (in words: forty six thousand four hundred thirty eight zloty and twenty groszy) through the issue of no more than:

- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) series J ordinary bearer shares with a nominal value of PLN 0.10 (in words: ten groszy) each ("J-series Shares");

- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) series K ordinary bearer shares with a nominal value of PLN 0.10 (in words: ten groszy) each ("K-series shares");
- 154 794 (in words: one hundred fifty four thousand seven hundred ninety four) series L ordinary bearer shares with a nominal value of PLN 0.10 (in words: ten groszy) each ("L-series shares"), and together with J-series shares and K-series shares jointly referred to as "Incentive Shares 4").

In accordance with the above-mentioned resolution of the Extraordinary Annual General Meeting of the Company, the issue price of the Incentive Shares 4 will be PLN 36.40 (in words: thirty six zloty fourty groszy), which will be reduced by the sum total of benefits paid by the Company per one share of the Company for its shareholders, in particular by dividends paid by the Company in the following way:

- for each J-series share, the Issue Price will be reduced by the gross dividend paid (per one share of the Company) for the financial year 2020, 2021 and by the paid or approved dividend for the financial year 2022;
- for each K-series share, its Issue Price will be reduced by the gross dividend paid (per one Company share) for the financial year 2020, 2021 and 2022 and by the paid or approved dividend for the financial year 2023;
- for each L-series share, its Issue Price will be reduced by the gross dividend paid (per one Company share) for the financial year 2020, 2021, 2022, 2023 and by paid or approved dividend for the financial year 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 year or from other equity components of the Company which are at its disposal for dividend payment purposes.

The foregoing rules were also accounted for in the Incentive Program IV Policy adopted by the Supervisory Board on 19 January 2021.

The Company has valued the Incentive Program IV and calculated it in accordance with the principles specified in IFRS 2 *Share-based Payment*. The valuation of the Incentive Program IV showed its cost at the level of PLN 8 895 thousand, which will be recognized in the Group's costs in the period Q1 2021 - Q3 2025, and the share of this cost attributable to 2021 will be PLN 2 607 thousand.

8. Diversity policy

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

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

9. Rules of best practice and corporate governance

A. Best practice and corporate governance

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

According to the Information published on the Company's website on 15 February 2021 on the status of application of the recommendations and principles contained in the Code of Best Practice for WSE Listed Companies 2016, the following Rule (Recommendations) for Best Practice 2016 for WSE Listed Companies *was not* complied with by the Company:

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

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

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

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

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

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

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

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

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

In 2020, the Management Board decided to support the intervention fund of the Great Orchestra of Christmas Charity (*WOŚP - Wielka Orkiestra Świątecznej Pomocy*) with the amount of PLN 250 thousand for the purpose of combating the coronavirus pandemic.

C. Internal control system and risk management

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

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

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

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

- operating a Group-wide, authorised and uniform (consistent) accounting policy;
- clear segregation of duties and well-defined work organization and supervision in the financial reporting process, as defined by procedures, instructions and regulations, and included in the following documents:
 - Warehouse instructions,
 - Instructions on hard close and financial statements close process (FSCP),
 - Instructions on registration of data in the integrated IT management system,
 - Physical count instructions,
 - Organizational rules,
 - Procedure for describing and confirming purchase invoices in the Capital Group,
 - Procedure for accepting, registering, scanning and archiving purchase invoices,
 - Regulations on circularization of confidential information,
 - Procedures for preparation of periodic reports,
 - Internal ESPI regulations;
- application of integrated IT management system which considerably limits the risk of data inconsistency and irregularity (minimization of technical-type risk);
- results and control reports analysis by Group's internal specialists at individual stages of reports preparation and arriving at financial results (minimization of substantial-type risk);

- financial results and financial ratios analysis at each level of business by appropriate control units, at the level of a subsidiary and the parent;
- regular cooperation with financial-accounting, tax and legal advisors to ensure correct (consistent with binding accounting policies and legal regulations) recognition and disclosure of individual business operations and business events in periodic reports and annual accounts,
- audit of financial statements by an audit firm.

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

D. Implementation of the compliance system at ALUMETAL Group

The compliance system operating in the ALUMETAL Group from 2 January 2020 covers all companies of the Group. The rules for the functioning of the compliance system were based on the guidelines and recommendations of the Polish Financial Supervision Authority, the Warsaw Stock Exchange, as well as chambers and associations, i.e. the entities specializing in the field of regulatory compliance.

III. Representations concerning non-financial reporting

Due to the fact that the Company does not meet the conditions defined in article 49b para. 1 of the Act of 29 September 1994 on accounting (the „Accounting Act”), the „*Representations concerning non-financial reporting by the ALUMETAL S.A. Capital Group*” are provided in the Directors' Report on the activities of the ALUMETAL S.A. Capital Group for the year 2020.

Pursuant to the provisions of article 49b para. 11 of said Act, „an entity being a subsidiary company, including lower level subsidiary company, may be exempted from preparing representations on non-financial information or report on non-financial information, if its higher level/ultimate parent company having registered office or place of management in the territory of the European Economic Area (EEA) prepares the representations of the capital group or the report of the capital group on non-financial reporting in accordance with the laws of an EEA's member state it is subject to, which covers this particular entity and its subsidiary companies of all levels. If this is the case, the entity discloses in its directors' report on activities the name and the registered office of its higher level/ ultimate parent company preparing such representations or report of the capital group on non-financial reporting covering this particular entity and all-level subsidiary companies of this capital group”.

IV. Information about business activities of ALUMETAL S.A.

The scope of business activities of the Company has been defined in § 4 of the Company's Statutes and comprises, in particular, the head office and holding-related activities, except for financial holdings (PKD 70.10.Z).

ALUMETAL S.A. is a holding company which renders to the companies of the Alumetal Group the following services:

- management (including development and investment services, operational support and controlling services),
- trading services,
- financial services,
- accounting services,
- people advisory services (HR & Payroll),
- IT services.

The exception to the above is the ALUMETAL Group Hungary Kft., which in the area of tax and payroll has been serviced in 2020 by companies from its mother country.

The above services have been rendered based on contracts for services between ALUMETAL S.A. and ALUMETAL Poland sp. z o.o., T+S sp. z o.o. and Alumetal Group Hungary Kft. Providing the above services supports at the same time the possibility of generating financial means by the subsidiary companies and regular payment of dividends for ALUMETAL S.A., which are the main source of income of the Company.

V. Assessment of situation of ALUMETAL S.A.

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

The financial statements for 2020 as well as the comparative data for the prior financial year have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and the related interpretations issued in the form of regulations of the European Commission.

The entity authorised to audit the financial statements of the Company is PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyty sp.k., with its registered office at ul. Polna 11 in Warsaw, based on the audit contract dated 8 June 2020.

On 13 December 2019, the Supervisory Board of the Company appointed PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyty sp.k. with its registered office at ul. Polna 11 in Warsaw to audit the financial statements of the Company and the Group for the years 2020 and 2021.

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	in PLN thousand	
	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 Audyty sp.k.

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

2. Sources of revenues of ALUMETAL S.A.

A. Revenue from holding activities of ALUMETAL S.A.

During the reporting period, the source of revenues of ALUMETAL S.A. as holding company were dividends from subsidiary companies and the following services rendered solely to the subsidiary companies: management (including development and investment services, operational support and controlling services), and trading services, HR and payroll (people management/ advisory), financial, accounting and IT services.

The Company does not conduct manufacture or production activities, which are realised only by the subsidiary companies.

Presented in the table below are revenues of ALUMETAL S.A.:

Structure of revenues of ALUMETAL S.A.	in PLN thousand	
	Year ended 31 December	Year ended 31 December
Revenue from dividends	33 000	64 769
Revenue from contracts with customers	9 566	10 505
Total revenues from conducted activities	42 566	75 274

A significant source of revenues of ALUMETAL S.A. are dividends from subsidiary companies:

Dividends received, of which from:	in PLN thousand	
	Year ended 31 December	Year ended 31 December
Alumetal Poland sp. z o.o.	33 000	63 500
T+S sp. z o.o.	–	1 269
Total	33 000	64 769

The level of dividend paid by subsidiary companies depends on the need for finance of ALUMETAL S.A. and on the financial results achieved by those companies.

The Management Board of ALUMETAL S.A. on 16 March 2020, after considering the growing epidemiological threat of the COVID-19 disease, which had a negative impact on the economic situation of the country and Europe, has decided to submit to the Supervisory Board and the Ordinary Annual General Assembly of Alumetal S.A. a decision of the Management Board on appropriation of net profit of Alumetal S.A with a recommendation *not* to pay dividends for 2019, but to set up other reserves of 70% of the normalized consolidated net profit of the Alumetal Group earned in 2019 for the payment of future dividends, including advance dividends. At the same time, the Management Board planned to recommend that these funds be retained in the Company in the event of

a continuation of unfavourable developments in the coming months, which in this case would mean a one-off departure from the dividend policy. The above solution was intended to safeguard the financial situation of the Group related to possible adverse effects of the further spread of the epidemiological threat. The Company informed the public about this Management Board's intention in the current report No. 3/2020 of 16 March 2020.

After that, on 23 March 2020, the Management Board of ALUMETAL S.A. decided to apply to the Supervisory Board and then to the Ordinary Annual General Meeting with a proposal for the allocation of the net profit of ALUMETAL S.A. for 2019 based on the principles described above.

Bearing the above in mind, the Management Board of the Company applied for the allocation of the Company's net profit for the financial year 2019 in the amount of PLN 63 720 898.73 (in words: sixty three million seven hundred twenty thousand eight hundred ninety eight zloty seventy three groszy) as follows:

- a) the amount of PLN 43 806 965.19 (in words: forty three million eight hundred six thousand nine hundred sixty five zloty nineteen groszy) – to set up other reserves for the payment of dividends, including advance dividends, in the future,
- b) the amount of PLN 38 500.00 (in words: thirty eight thousand five hundred zloty zero groszy) - to transfer to the Company's Social Fund,
- c) the amount of PLN 19 875 433.54 (in words: nineteen million eight hundred seventy five thousand four hundred thirty three zloty fifty four groszy) - to transfer to reserve capital.

The Company informed the public about the proposal of the Management Board of the Company regarding 2019 profit distribution in the current report No. 5/2020 of 23 March 2020.

The Supervisory Board has given a favourable opinion on the proposal of the Management Board concerning the 2019 net profit distribution and recommended to the Ordinary Annual General Meeting to take a decision on distribution of 2019 net profit appropriation consistent with the Management Board's proposal. The Issuer informed the public about the opinion of the Supervisory Board in the current report No. 7/2020 of 15 April 2020.

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, inter alia, the amount of PLN 43 807 thousand to other reserves for dividend payment, including an advance dividend, in the future, about which the Issuer informed the public in the current report No. 16/2020 of 28 August 2020.

B. Finance income

The source of finance income of ALUMETAL S.A. is the received interest, mainly on the long-term loan granted to the ALUMETAL Group Hungary Kft.

C. One-off revenue items

In 2020, there were no significant one-off revenue items, except for the co-financing of salary costs as a result of the anti-crisis shield 4.0 in connection with COVID-19 received in Q3 2020 in the amount of PLN 345 thousand, as described in more detail in section V.6.D of this Directors' Report.

3. Cost of business activities of ALUMETAL S.A.

The recorded revenue from the sale of services to related entities cover the cost of sale of services rendered by ALUMETAL S.A.

Nevertheless, ALUMETAL S.A. as a holding company incurs the costs of execution of own business tasks. The most significant cost items in this area are advisory, audit and legal services and the costs relating to the activities of the governing bodies of ALUMETAL S.A. and to its status of a public company, as well as the costs of incentive scheme valuation and remuneration with surcharges.

4. Results, ratios, balance sheet structure and financial position of ALUMETAL S.A.

The table below shows summarized 2020 results of Alumetal S.A. compared to the prior year:

ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME & STATEMENT OF CASH FLOWS	In PLN thousand		In EUR thousand	
	12 -month period of 2020	12 -month period of 2019	12 -month period of 2020	12 -month period of 2019
Revenue from holding activities	42 566	75 274	9 514	17 498
Operating profit	32 166	63 733	7 189	14 815
EBITDA	33 066	64 540	7 390	15 003
Profit before tax	32 615	63 750	7 290	14 819
Net profit	32 707	63 721	7 310	14 813
Net cash flow from operating activities	32 142	65 134	7 184	15 141
Net cash flow from investing activities	-20 658	7 751	-4 617	1 802
Net cash flow from financing activities	-9 112	-72 011	-2 037	-16 740
Total net cash flow	2 372	874	530	203
Basic net earnings per share attributable to equity holders of the parent (in PLN & EUR)	2.11	4.12	0.47	0.96
Diluted net earnings per share attributable to equity holders of the parent (in PLN & EUR)	2.11	4.12	0.47	0.96

ITEMS OF THE STATEMENT OF FINANCIAL POSITION	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Total assets	310 300	284 967	67 240	66 917
Non-current assets	288 873	274 282	62 597	64 408
Current assets	14 596	10 685	3 163	2 509
Shareholders' equity	291 002	258 382	63 058	60 675
Issued capital	1 548	1 548	335	363
Non-current liabilities	849	16 508	184	3 877
Current liabilities	18 449	10 077	3 998	2 366
Number of shares	15 479 493	15 479 493	15 479 493	15 479 493
Basic carrying amount per share (in PLN & EUR)	18.80	16.69	4.07	3.92
Diluted carrying amount per share (in PLN & EUR)	18.80	16.69	4.07	3.92
Planned or paid dividend per share (in PLN & EUR)	2.92*	0.00	0.63*	0.00

* dividend planned

The above financial data for 2020 and 2019 were translated into EUR in the following manner:

- components of assets and liabilities – at the average NBP exchange rate prevailing as at 31 December 2020 i.e. EUR/PLN 4.6148, and 31 December 2019 i.e. EUR/PLN 4.2585

- components of the statement of comprehensive income and the statement of cash flow – at the exchange rate being the mathematical average of the NBP exchange rates prevailing at the last days of the month: for 12 months of 2020 - EUR/PLN 4.4742 and for 12 months of 2019 - EUR/PLN 4.3018.

Net profit for the entire year 2020 amounted to PLN 32 707 thousand, while for 2019 – to PLN 63 721 thousand.

The table below shows the listing of the most significant financial ratios that facilitate comprehensive assessment of the profitability, liquidity and indebtedness of ALUMETAL S.A.

Financial ratio	Ratio description	2020	2019	2018	2017	2016	2015	2014
Return on assets (ROA) (%)	Net profit/Total assets	10.5%	22.4%	15.0%	13.3%	25.3%	24.7%	0.8%
Return on equity (ROE) (%)	Net profit/Shareholders' equity at the beginning of the period	12.7%	24.8%	17.1%	15.5%	35.9%	30.8%	0.8%
Liquidity I	Total current assets/Current liabilities	0.8	1.1	1.0	1.0	1.3	0.6	0.8
Capital immobility ratio (multiplicity)	Total non-current assets/Total current assets	19.8	25.7	25.4	24.6	59.4	45.0	60.6
Stability of financing (%)	(Shareholders' equity + Non-current liabilities)/Total equity and liabilities	94.1%	96.5%	96.1%	96.0%	98.7%	96.2%	98.1%
Debt ratio (%)	(Total equity and liabilities –Shareholders' equity)/Total assets	6.2%	9.3%	12.3%	14.7%	15.4%	5.4%	2.2%

The financial position of ALUMETAL S.A. is closely related to the financial position of the entire Group due to the fact that the financial policy and risk management are realized at the consolidated level.

The margins earned by the business managed by ALUMETAL S.A. are highly stable, the balance of interest liabilities is low, the working capital ratio is high, and the financial liquidity is good, and this causes that the perspective of ALUMETAL S.A. for timely discharging of their liabilities is safe.

5. Intra-Group transactions

In the reporting period, the Issuer did not make any significant transactions with related entities on the terms and conditions other than those prevailing in the arm's length transactions.

6. Significant and non-routine events, significant agreements and factors with impact on 2020 results

A. Joining the scheme of Employee Capital Plans (PPK)

ALUMETAL S.A. joined the Employee Capital Plans (ECP scheme) by signing an ECP management contract and an ECP scheme operating contract on 18 March 2020. The first contributions were paid in November 2020.

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

The results of ALUMETAL S.A. as well as the entire economy, including the automotive industry in Europe and in the world, were significantly adversely affected by the global development of the coronavirus pandemic and the COVID-19 disease. The scale and magnitude of impacts of this phenomenon was large, and the potential long-term effects were difficult to quantify. At the time of the publication of this Directors' Report, in the opinion of the Management Board, the pandemic had a major impact on the financial performance in 2020, in particular on the results of Q2 and Q3 of 2020. However, it does not currently have a very strong impact on the current operations of the Issuer, as the demand for the Group's products is very high. Nevertheless, it should be kept in mind that the current extremely dynamically changing situation, including possible changes in the legal and regulatory environment, means that despite the utmost diligence and taking preventive measures, the Management Board is not able to predict the further development of events and, consequently, the impact of the pandemic on the Company's consolidated financial results for 2021 and its development prospects.

The impact of COVID -19 is seen in the results of 2020 mainly in the form of a deep fall in the Company's and Group's revenues.

In responding to the situation, the Company and the ALUMETAL Group have taken numerous measures regarding:

- a) safety - implementation of anti-pandemic procedures and solutions (hygiene and protection measures, team rotation, limitation of external and internal contacts, remote work) in order to protect employees from infection and ensure continuity of processes,
- b) social – support for the intervention fund of the Great Orchestra of Christmas Charity (*WOŚP*) with the amount of PLN 250 thousand,
- c) operational (in terms of savings and work organization):
 - reduction of operating costs,
 - renegotiation of a large part of fixed contracts,
 - withdrawal of part of budgeted costs,
 - adjustment of employment levels,
- d) financial liquidity:

- 23 March 2020 - recommendation of the Management Board, 15 April 2020 - positive opinion of the Supervisory Board regarding 2019 profit appropriation and the decision of the Ordinary Annual General Meeting of ALUMETAL S.A. of 28 August 2020 to allocate 70% of normalized consolidated net profit to other reserves for the payment of dividends in the future or for permanent retention of these funds in the Company,
- implementation of additional solutions related to net current assets management,
- transfer of a small part of planned investment expenditure from 2020 to 2021,
- renewal of loan agreements for the following year with existing banks,
- application to the Voivodship Labour Office for financial compensation for (subsidizing) salaries of employees not covered by the stoppage/reduced working time (as discussed in more detail below in sections VI.4. G and H).

Currently, ALUMETAL S.A.'s and the Group's financial position is very good (strong balance sheet, relatively low net debt) and ALUMETAL S.A. does not foresee any liquidity problems, while rapid changes in the currency and interest rates markets do not pose any significant threat. ALUMETAL S.A. and its subsidiary companies renewed their loan agreements with the banks which have hitherto been financing the Group's activities.

Despite the fact that the Company has taken a number of measures to limit the effects of the pandemic on its operations, the possibility of influencing certain phenomena and risks in this area is very limited. Shutdowns in the automotive industry, fall in demand and sales of cars undoubtedly had a negative impact on the Group's results in 2020 and may also have similar unfavourable impact on its results in subsequent periods. Recent months saw, however, an improvement in the situation in the automotive industry and a significant increase in customers' interest in purchasing Alumetal Group products. The Management Board of ALUMETAL S.A. informed about the impact of the pandemic on sales volume and financial results in the published current reports: No. 4/2020 of 18 March 2020, No. 6/2020 of 9 April 2020 and No. 8/2020 of 15 May 2020.

The main objective of the Company in this pandemic period is to optimally guide the Group through the demanding period, strengthen its competitive advantages and market position in the longer term.

C. Suspension of dividend policy

The Management Board of ALUMETAL S.A. on 16 March 2020, after considering the growing epidemiological threat of the COVID-19 disease, which had a negative impact on the economic situation of the country and Europe, decided to submit to the Supervisory Board and the Ordinary Annual General Assembly of Alumetal S.A. a decision of the Management Board on appropriation of net profit of Alumetal S.A. with a recommendation *not* to pay dividends for 2019, but to set up other reserves of 70% of the normalized consolidated net profit of the Alumetal Group earned in 2019 for the payment of future dividends, including advance dividends. At the same time, the Management Board planned to recommend that these funds be retained in the Company in the event of a continuation of unfavourable developments in the coming months, which in this case would mean a one-off departure from the dividend policy. The above solution was intended to safeguard the financial situation of the Group related to possible adverse effects of the further spread of the

epidemiological threat. The Company informed the public about this Management Board's intention in the current report No. 3/2020 of 16 March 2020.

After that, on 23 March 2020, the Management Board of ALUMETAL S.A. decided to apply to the Supervisory Board and then to the Ordinary Annual General Meeting with a proposal for the allocation of the net profit of ALUMETAL S.A. for 2019 based on the principles described above.

Bearing the above in mind, the Management Board of the Company applied for the allocation of the Company's net profit for the financial year 2019 in the amount of PLN 63 720 898.73 (in words: sixty three million seven hundred twenty thousand eight hundred ninety eight zloty seventy three groszy) as follows:

- d) the amount of PLN 43 806 965.19 (in words: forty three million eight hundred six thousand nine hundred sixty five zloty nineteen groszy) – to set up other reserves for the payment of dividends, including advance dividends, in the future,
- e) the amount of PLN 38 500.00 (in words: thirty eight thousand five hundred zloty zero groszy) - to transfer to the Company's Social Fund,
- f) the amount of PLN 19 875 433.54 (in words: nineteen million eight hundred seventy five thousand four hundred thirty three zloty fifty four groszy) - to transfer to reserve capital.

The Company informed the public about the proposal of the Management Board of the Company regarding 2019 profit distribution in the current report No. 5/2020 of 23 March 2020.

The Supervisory Board has given a favourable opinion on the proposal of the Management Board concerning the 2019 net profit distribution and recommended to the Ordinary Annual General Meeting to take a decision on distribution of 2019 net profit appropriation consistent with the Management Board's proposal. The Issuer informed the public about the opinion of the Supervisory Board in the current report No. 7/2020 of 15 April 2020.

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, inter alia, the amount of PLN 43 807 thousand to other reserves for dividend payment, including an advance dividend, in the future, about which the Issuer informed the public in the current report No. 16/2020 of 28 August 2020.

D. Subsidizing salaries at ALUMETAL S.A. from the funds of the Guaranteed Employee Benefits Fund (Wage Guarantee Fund)

Due to the anti-crisis shield 4.0 becoming effective, on 7 July 2020 ALUMETAL S.A submitted an application to the Voivodship Labour Office for subsidizing salaries of employees not covered by stoppage/reduced working time (Article 15gg of the Act of 19 June 2020 on subsidizing interest on bank loans granted to businesses affected by COVID-19 and the simplified procedure for approval of an arrangement in connection with COVID-19 occurrence). On 4 August 2020, the application was accepted, and the amount of support granted was PLN 345 thousand.

E. Resignation of Supervisory Board Member

On 31 July 2020, the Company received a written resignation from Mr Frans Bijlhouwer from the position of Supervisory Board Member with effect on the date of the next Annual General Meeting of the Company. The reason for the resignation of Mr Frans Bijlhouwer was his retirement. To that effect, the Company published the current report No. 11/2020 of 31 July 2020.

F. Increase in the issued capital of subsidiary company

On 31 July 2020, the Supervisory Board of the Company approved an increase by ALUMETAL S.A. in the equity of the subsidiary company, Alumetal Group Hungary Kft. based in Komarom, Hungary, in the form of the so-called additional contributions (additional payments) to capital in the amount of HUF 1 850 million (equivalent of approximately PLN 23.5 million). The increase in equity was implemented gradually in tranches in August and September 2020. The purpose of the increase in equity of the Alumetal Group Hungary Kft. was to strengthen its balance sheet and to optimize the Alumetal Group's financing structure. As a result of this operation, finance costs of the Alumetal Group will be reduced and the impact of foreign exchange differences on its financial results will decrease. To that effect, the Company published the current report No. 12/2020 of 31 July 2020.

G. Appointment of Supervisory Board Member

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

H. Adoption of the Incentive Program IV and the conditional capital increase by the Extraordinary Annual General Meeting

On 12 November 2020, the Extraordinary Annual General Meeting of the Company was held, during which the following resolutions were adopted:

- on the establishment of the Incentive Scheme IV, the conditional increase in the Company's issued capital and the issue of subscription warrants, excluding the entire shareholders' pre-emptive rights with regard to subscription warrants and shares issued as part of conditional capital, and amendments to the Statutes,
- on a uniform text of the Statutes.

The Company informed the market about the contents of the adopted resolutions and the voting results at the Extraordinary Annual General Meeting in the current report No. 23/2020 of 12 November 2020.

I. Agreements between Shareholders

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

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

A. Registration of a conditional increase of issued capital and amendments to the Company's Statutes

On 8 January 2021, the Management Board was informed that on 14 December 2020, the District Court for Kraków-Śródmieście in Cracow, 12th Economic Department of the National Court Register, registered the following:

- an increase in the nominal value of conditional capital in connection with the adoption on 12 November 2020 of Resolution No. 3 of the Extraordinary Annual General Meeting of the Company on the establishment of the Incentive Program IV, conditional increase of the Company's issued capital and issue of subscription warrants, excluding the entire pre-emptive right of shareholders with regard to subscription warrants and shares issued under conditional capital increase, and amendments to the Statutes,
- changes in the Company's Statutes adopted by Resolution No. 3 of the Extraordinary Annual General Meeting, consisting in changing the contents of § 5a.

The new nominal value of the conditional issued capital is currently PLN 96 876.40 (in words: ninety-six thousand eight hundred seventy-six zloty and forty groszy).

The purpose of the conditional increase of the Company's issued capital is to grant the rights to subscribe for Incentive Shares IV to the holders of subscription warrants issued pursuant to Resolution No. 3 of the Extraordinary Annual General Meeting of 12 November 2020.

The court decided to attach to the Company's registration files the consolidated text of the Statutes which was adopted on 12 November 2020 by a resolution of the Extraordinary Annual General Meeting of the Company.

The above changes and resolutions adopted on 12 November 2020 at the meeting of the Extraordinary Annual General Meeting of ALUMETAL S.A. were communicated to the public on 12 November 2020 in the current report No. 23/2020 (Information on resolutions adopted by the Extraordinary Annual General Meeting of ALUMETAL S.A.).

The Company informed the market about registration of the conditional increase in the issued capital and the amendments to the Statutes by publishing the current report No. 1/2021 of 8 January 2021.

B. 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 Program 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, amended later by Resolution No. 5 of the Company's Extraordinary Annual General Meeting of 3 October 2018 ("Incentive Program III"), about which the Company informed in the 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) each, and 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 Eligible Persons' securities accounts, 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 III, the Company submitted applications to the Central Securities Depository of Poland and the Warsaw Stock Exchange for registration of the Incentive Shares and their introduction to trading on regulated market.

To that effect, the Company published current report No. 4/2021 on 19 February 2021.

On 16 March 2021, a Statement was issued by the Central Securities Depository of Poland No. 449/2021, whereby it was decided to register 97 180 (in words: ninety seven thousand one hundred eighty) G-series ordinary bearer shares of ALUMETAL S.A. with the Central Securities Depository of Poland with a nominal value of PLN 0.10 (in words: ten groszy) each (the "Incentive Shares"), issued as part of the conditional increase of the issued capital based on the Resolution No. 3 of the Extraordinary Annual General Meeting of the Company of 7 November 2017, then amended by Resolution No. 5 of the Extraordinary Annual General Meeting of the Company of 3 October 2018, and mark them with the code PLALMTL00023, subject to the company's operating the regulated market i.e. WSE taking a decision to introduce these shares to trading on the same regulated market, to which

other Company's shares marked with the code PLALMTL00023 were introduced. Registration of the Incentive Shares in the securities depository will take place within three days of the date of receipt by the Central Securities Depository of Poland of said WSE's decision, but not earlier than on the date indicated in the decision as the date of introducing these Shares to trading on this regulated market. The Company informed the market about the above by publishing the current report No. 7/2021 on 18 March 2021.

Until the date of the publication of this Directors' Report, the underlying Incentive Shares had not yet been introduced to public trading.

C. Granting a short-term loan to the subsidiary company

On 22 January 2021, ALUMETAL S.A. signed with the subsidiary company, ALUMETAL Poland sp. z o.o., a short-term loan agreement intended to finance current operations. In the light of the provisions of this agreement, the Company will lend Alumetal Poland sp. z o.o., in tranches no later than 30 June 2021, an amount of no more than PLN 15 million, which will be repaid in tranches or as a one-off payment no later than 31 December 2021. As at the date of this Directors' Report, the loan was granted in the full amount of PLN 15 million.

D. Information on the expected above-average consolidated results in Q1 2021

On 25 February 2021, the Company informed the public in its current report No. 6/2021 that after conducting internal analyses related to the estimation of current financial results of the ALUMETAL S.A. Capital Group it expects to achieve above-average consolidated financial results in Q1 2021:

- a) sales volumes of around 60 thousand tons, being an increase by about 30% compared to Q1 2020,
- b) sales revenues of approx. 60% higher on a YoY basis,
- c) more than doubled EBITDA earnings and the reported and normalized net profit approximately three times higher than in Q1 2020.

In the opinion of the Management Board, the following factors have positive impact on the consolidated financial results of the Alumetal Group in Q1 2021:

- increase in demand for Alumetal Group products and, consequently, an increase in the European market share,
- increase in production capacity utilization by the Alumetal Group to around 90% and commissioning in recent months of a new cost-effective production line at the Kęty plant,
- development on the European market in the last months of a favourable relationship between the sales prices of aluminium alloys and the purchase prices of aluminium scrap materials

At the same time, the Management Board stated that the above estimates were based on the best knowledge of the Company at the date of this Directors' Report. The final financial results will be reported in the interim report of the Company for Q1 2021, the publication of which is planned on 17 May 2021.

VI. Realised investment and development work

1. Information on major research and development achievements

The most significant development achievement of ALUMETAL S.A. in 2020 was operational improvement of the ALUMETAL Group Hungary Kft., the first foreign subsidiary company of the Group, which has systematically increased its scale of business and efficiency, which translated to professional development also of the ALUMETAL S.A.' employees who participate in management and oversight functions for this entity. A matter of significant importance is also commercial and operational development of the project called *Development of Master Alloy Plant in Gorzyce* (Rozbudowa Zakładu Stopów Wstępnych w Gorzycach) where investments were made in new technologies for the Group, development is carried out of the most technologically advanced types of alloys, and where new investment processes were effectively realized that related to the project of the *Modernization of the production plant in Kęty* (Modernizacja Zakładu w Kętach).

The new development challenge was also the investment of the subsidiary company, T + S sp. z o.o, in which employees of Alumetal S.A. also participated. The aim of the project, which is to be implemented in the years 2020-2022, is to develop a technology for processing post-production waste resulting from the production of aluminium casting alloys.

2. Strategy and development directions of ALUMETAL S.A.

It is expected that in the foreseeable future, ALUMETAL S.A. will continue to realize the tasks of a holding entity consisting in rendering management (including development and investment services, operational support and controlling services), commercial, financial, accounting, HR and payroll services as well as IT services to the subsidiary companies. The execution of these tasks will contribute to the realization of Group's development plans and to the achievement of its strategic objectives, which are primarily building company's value for the shareholders through, among others, increasing sales volumes of Group products and maximizing profitability, while retaining the Company's dividend capacity.

3. Financing the development of ALUMETAL S.A. and its subsidiary companies

Financing of ALUMETAL S.A. is closely related to the financial situation of the entire Alumetal Capital Group.

Owing to high operating cash flows, the Alumetal Group is able to finance its development from own financial resources, while retaining the capacity to realize the adopted dividend policy. Good and stable operational profitability of the Group, satisfactory financial liquidity and low debt cause that the financial standing of the Group is very good. The ratio of Net debt/EBITDA, as the most significant ratio from the point of view of loan and credit agreements amounted to 0.8 at the end of 2020. Given the fact that in the loan agreements this covenant is set at the level of 3.0, the achieved ratio clearly indicates that the Group has considerable potential to finance its further development and realize at the same time the provisions of the adopted dividend policy.

The used and planned sources for Group development financing are mainly partially retained net profits, investment loans and public aid available to Group companies, both in the case of the Hungarian project and in the case of investments in Polish production plants located in special

economic zones (SEZ) under the already held SEZ licenses. The source for working capital financing will continue to be current financial surplus, short-term loans and factoring agreements.

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

- an investment loan of 15 October 2015 between ALUMETAL S.A. and ING Bank Śląski S.A. taken out with a view to granting a loan to the subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of a production plant, in the amount of EUR 10 million with the maturity date set at 14 October 2022; at the end of 2017, repayment of this loan commenced in the form of 60 monthly instalments;
- contract of 21 October 2015 for cash subsidy between ALUMETAL Group Hungary Kft. and the Hungarian Ministry of Foreign Affairs and Trade;
- a long-term loan agreement of 26 October 2015 between ALUMETAL S.A. and the subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of the production plant in Hungary, in the amount of EUR 10 million with the maturity date set at 14 October 2022; at the end of 2017, repayment of this loan commenced in the form of 60 monthly instalments;
- in Q2 2020 and Q3 2020, the Alumetal Group extended its short-term loan agreements with ING Bank Śląski S.A., DBN Bank Polska S.A. and with Bank Handlowy w Warszawie S.A. for another year, while the ALUMETAL Group Hungary Kft. extended in Q3 2020 for another year its agreement with Citibank Europe plc Hungarian Branch Office for a short-term bank loan of EUR 1.85 million, which caused that the total short-term loan limit of the Alumetal Group slightly decreased to the equivalent of PLN 124 million (in the agreement with Bank Handlowy w Warszawie S.A., the credit limit was reduced from PLN 54 million to PLN 40 million in 2020).

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

VII. Human capital management

1. Recruitment policy

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

Internal recruitment consists in vertical or horizontal promotion of employees. Vertical promotions consist in promoting employees upwards in the posts hierarchy, by extending the scope of their responsibility and accountability and increasing teams of subordinated employees of a newly promoted person. Specialist (horizontal) promotions consist in extending employee tasks, developing employee qualifications, experience and specialist knowledge of the given discipline.

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

2. Structure of employment

As at 31 December 2020, Alumetal S.A. had 54 employees, which was 1 person less than as at 31 December 2019.

Company	31 December 2020	31 December 2019
White-collar employees	54	55

3. Communication

ALUMETAL S.A. places great emphasis on development of communication skills. It was ensured that the internal and external communication is clear, adequate and transparent, and emphasis was placed on the importance of such values as trust, openness, cooperation and loyalty.

To formalize the rules and customs binding in the Group in this area, *The Code of Ethics of the ALUMETAL Group (Kodeks Etyki Grupy ALUMETAL)* was introduced, under which all employees should be treated equally, irrespective of employee race, nationality, professed religion, gender, age, sexual orientation, biological fitness or political view.

4. Professional development and training

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

Employees of ALUMETAL S.A. participate in:

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

VIII. Quality, environmental protection and labour hygiene and safety

ALUMETAL S.A., as part of its services rendered to subsidiary companies, also shaped the policy in the area of environmental protection, labour quality, hygiene and safety.

The operated policy of high-quality products is the result of adopted development strategy and aspirations formulated in the strategic objectives of the Alumetal Group. Similarly, environmental protection and labour hygiene and safety are embedded in the Group's policy.

The result of the application of said policies is employees' and Management's involvement in the activities that ensure safer impact of business activities on natural environment and their taking initiatives that allow to continually improve labour hygiene and safety as part of a continuous improvement process.

IX. Loans and borrowings, and other financial agreements

1. Loans and borrowings taken out

				31 December 2020	31 December 2019
	Available limit***	Currency*	Maturity date	Limit utilised in PLN	Limit utilised in PLN
<i>Overdraft facility:</i>					
Aggregate limit facility for several group companies at ING Bank Śląski S.A. with an interest rate based on 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. 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 portion of the investment loan issued to Alumetal S.A. by ING Bank Śląski S.A. in the amount of EUR 10 million, with an interest rate based on 1M EURIBOR + margin, taken out to finance the construction of a production plant in Hungary**	10 000**	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 Group companies have the right to use the letters of credit and guarantees in favour of suppliers and other beneficiaries, which automatically reduces the balance of overdraft facilities available by same amounts; guarantees issued by banks within the available credit limits in favour of contractors and other non-financial institutions in the amount of PLN 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

2. Loans granted

In 2020, ALUMETAL S.A. reported one loan from ALUMETAL S.A. or its subsidiary company, being:

- a long-term loan granted on 26 October 2015 by ALUMETAL S.A. to its subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of a production plant in Hungary, in the amount of EUR 10 million and with the maturity date set at 14 October 2022. As at 31 December 2020, the value of disbursed loan funds was EUR 3 654 million.

3. Financial resource management and capacity to discharge liabilities

The Company independently manages its own financial resources and external sources of finance. At the date of the preparation of this Directors' Report, no facts or circumstances were identified that would indicate a threat to the continued activity of the Company. ALUMETAL S.A. benefits from the financial strength of the entire Alumetal Group (among others, from the dividend and credit policy) and availability of credit lines in the amount of the equivalent of several dozen million zloty. The Company discharges its liabilities on time and currently there is no threat to its ability to meet financial commitments or to continue as a going concern.

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

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

As at 31 December 2020, the Company was not a party to any significant litigation proceedings before the court of justice, court of arbitration or public administration body.

2. Sureties for loans and borrowings and guarantees issued

In 2020, ALUMETAL S.A. issued sureties for trade liabilities of ALUMETAL Group Hungary Kft. to the suppliers of the Hungarian company. The total value of these sureties as at 31 December 2020 was the equivalent of PLN 800 thousand.

During the reporting period, ALUMETAL S.A. did not receive or obtain any significant sureties or guarantees.

3. Contingent liabilities

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

XI. Financial risk management objectives and policies

The main type of business activity of the Company is conducting operations of a holding company. As part of these operations, the Company manages the financial risk of the companies of the ALUMETAL S.A. Capital Group. The financial position of ALUMETAL S.A. is closely related to the financial position of its subsidiary companies, which effectively means that the risks of those companies are also the risks of the Issuer.

The main types of risk described in detail in the consolidated financial statements of the ALUMETAL S.A. Capital Group prepared for the year ended 31 December 2020 are the following:

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

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

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

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

1. Interest rate risk

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

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

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

2. Foreign currency risk

The Company is exposed to foreign currency risk in connection with the transactions of current operations. Such exposure arises from the sale or purchase transactions made by Group companies in the currencies other than their measurement currency. The ALUMETAL S.A. Capital Group has widely used the so-called natural hedge mechanism, as sale transactions in foreign currencies have been largely balanced by purchase transactions. Nevertheless, as a result of the lack of balance between these two types of business transactions, some exposure to foreign currency risk is generated.

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

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

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

3. Commodity price risk

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

4. Credit risk

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

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

Due to its further trade expansion, the Company decided to change its approach to trade risk management, and in H1 2016 signed an agreement for receivables insurance. Verification of trade receivables covered the entire balance of sales to non-related entities, except for the sales to the three largest customers of the Alumetal Group, and the insurance taken covered the period from 1 April 2016. In Q2 of 2017, 2018, 2019 and 2020 a decision was taken to continue with the insurance policy, which additionally improved the Group's need for the coverage of same risks as regards awarded insurance limits, and, as a result, the credit risk of the Company became materially limited (the Group

plans to continue to insure its receivables in the ensuing years). However, one should bear in mind that pursuant to the policies operating in the contracts of this type, part of receivables of each customer is not insured due to the so-called "own share" of the policy holder; in addition, the Company's Management Board, given the wording of the insurance contract, has the right to take a sale decision that may originate receivables from customers in the amount higher than the coverage limit granted by the insurer, even if the insurance limit is zero.

The above approach facilitates intensive quantitative and geographical sales development, without significant increase in the risk of credit activities of the Group. The fact that most of the receivables are insured and that the customer portfolio is wide and fragmented cause that the credit risk is limited.

5. Liquidity risk

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

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

XII. Risk factors with possible impact on the financial results of ALUMETAL S.A.

The financial results of ALUMETAL S.A. are related, especially in the mid- and long-term, to the financial results of the subsidiary companies.

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

1. Geopolitical and macroeconomic situation in Europe

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

Eastern Europe may have adverse impact on the activities, financial position, financial performance or business perspectives of the Alumetal Group by the end of 2021. Geopolitical situation may also have indirect impact on the results of the Issuer.

2. Situation of the automotive industry

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

During economic recession or during the periods of low economic growth, it is the automotive industry that usually suffers from shrinking business. In the period from 2005 to the mid of 2013, the EU saw a declining trend in motor vehicles production and sale. Considerable recovery of the automotive industry was noted since the mid of 2013. However, in 2H 2018, reversal of this trend took place, which had unfavourable impact on demand volumes or margin levels realized by manufacturers of secondary aluminium casting alloys. The activities of the Group may be affected by the potential shrinking of automotive industry exports outside Europe (e.g. to Asia or to Northern America) or by constrained vehicles production in the EU caused, among others, by the Brexit decision. In addition, the financial results of the producers of secondary aluminium alloys, including the Alumetal Group, may be affected by the economic situation of individual automotive companies as well as by more stringent regulations on vehicle CO₂ emissions.

A new threat to the automotive industry is the ongoing coronavirus pandemic and the resulting significant decrease in demand for motor vehicles in 2020 and 2021, as well as disturbances in the supply chains of raw materials and components.

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

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

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

The prices of secondary aluminium casting alloys, aluminium scrap and of other raw materials used by the Group in the production process are subject to material fluctuations and depend on a number of factors outside the control of the Alumetal Group, including on general economic conditions, supply and demand for metals as a raw material and for semi-finished goods made of those raw materials on the European or global markets. Increase in prices of aluminium scrap may *not* be accompanied by the corresponding increase in prices of alloys produced by the Alumetal Group, which – in turn – may

translate into lower margins realized on sold goods and into deterioration of the Group's financial performance in the near future. Similar risk may occur in the event of a decline in the prices of alloys, which is not accompanied by a corresponding decline in the prices of aluminium scrap.

4. Limited availability of raw materials scrap in Europe

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

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

The most recent threat to the level of supply of scrap materials in Poland, Europe and the world is the spread of the coronavirus pandemic which impedes the flow of post-consumption scrap (*złom poamortyzacyjny*) to local collection points. In addition, the supply of post-production scrap raw materials is correlated with the level of industrial production.

5. Potential disruptions in utilities supply to ALUMETAL Group production plants and increase in the cost of their acquisition

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

6. Higher competition on the market of secondary aluminium alloys

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

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

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

Should it transpire in the future that these companies do not meet their obligations arising from the obtained public aid, they may be required to return the received public aid in whole or in part, and this

– in turn – may be a significant burden and a threat to the Group's performance and liquidity. However, the long-standing experience of the Alumetal Group in the use of public aid greatly reduces this risk.

8. The risk of the Covid-19 pandemic continuing

The ongoing world coronavirus pandemic has a significant impact on the economic situation, demand from the automotive industry and, consequently, on the financial results of the Alumetal S.A. Capital Group.

The most important risks identified as a result of the analysis of the situation related to the continuing pandemic include:

- the risk of production stoppages among customers, particularly in the automotive industry, and their impact on the demand for the Group's products,
- the risk of infection of employees with the COVID-19 virus,
- the risk of returning logistics or administrative barriers to Europe in the supply of scrap raw materials and/or sales of aluminium alloys,
- the risk of temporary reduction of scrap materials availability,
- the risk of availability of insurance limits for receivables of Group clients and credit risk (potential problems of customers with payment of their liabilities)

The current situation is so dynamic that it is impossible to predict further developments and quantify precisely its impact on the financial position and financial performance of the Company and of the Alumetal Group throughout 2021 and beyond.

9. Other accidental, unfavourable one-off events

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

XIII. Standpoint of the Management Board as regards forecast results of ALUMETAL S.A.

The Management Board of the Company decided not to publish forecasts of the Company's results.

Agnieszka Drzyżdżyk
President of the
Management Board

Krzysztof Błasiak
Vice-president of the
Management Board

Przemysław Grzybek
Board Member