

**DIRECTORS' REPORT
ON ACTIVITIES OF
THE ALUMETAL S.A. CAPITAL GROUP
FOR THE YEAR 2016**



Kęty, 5 April 2017

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I. Issuer and Capital Group corporate data

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

As at 31 December 2016, the organisation of the ALUMETAL S.A. Capital Group (hereinafter referred to as the "Alumetal Group" or the "Group") is as follows:

A. Issuer corporate data

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

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

ALUMETAL Spółka Akcyjna is registered in the Register of Entrepreneurs maintained by the District Court for Kraków-Śródmieście in Cracow, XII 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 1,537,898.00 (in words: one million five hundred thirty seven thousand eight hundred ninety eight złoty zero groszy) and is divided into 15,378,980 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; and
- 150,770 shares are ordinary bearer shares, series E.

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

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

Due to the fulfilment of all pre-requisite conditions for the implementation of the share incentive scheme realised as part of the conditional increase in the Company's issued capital, as defined in the Resolution No. 5 of the Extraordinary Annual General Meeting of the Company of 28 May 2014 ("Incentive Program"), about which the Company informed in its Share Issue Prospectus authorised by the Polish Financial Supervision Authority on 17 June 2014 ("Prospectus") and annual report and consolidated annual report for the year 2014 dated 12 March 2015, as part of the execution of adopted Incentive Program, in 2015 the Company issued 150,770 registered, non-transferrable subscription warrants, series A, and in 2016 - 150,770 registered, non-transferrable subscription warrants, series B in exchange for which 150,770 ordinary bearer shares, series D, and 150,770 ordinary bearer shares, series E, both series with a nominal value of PLN 0.10 (in words: ten groszy) each, were taken up.

On 27 May 2015, the Management Board of the WSE passed a Resolution No. 509/2015 on admitting and introducing to public trading on the main market of the WSE of the Company's ordinary bearer shares, series D, as of 1 June 2015, about which the Company informed the public in its current report No. 21/2015 dated 28 May 2015. On 15 July 2016, the Management Board of the WSE passed a Resolution No. 728/2016 on admitting and introducing to public trading on the main market of the WSE of the Company's ordinary bearer shares, series E, as of 20 July 2016, about which the Company informed the public in its current report No. 20/2016 dated 15 July 2016.

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 deoxidation.

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 Kęty sp. z o.o.

The Company holds 100% shares in the issued capital of ALUMETAL Kęty sp. z o.o., which give it the right to exercise 100% votes at the shareholders' meeting of this company. At the date of the preparation of the Company's financial statements, ALUMETAL Kęty sp. z o.o. did not commence operational activity, and the Company considers disposal of all shares in this entity. ALUMETAL Kęty sp. z o.o. is not subject to consolidation.

Corporate information:

Name and legal form:	ALUMETAL Kęty spółka z ograniczoną odpowiedzialnością [limited liability company]
Registered office:	ul. Tadeusza Kościuszki 111, 32-650 Kęty
Issued capital:	PLN 5,000
Main scope of business activities:	No operational activity conducted

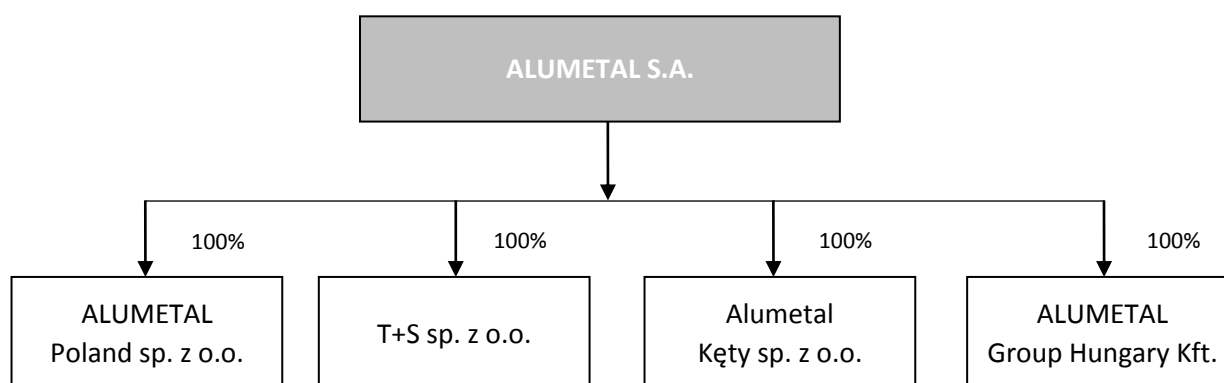
ALUMETAL Group Hungary Kft.

ALUMETAL Group Hungary Kft. was incorporated on 11 July 2014 to realise the investment of the Alumetal Group in Hungary.

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 2016, the organizational structure of the Alumetal Group was as follows:



			% share held by ALUMETAL S.A. in the issued capital	
			31 Dec 2016	31 Dec 2015
ALUMETAL Poland sp. z o.o.	Nowa Sól, Poland	Production	100%	100%
T + S sp. z o.o.	Kęty, Poland	Production	100%	100%
ALUMETAL Kęty sp. z o.o.	Kęty, Poland	No operational activity	100%	100%
ALUMETAL Group Hungary Kft.	Komarom, Hungary	Production	100%	100%

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

ALUMETAL Poland sp. z o.o. is the main production company of the Group that manufactures its main products: aluminium casting alloys and master alloys. ALUMETAL Poland sp. z o.o. owns all three 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 Kęty sp. z o.o. did not conduct operational activity in the reporting period.

ALUMETAL Group Hungary Kft. is a Hungarian-law based company, incorporated to realize the investment of the Alumetal Group in Hungary. The company commenced production and sale of aluminium casting alloys in September 2016.

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 2016, 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.

Alumetal Kęty sp. z o.o. is not subject to consolidation.

2. Changes in the organisational structure of ALUMETAL Group

In 2016, there were no changes in the organisational structure of the Group.

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 stated below.

The Issuer is also related by capital with the entities controlled by Mr Grzegorz Stulgis: IPOPEMA 30 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and IPOPEMA 30 FIZAN A/S, which as at 31 December 2016 held a total of 6,068,660 shares of ALUMETAL S.A. which translated into a 39.46 % share in the issued capital of the Company.

In the period from 28 January 2016 to 1 December 2016, ALUMETAL S.A. held 15% shares in SKTB ALUMINIUM Spółka akcyjna uproszczona [simplified joint stock company] (French-law based company) with its registered office in Gorcy (France), acquired from the majority shareholder, Fonds Lorrain de Consolidation Spółka akcyjna uproszczona [simplified joint stock company] (French-law based company) with its registered office in Metz (France). On 18 October 2016, ALUMETAL S.A. exercised the put option included in the agreement with the current majority shareholders i.e. exercised the right of ALUMETAL S.A. to re-sell the earlier acquired shares to their prior owners at their acquisition price. The shares were re-sold and the consideration was paid in full on 6 December 2016, which effectively means that as at 31 December 2016 the parties had no mutual liabilities or obligations under this transaction.

4. Intra-Group transactions

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

II. Statement of Corporate Governance

ALUMETAL S.A. has conducted business in accordance with Polish laws and the Company's Statutes. Pursuant to the provisions of § 11 section 1 point 6 of the Company's Statutes, any change thereto requires separate resolution of the Annual General Meeting, as provided in the Code of Commercial Companies. Pursuant to the provisions of § 11 section 2 point 6 of the Company's Statutes, any change thereto requires separate resolution of the Annual General Meeting, as provided in the Code of Commercial Companies.

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

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

The expression of the above principle of management is the observing by the ALUMETAL S.A. Capital Group of the policy of 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, as of 1 January 2015 the mandate of Management Board Member of ALUMETAL Poland sp. z o.o. and T+S sp. z o.o. has been held by Mr Tomasz Kliś.

The exception to the above policy is the Hungarian-law based Group company, ALUMETAL Group Hungary Kft., which does not have management board within the meaning of Polish regulations, and the persons authorised to manage and represent this company as at the date of the preparation of this Report are Mr Andrzej Słupski, Mr Józef Młoczek (employees of ALUMETAL S.A.) and Mr Sándor Jakab (employee of ALUMETAL Group Hungary Kft.). This exception is the effect of the requirements of Hungarian laws and is driven by the need to realise the main investment project of the Alumetal Group in the reporting period i.e. *Construction of a production plant in Hungary ("Budowa Zakładu na Węgrzech")*, about the commencement and progress of which the Company informed in its current report No. 17/2014, 29/2016 and 32/2016.

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.

ALUMETAL S.A. did not develop and does not apply diversity policy with respect to the members of its management and supervisory boards due to a stable composition of these bodies and small number of key management positions.

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

In the period from 31 December 2015 to 31 December 2016, the principles of management of the Alumetal Group did not change.

2. Authorities of ALUMETAL S.A.

A. Annual General Meeting

The Annual General Meeting operates based on the Company's Statutes. On 2 September 2014, pursuant to the provisions of Resolution No. 3 of the Extraordinary Annual General Meeting of ALUMETAL S.A., Regulations of Annual General Meetings of ALUMETAL S.A. were adopted. The provisions of the above Regulations do not materially differ from the respective provisions of the Code of Commercial Companies.

The current wording of Regulations of Annual General Meetings is presented in the internet website under the tab: Investor relations/Corporate governance/Annual General Meeting.

On 13 May 2016, 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 2015,
- authorization of the financial statements of ALUMETAL S.A. for the year ended 31 December 2015,
- approval of Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year ended 31 December 2015,
- authorization of Consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2015,
- approval of the Report of Supervisory Board for 2015,
- approval of the Report on activities of Supervisory Board in 2015,
- approval of the Assessment of the situation of the Alumetal S.A. Capital Group presented by the Supervisory Board of ALUMETAL S.A., as well as of other assessments and information relating to certain defined aspects of the functioning of the Company set forth in the *2016 Code of Best Practice for WSE Listed Companies*,
- appropriation of profit for 2015, determining dividend date and dividend payment date,
- acknowledgment of the fulfilment of duties by the Members of Management Board in 2015,
- acknowledgment of the fulfilment of duties by the Members of Supervisory Board in 2015,
- changes in Regulations of Annual General Meetings of ALUMETAL S.A.

The Company made available to the public the full contents of resolutions of the Ordinary Annual General Meeting in its current report No. 10/2016 of 13 May 2016.

B. Supervisory Board

As at 31 December 2016 and 31 December 2015, the composition of the Supervisory Board of ALUMETAL S.A. was as follows:

- Mr Grzegorz Stulgis,
- Mr Frans Bijlhouwer,
- Mr Marek Kacprowicz,
- Mr Tomasz Pasiewicz,
- Mr Emil Ślęzak.

The Company hereby informs that to the date of this Directors' Report, the composition of the Supervisory Board presented above did not change.

The Supervisory Board carries out continued monitoring and supervision of the activities of the Company in all aspects of its business.

The Supervisory Board acts based on the Work Regulations of the Supervisory Board adopted by the Supervisory Board and authorized by Annual General Meeting; current contents of these Regulations are available on the Company's website under the tab: Investor relations /Corporate Governance/Supervisory Board.

The Supervisory Board holds its meetings at least once in a 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.

In addition, the Company hereby informs that in the reporting period there were no committees of the Supervisory Board. In accordance with the provisions of § 22 section 1 of the Company's Statutes, the Supervisory Board is authorized to establish an audit committee composed of at least 3 of its members, with the proviso that at least one member of the audit committee fulfilled the criteria of independence within the meaning of article 86 section 5 of the Act on certified auditors, and held appropriate accounting or auditing qualifications. If the Supervisory Board is composed of not more than 5 persons, then in accordance with the provisions of § 22 section 2 of the Company's Statutes it may execute the tasks of the audit committee on its own. Since in 2015 the number of Supervisory Board Members accounted for 5 mandates, audit committee was not established.

Pursuant to the new regulations implemented by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015 („2016 Code of Best Practice for WSE Listed Companies”), the Supervisory Board of ALUMETAL S.A., on its meeting of 15 April 2016, considered the need of organisational separation of the function of internal audit and compliance system, approved the Director's Report of ALUMETAL S.A. on the assessment of the system of internal control and risk management and prepared the below documents to be presented to the Ordinary Annual General Meeting of the Company:

- Assessment of the situation of the Alumetal S.A. Capital Group in 2015;
- Report on the Activities of Supervisory Board in 2015;
- Assessment of the method of fulfilment by the Company of information requirements relating to application of the rules of corporate governance;
- Information on the Company non-pursuing sponsoring, charity or other similar activity;
- Opinion on the implementation by the Company of the procedures referred to in Chapter V of the *2016 Code of Best Practice for WSE Listed Companies*.

C. Management Board

As at 31 December 2015 and 31 December 2016, the composition of the Management Board of ALUMETAL S.A. was as follows:

- Mr Szymon Adamczyk – President of the Management Board,
- Mr Krzysztof Błasiak – Vice-president of the Management Board,
- Mr Przemysław Grzybek – Member of the Management Board.

Pursuant to the provisions of § 12 section 5 of the Company's Statutes, the Company's Management Board is appointed for a common 3-year term of office 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.

In the period from the date of those Resolutions to the date of the publication of this Directors' Report, the composition of the Management Board of ALUMETAL S.A. did not change.

The Management Board manages the Company's affairs and represents the Company before third parties. The Management Board is authorized to manage all affairs of the Company which are not within the competence of the Annual General Meeting or Supervisory Board. 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.

The scope of rights and obligations of the Management Board as well as the manner of its operation is defined by Work Regulations of the Management Board which were adopted based on the Decision No. 1 of the Management Board dated 11 December 2014 and authorized by the Decision No. 2 of the Supervisory Board dated 12 December 2014. Current contents of these Regulations are available on the Company's website under the tab: Investor relations /Corporate Governance/Management Board.

The Management Board of the Company is not authorized to take decisions on share issue or share re-acquisition.

In the reporting period, no agreements were concluded between the Company and the members of the Management Board regarding compensation for their resignation or removal for no important reason, or where their removal was justified by Company's merger through acquisition.

3. Shareholding structure

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

As at 31 December 2016, the Company had below information 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 2016				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
Ipopema 30 FIZAN*	4,530,754	29.46	4,530,754	29.46
Ipopema 30 FIZAN A/S*	1,537,896	9.99	1,537,896	9.99
Aviva Otwarty Fundusz Emerytalny [open-end pension fund] Aviva BZ WBK	1,506,000	9.79	1,506,000	9.79
Nationale Nederlanden Otwarty Fundusz Emerytalny [open-end pension fund]	1,140,650	7.42	1,140,650	7.42
Other shareholders	6,663,680	43.34	6,663,680	43.34
Total	15,378,980	100.00	15,378,980	100.00

*entity controlled by Mr Grzegorz Stulgis

In addition, in accordance with the notification received by the Company on 10 February 2017, Ipopema 30 FIZAN, as a result of transactions executed on 7 and 8 February 2017 on regulated market, sold 960,500 shares, about which the Company informed the public in its current report No. 4/2017.

Given the above, to the best knowledge of the Company's Management Board, as the date of this current Report, the shareholding structure of ALUMETAL S.A., subject to information requirement on material block of shares, is as follows:

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 5 April 2017				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
Ipopema 30 FIZAN*	3,570,254	23.22	3,570,254	23.22
Ipopema 30 FIZAN A/S* (Danish-law based company)	1,537,896	9.99	1,537,896	9.99
Aviva Otwarty Fundusz Emerytalny [open-end pension fund] Aviva BZ WBK	1,506,000	9.79	1,506,000	9.79
Nationale Nederlanden Otwarty Fundusz Emerytalny [open-end pension fund]	1,140,650	7.42	1,140,650	7.42
Other shareholders	7,624,180	49.58	7,624,180	49.58
Total	15,378,980	100.00	15,378,980	100.00

*entity controlled by Mr Grzegorz Stulgis

B. Share issue and re-acquisition of own shares

In accordance with the authorization basing on Resolution No. 5 of the Extraordinary Annual General Meeting of ALUMETAL S.A. of 28 May 2014, the Company's Management Board resolved to issue 150,770 registered, non-transferable subscription warrants, series B, which were dedicated to the Members of the Company's Management Board and to the key personnel of the Company. The effect of the issue of B-series subscription warrants was issuance of 150,770 ordinary bearer shares, series E, which were introduced to public trading on a regulated market as of 20 July 2016.

As part of the Incentive Program, the Company may still issue, in the period from the date of the authorization of the Group's consolidated financial statements for the year ended 31 December 2016 to 31 December 2018, up to 150,770 C-series subscription warrants, which will entitle their holders to take up not more than 150,770 of the Company's F-series shares.

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

During the reporting period, the Company did not receive any information on the agreements that could in the future affect its current shareholding structure.

The Company operates the Incentive Program, adopted based on the Resolution No. 5 of the Extraordinary Annual General Meeting of ALUMETAL S.A. of 28 May 2014 and based on the Decision of the Supervisory Board of 12 December 2014, which was described in more detail in point II 6 of this Directors' Report and in the Consolidated financial statements of ALUMETAL S.A. for the year ended 31 December 2016.

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

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

D. Agreements between shareholders

In the reporting period the Company did not receive any information about the agreements material to its business that were concluded between shareholders.

4. 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 2016				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
Grzegorz Stulgis, directly or through Ipopema 30 FIZAN and Ipopema 30 FIZAN A/S	6,068,660	39.46	6,068,660	39.46
Krzysztof Błasiak	380,142	2.47	380,142	2.47
Szymon Adamczyk	257,718	1.68	257,718	1.68
Przemysław Grzybek	149,322	0.97	149,322	0.97
Frans Bijlhouwer	0	0	0	0
Marek Kacprowicz	0	0	0	0
Tomasz Pasiewicz	0	0	0	0
Emil Ślęzak	0	0	0	0

In 2016, the Company was notified about a change in the number of shares held by management or supervisory board members in connection with the commencement of the process of issuance of E-series shares and their taking up in exchange for the B-series subscription warrants, about which the Company informed the public in its current report No. 23/2016. During the reporting period, the Company received also information on the transactions executed on regulated market by Mr Szymon Adamczyk and by the entities controlled by Mr Grzegorz Stulgis, about which the Company informed the public in its current reports No. 6/2016, 14/2016, 15/2016, 16/2016, 17/2016, 18/2016 and 33/2016.

The table below shows information on the number of shares held in ALUMETAL S.A. by the members of Management and Supervisory Boards of the Company at the date of the publication of prior year annual report:

Shares in ALUMETAL S.A. held by members of Issuer's Management and Supervisory Boards as at 31 December 2015				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
Grzegorz Stulgis, directly or through Ipopema 30 FIZAN	6,031,130	39.60	6,031,130	39.60
Krzysztof Błasiak	357,526	2.35	357,526	2.35
Szymon Adamczyk	257,194	1.69	257,194	1.69
Przemysław Grzybek	130,476	0.86	130,476	0.86
Frans Bijlhouwer	0	0	0	0
Marek Kacprowicz	0	0	0	0
Tomasz Pasiewicz	0	0	0	0
Emil Ślęzak	0	0	0	0

Given the fact that the entities related to Mr Grzegorz Stulgis executed on 7 and 8 February 2017 the transactions referred to above, the Company also presents the information on the number of shares held in ALUMETAL S.A. by the members of Management and Supervisory Boards of the Company as at the date of publication of this annual report:

Shares in ALUMETAL S.A. held by members of Issuer's Management and Supervisory Boards as at 5 April 2017				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
Grzegorz Stulgis, directly or through Ipopema 30 FIZAN and Ipopema 30 FIZAN A/S	5,108,160	33.21	5,108,160	33.21
Krzysztof Błasiak	380,142	2.47	380,142	2.47
Szymon Adamczyk	257,718	1.68	257,718	1.68
Przemysław Grzybek	149,322	0.97	149,322	0.97
Frans Bijlhouwer	0	0	0	0
Marek Kacprowicz	0	0	0	0
Tomasz Pasiewicz	0	0	0	0
Emil Ślęzak	0	0	0	0

5. Emoluments of the members of Management and Supervisory Boards

Remuneration of Supervisory Board Members		Year ended 31 December 2016	Year ended 31 December 2016
Grzegorz Stulgis	Chairman of the Supervisory Board	31,500.00*	45,000.00
Frans Bijlhouwer	Member of the Supervisory Board	36,000.00	32,000.00
Marek Kacprowicz	Member of the Supervisory Board	36,000.00	32,000.00
Tomasz Pasiewicz	Member of the Supervisory Board	36,000.00	32,000.00
Emil Ślęzak	Member of the Supervisory Board	36,000.00	32,000.00
Total remuneration paid		175,500.00	173,000.00

*Mr Grzegorz Stulgis has not been remunerated since 1 August 2016 for his performing the function of Chairman of the Supervisory Board

Remuneration of Issuer's Management Board Members at the parent and in subsidiary companies		Year ended 31 December 2016	Year ended 31 December 2015
Szymon Adamczyk	President of the Management Board, CEO	1,774,725.14	1,625,027.90
Krzysztof Błasiak	Vice-president of the Management Board, Operational & Development Director	1,774,725.14	1,625,027.90
Przemysław Grzybek	Member of the Management Board, Financial Director	859,998.30	792,234.61
Short-term employee benefits (payroll and surcharges), total		4,409,448.58	4,042,290.41

The Alumetal Group does not operate retirement benefits or similar programs dedicated to the members of its management or supervisory boards.

6. Incentive Programs

In the reporting period covered by this Directors' Report, the Company operated the Incentive Program dedicated to the members of the Management Board and the key personnel of the Company ("Eligible Persons"). The assumptions of this incentive scheme provide for a conditional increase in the Company's issued capital through the issue of free-of-charge and non-transferable B-series subscription warrants and the matching E-series shares of the Company, as described in point I.1.A of this Directors' Report.

As part of the Incentive Program, the Company may issue during the period from the date of authorization of the Group's consolidated financial statements for the year ended 31 December 2016 to 31 December 2018 one more tranche of the subscription warrants, series C, and the matching F-series shares with a total nominal value of up to PLN 15,077.

The issue of the subscription warrants will be dedicated to the members of the Management Board and to the key executives appointed by the Management Board and authorized by the Supervisory Board.

The Eligible Persons will be able to exercise their right to take up shares in the Company on the condition of the fulfilment of certain conditions, and especially on the condition of being in the employment relationship or other similar relationship being the basis for rendering services to the Company or to the subsidiary companies from the first date of listing of the Company's shares on the Warsaw Stock Exchange to the date directly preceding the date of exercising the rights under the subscription warrants of the given series.

In addition, exercising the right from the subscription warrants will be possible on the condition of achieving appropriate growth of EBITDA per Company share, achieving appropriate growth in the net profit per share, and achieving appropriate rate of return on the Company's shares on the WSE regulated market in relation to the dynamics of WIG index changes in the period, in which the subscription warrants are to be issued.

The issue price of the shares covered by the Incentive Program will equate the final unit selling price of the Company's shares to Individual Investors in the First Offering, reduced by certain appropriate percentage ratio.

Detailed policies of this incentive scheme were described in the Regulations of the Incentive Program adopted by the Supervisory Board by Resolution No. 4 of 12 December 2014.

Since in October 2014, a list of Eligible Persons was prepared and an allocation was made of the number of shares to individual persons, the Company valued this Incentive Program as at 31 December 2014 in accordance with IFRS 2 *Share-based Payment*. As at 31 December 2016, appropriate update of this valuation was performed.

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

Value of capital and cost of incentive programs	Year ended 31 December 2016	Year ended 31 December 2015
Capital under incentive Program II	817,473.00	2,004,910.00
Cost of Program II	432,520.97	2,571,918.00

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

7. Rules of best practice and corporate governance

A. *Best practice and corporate governance in 2016*

On January 2016, a new 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 came into effect.

The following Rules (Recommendations) for Best Practice 2016 for WSE Listed Companies were not complied with by the Company in 2016: I.Z.1.20, II.Z.10.1, III.Z.4, III.Z.5, V.Z.6 and VI.Z.4. The justification for the Company’s derogating from the above Rules was provided in the Report EBI 1/2016 and EBI 2/2016.

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

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

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

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

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

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

C. *Internal control system and risk management*

The Management Board of the parent is responsible for the internal control system of the entire Group and for its efficiency during the process of preparation of periodic reports, separate and consolidated accounts, prepared and published in accordance with the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and on the conditions for recognition as equivalent the information required by laws of non-EU member states (the “Decree on current and periodic information”).

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

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

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

- operating a Group-wide, authorised and uniform (consistent) accounting policy,
- clear segregation of duties, and well-defined work organization and supervision in the financial reporting process, as provided in the procedures, instructions and regulations, and included in the following documents:
 - Warehouse instructions,
 - Instructions on hard close and financial statements close process (FSCP),
 - Instructions on registration of data in the integrated IT management system,
 - Physical count instructions,
 - 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 (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 a certified auditor.

The Supervisory Board has the capacity to appoint certified auditors of the Company, and in fulfilling the tasks of the audit committee, the Supervisory Board:

- supervises internal organizational unit responsible for internal audit,
- monitors financial reporting processes,
- monitors efficiency of internal control, internal audit and risk management systems,
- oversees performance of financial audit activities,
- monitors independence of a certified auditor and the entity authorised to audit financial statements, including in the event of rendering to the Company services other than attest services.

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

1. ALUMETAL Group products

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

A. Casting alloys

The main output of the production process of the Group are aluminium casting alloys (master alloys and casting alloys) produced in the form of one-notch ingots (*alumirowe stopy odlewnicze produkowane w postaci gqsek dwudzielnych*) (of 6–8 kg), two-notch ingots (of approx. 13 kg) and in the form of waffle plates (wafers) (of approx. 12 kg) in the Nowa Sól, Kęty and Gorzyce production plants. Apart from solid cast alloys, the Alumetal Group delivers to its clients alloys in the form of liquid metal. The total real production capacity of the three Polish production plants in 2016 amounted to 165.0 thousand tons per year (similar to that of 2015).

At the end of September 2016, the Alumetal Group started the production of aluminium alloys in the newly constructed production plant in Komarom, Hungary, which caused that the total production capacity of the Group raised to 225 tons per year.

Given the systematic exceeding of real production capacity by the Gorzyce and Nowa Sól plants (above 100% of production capacity) observed in 2016 which related to a continuous increase in the efficiency of certain production lines, the Management Board of Alumetal SA increased as of 2017 the assumptions regarding real production capacity of Alumetal Poland sp. z o.o. by 8 thousand tons per year, i.e. from 165 thousand tons per year to 173 thousand tons per year. As a result, the production capacity of the entire Group increased from 225 thousand tons per year to 233 thousand tons per year. Annual real production capacity is understood to mean nominal production capacity reduced by the effect of standard stoppage of main production equipment during the year resulting from, among others, natural for the automotive industry periods of limited production (summer break in August and Christmas break in December), during which the Alumetal Group carries out necessary repair and maintenance work.

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

Aluminium alloys are delivered mainly to the clients of the motor industry (approx. 90% of the volume sold), and to other industry segments such as construction, metallurgical, machine, smelting and other sectors.

B. Fluxes and salts

The Alumetal Group, through the T+S sp z o.o. company, produces in the Kęty production plant auxiliary materials used in the smelting and casting industries, including fluxes (*topniki*), aluminium refiners (*rafinatory*), quenching salts (*sole hartownicze*), modifiers (*modyfikatory*), insulating casting

powders (*zасыпки izolacyjne*) and casting binders (*spoiwa odlewnicze*). The production capacity of the Kęty production plant in the years 2013-2016 was 7 thousand tons per year.

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

C. Other

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

Segment results are monitored by the Company's Management Board at the level of gross sales and operating profit before administrative expenses.

Detailed data are presented below:

2016	Casting alloys	Fluxes and salts	Other	Unallocated items	Consolidation exclusions	Total
Total volume (tons), of which:	160 872	3 615	34 196	-	-9 237	189 446
- <i>inter-segment sales</i>	1 743	3 240	4 254	-	-9 237	-
Of which:						
Volume of goods (tons), of which:	160 872	3 452	3 067	-	-8 049	159 342
- <i>inter-segment sales</i>	1 743	3 239	3 067	-	-8 049	-
Volume of raw materials, scrap and services (tons), of which:	-	161	29 994	-	-1 187	28 968
- <i>inter-segment sales</i>	-	-	1 187	-	-1 187	-
Volume of goods for resale (tons), of which:	-	2	1 135	-	-1	1 136
- <i>inter-segment sales</i>	-	1	-	-	-1	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 224 477 551.01	7 840 261.50	94 128 876.91	-	-54 610 510.31	1 271 836 179.11
- <i>inter-segment sales</i>	13 013 370.11	6 920 758.04	34 676 382.11	-	-54 610 510.31	-
Cost of sales	-1 101 635 286.85	-5 238 913.89	-81 373 849.30	-	52 621 615.63	-1 135 626 434.41
Gross profit on sales	122 842 264.16	2 601 347.61	12 755 027.61	-	-1 988 894.68	136 209 744.70
Selling expenses	-22 622 452.00	-227 319.10	-180 780.69	-	7 131.47	-23 023 420.32
Operating profit (before administrative expenses)	100 219 812.16	2 374 028.51	12 574 246.92	-	-1 981 763.21	113 186 324.38
<i>% margin</i>	8.2%	30.3%	13.4%	-	-	8.9%
Administrative expenses				-26 944 492.31	1 957 621.71	-24 986 870.60
Other operating income/ other operating expenses				4 529 906.30	-21 124.70	4 508 781.60
Depreciation/ amortization				23 259 561.77	-53 031.47	23 206 530.30
EBITDA*				-	-	115 914 765.68
<i>% margin</i>				-	-	9.1%
Finance income/ finance costs				79 287 394.33	-78 174 918.07	1 112 476.26
Profit before tax				-	-	93 820 711.64
Income tax expense				-3 876 396.57	-	- 3 876 396.57
Net profit for the year				-	-	89 944 315.07

2015	Casting alloys	Fluxes and salts	Other	Unallocated items	Consolidation exclusions	Total
Total volume (tons), of which:	166 184	3 320	33 917	-	-10 592	192 829
- <i>inter-segment sales</i>	1 547	2 930	6 115	-	-10 592	-
Of which:						
Volume of goods (tons), of which:	166 184	3 114	4 417	-	-8 894	164 821
- <i>inter-segment sales</i>	1 547	2 930	4 417	-	-8 894	-
Volume of raw materials, scrap and services (tons), of which:	-	206	29 151	-	-1 698	27 659
- <i>inter-segment sales</i>	-	-	1 698	-	-1 698	-
Volume of goods for resale (tons), of which:	-	-	349	-	-	349
- <i>inter-segment sales</i>	-	-	-	-	-	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 409 388 558.39	6 902 392.87	85 657 721.73	-	-60 062 627.02	1 441 886 045.97
- <i>inter-segment sales</i>	12 765 011.96	5 984 330.50	41 313 284.56	-	-60 062 627.02	-
Cost of sales	-1 280 812 203.85	-4 345 460.71	-76 668 293.90	-	54 756 295.43	-1 307 069 663.03
Gross profit on sales	128 576 354.54	2 556 932.16	8 989 427.83	-	-5 306 331.59	134 816 382.94
Selling expenses	-21 275 986.79	-227 025.00	-105 550.54	-	214 049.34	-21 394 512.99
Operating profit (before administrative expenses)	107 300 367.75	2 329 907.16	8 883 877.29	-	-5 092 282.25	113 421 869.95
<i>% margin</i>	7.6%	33.8%	10.4%	-	-	7.9%
Administrative expenses				-23 517 534.40	1 594 184.54	-21 923 349.86
Other operating income/ other operating expenses				-5 046 286.08	-23 635.93	-5 069 922.01
Depreciation/ amortization				20 227 596.46	-47 274.20	20 180 322.26
EBITDA*				-	-	106 608 920.34
<i>% margin</i>				-	-	7.4%
Finance income/ finance costs				52 454 515.65	-58 642 703.18	-6 188 187.53
Profit before tax				-	-	80 240 410.55
Income tax expense				-5 507 199.16	-	-5 507 199.16
Net profit for the year				-	-	74 733 211.39

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

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

The consolidated financial statements for 2016 as well as the comparative data for the prior financial year have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and the related interpretations issued in the form of regulations of the European Commission.

The entity authorised to audit the financial statements and the consolidated financial statements of the Company is Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its registered office in Rondo ONZ, 01-124 Warsaw, based on the agreement dated 8 August 2014. The agreement will expire after the completion of the 2017 audit. In the case of ALUMETAL Group Hungary Kft., the entity authorised to audit separate financial statements is Ernst & Young Kft. Váci út 20., Budapest 1132, Hungary.

The table below shows remuneration of the entity authorised to audit financial statements, paid or payable for the year ended 31 December 2016 and 31 December 2015, by type of services:

<i>Type of service</i>	<i>Year ended 31 December 2016</i>	<i>Year ended 31 December 2015</i>
Statutory audit of consolidated financial statements	105,000.00	105,000.00
Review of interim financial statements	50,000.00	50,000.00
Total	155,000.00	155,000.00

2. Market situation

A. Sales market

2016 was the third consecutive year which saw a strong upward trend on the automotive market of the European Union, from the point of view of both production and registration of motor vehicles (passenger cars (PC) and commercial vehicles (CV)). The area of the European Union was the second, after Asia, fastest developing market in the world in the last year with 14.64 million registered vehicles and a 6.8% growth compared to 2015.

The market of commercial vehicles also showed a considerable growth in 2016. Nearly 2.33 million registrations of new vehicles were recorded in this segment which accounted for a 11.6% y/y increase. (source : ACEA).

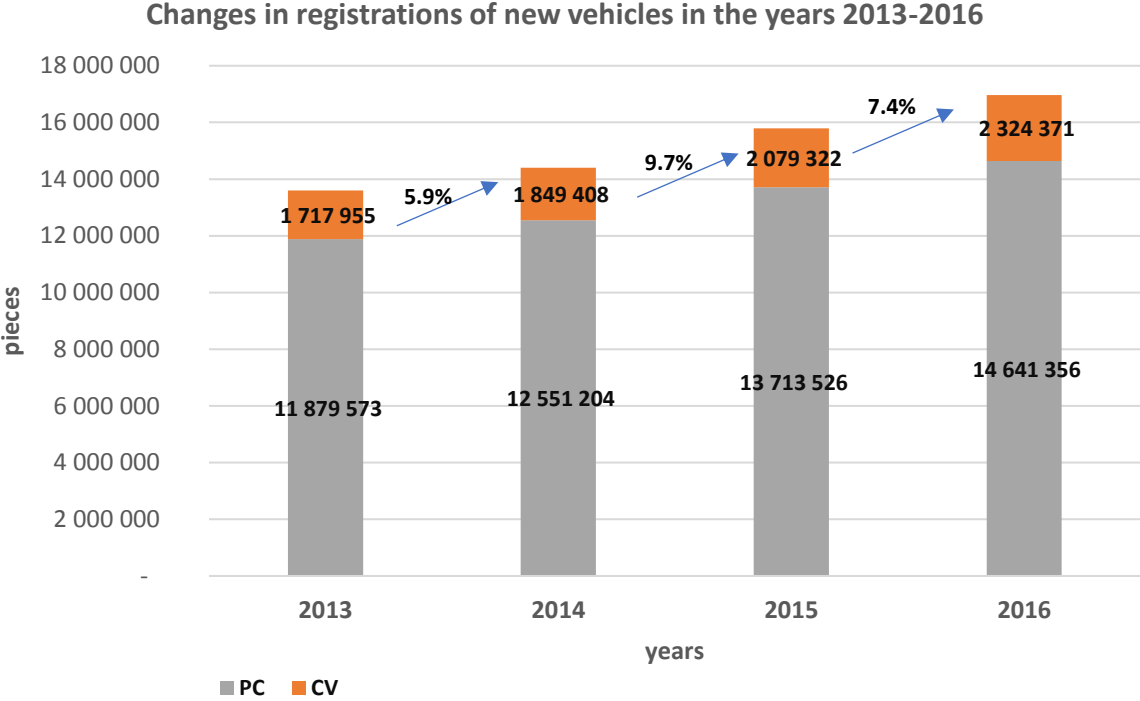
In analysing registrations of new motor vehicles, both passenger and commercial, in 2016 a total growth of 7.4% was recorded to the level of 16.97 million pieces. In the same period, the production of passenger and commercial vehicles in the European Union counted at 18.8 million pieces which translated into a 3.0% increase compared to the prior year (source: OICA). The EU region stood the

second, after China, biggest manufacturing centre of passenger vehicles and accounted for 21% share in the global production.

It should be noted that the significant production centre in the European Union is the CEE5 region (Poland, Czechia, Slovakia, Hungary and Romania), which in 2016 accounted for 20.8% of the production of the entire EU. In addition, it should be pointed out that more than every second vehicle (53%) in the EU was manufactured in the CEE5 or in Germany.

In 2016, all countries of the European Union, except for Holland, recorded increases in sales of motor vehicles. The recorded increases were distinctly seen in all five greatest EU markets. The largest market, Germany, saw an increase in registration of new passenger vehicles by more than 4.5% (3.35 million pieces). Great Britain recorded a 2.3% increase in registration (2.69 million pieces), France – a 5.1% registration increase (2.02 million pieces), Italy – a 15.8% registration increase (1,82 million pieces), while Spain - a 10.9% registration increase (1.15 million pieces) (source : ACEA).

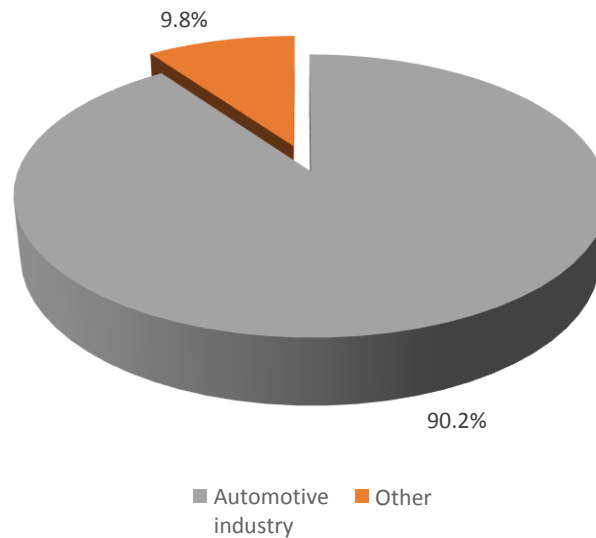
Presented below is the chart showing trends in the registration of passenger cars and commercial vehicles in the years 2013-2016.



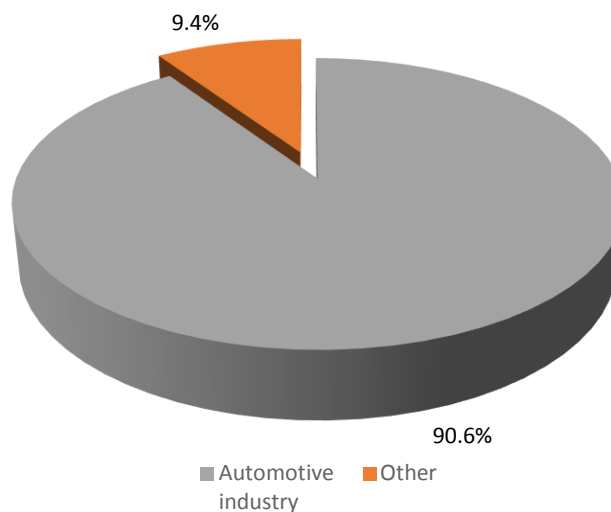
Higher demand for motor vehicles in the EU in 2016 and, in consequence, higher demand for aluminium alloys did not translate into higher selling prices of alloys. In 2016, a decrease was recorded in the prices of aluminium alloys and a considerable pressure, mainly for margins of standard alloys, which all impeded performance of adopted budgets. However, implemented operational and commercial initiatives helped in achieving budgeted parameters despite reduced sales volumes.

As regards 2016 sales structure by client industry, the automotive industry continued to be in lead, while only slightly reducing its share in total sales compared to 2015.

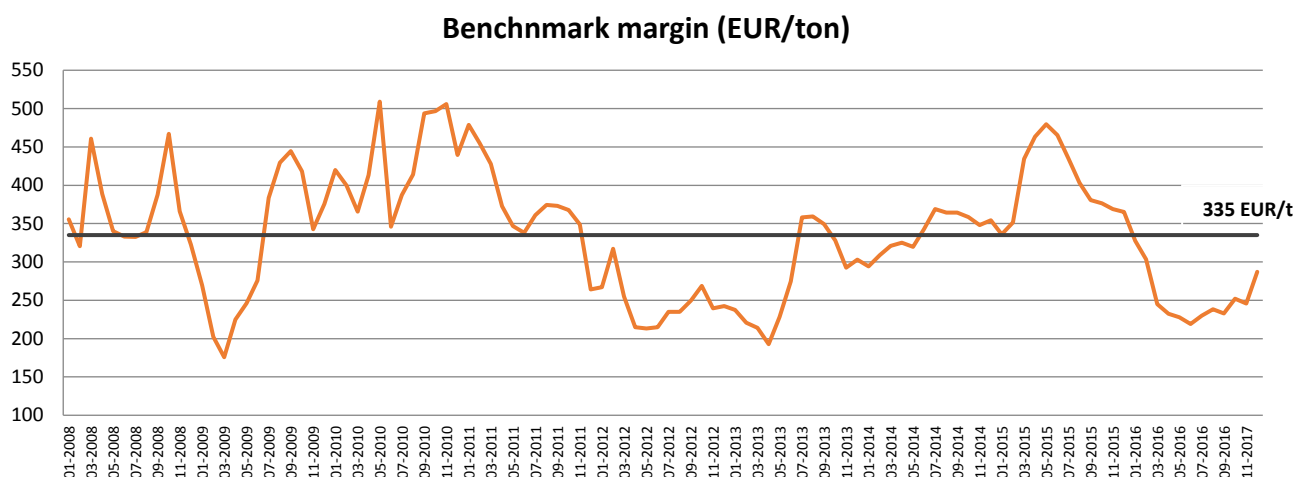
Sales in 2016 of finished goods of the Alumetal Group, by industry



Sales in 2015 of finished goods of the Alumetal Group, by industry



The analysis of market price index in the form of a spread between the price of standard aluminium alloy (alloy 226) and the price of adequate scrap raw material used to produce this alloy shows that in the mid of 2015 a declining trend started in the benchmark margin. This declining trend continued through to 3Q 2016, when it slowly started to reverse. The average quarterly levels were as follows: 1Q - 292 EUR/ton, 2Q - 226 EUR/ton, 3Q - 234 EUR/ton and 4Q - 262 EUR/ton. The average benchmark margin for 2016 was 253 EUR/ton and was 37.4% lower than in 2015 and 24.4% lower compared to the average for the period 2008-2016 which amounted to 335 EUR/ton.



In 2016, the Alumetal Group realised sales revenues of PLN 1,271.8 million. The achieved result was 12% lower than that realised in 2015.

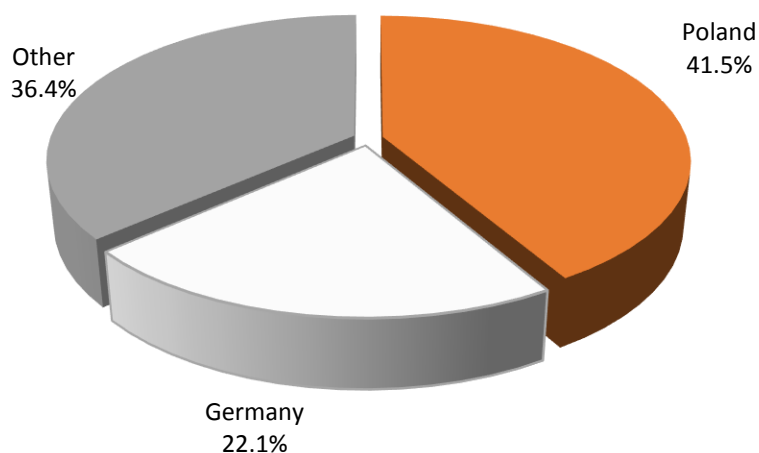
In the whole 2016, the share of exports in total sales was more than 58.5% compared to 62.4% in 2015.

The Alumetal Group sales structure, by geographical area	2016	2015
Poland	41.5%	37.6%
Abroad	58.5%	62.4%

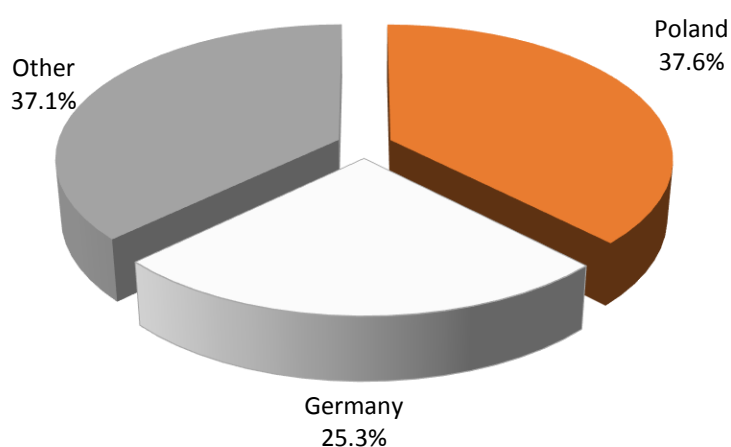
In 2016, the policy of sales diversification was continued by acting proactively in the area of obtaining new clients. In 2016, the Alumetal Group acquired 66 new clients, including the clients for both the Group's aluminium alloy products (63) and for chemical products (3).

The below charts show the geographical structure of the Group's sales for the years 2016 and 2015 (data as per delivery location of Group clients).

Geographical structure of sales in 2016



Geographical structure of sales in 2015



In 2016, sales to each of the following entities exceeded 10% of total annual sales of the Group:

- the Volkswagen Group
- the Federal-Mogul Group.

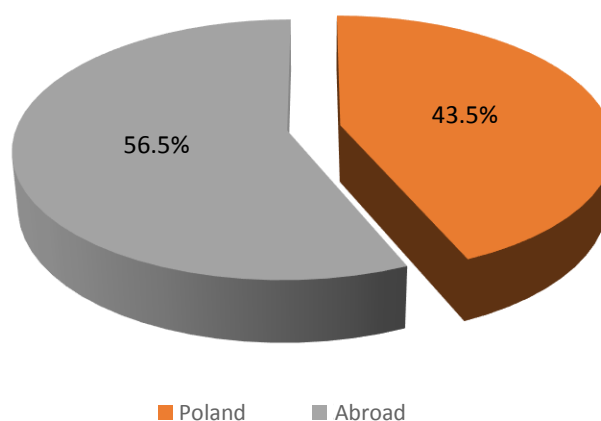
In 2016, the share of sales to the three largest clients of the Group (the Volkswagen Group, the Federal-Mogul Group and the Nematik Group) accounted for 44% of total sales, compared to 45% in the prior year, which effectively marked another period of a decrease in the share of those three clients in the sales structure of the Group. None of the above clients was related by capital or by organizational structure to the Alumetal Group.

In 2016, production was started in the new production plant in Hungary and the sales volume of this location was 3.8 thousand tons of finished goods.

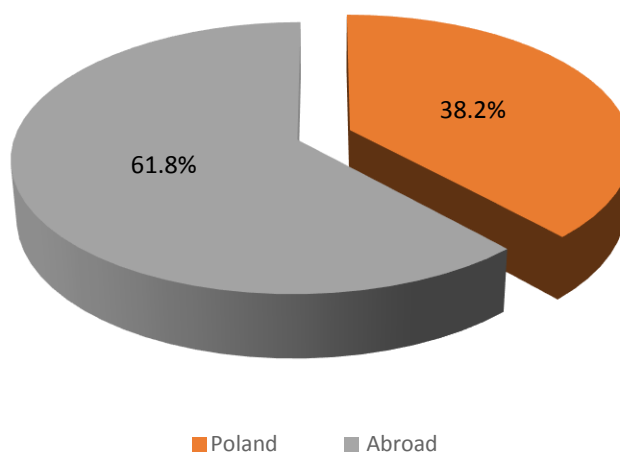
B. Supply market

In 2016, the Alumetal Group acquired 181 thousand tons of aluminium scrap, which means a 2.9% decrease compared to 2015. The reason behind lower volume of purchase was limitation of production with a view to margins optimization. During 2016, the Group acquired 48 new scrap suppliers. The share of purchase of aluminium scrap from countries other than Poland increased from 56% in 2015 to 62% in 2016.

Geographical structure of purchases in 2015



Geographical structure of purchases in 2016



In the period from December 2015 to November 2016, scrap exports from Poland increased by 23% compared to 2015 (from 175 thousand tons in 2015 to 216 thousand tons in 2016), while scrap imports remained at the same level (244 thousand tons). Consequently, net imports decreased from 68 thousand tons in 2015 to 28 thousand tons in 2016.

In the period from December 2015 to November 2016, scrap imports to the EU increased by 13% (from 357 thousand tons in 2015 to 404 thousand tons in 2016), while exports increased by 7% (from 860 thousand tons in 2015 to 922 thousand tons in 2016), which means that the net exports increased by 3% (from 503 thousand tons in 2015 to 518 thousand tons in 2016). The share of exports to China and India fell from 66% in 2015 to 64% in 2016.

3. Financial results and financial position of the ALUMETAL Group

The table below shows summarized consolidated data of the Alumetal Group for 2016 and the comparative data for 2015.

ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME & STATEMENT OF CASH FLOWS	In PLN thousand		In EUR thousand	
	12 -month period of 2016	12 -month period of 2015	12 -month period of 2016	12 -month period of 2015
Volume of sold goods – in tons	159 342	164 821	159 342	164 821
Net sales	1 271 836	1 441 886	290 661	344 553
Operating profit	92 708	86 429	21 187	20 653
EBITDA	115 915	106 609	26 491	25 475
EBITDA – unit in PLN/ ton	727	647	166	155
Profit before tax	93 821	80 240	21 441	19 174
Net profit	89 944	74 733	20 556	17 858
Net cash flow from operating activities	85 863	70 053	19 623	16 740
Net cash flow from investing activities	-108 677	-47 892	-24 837	-11 444
Net cash flow from financing activities	13 227	-29 854	3 023	-7 134
Total net cash flow	-9 587	-7 693	-2 191	-1 838
Basic net earnings per share attributable to equity holders of the parent (in PLN / EUR)	5.88	4.93	1.34	1.18
Diluted net earnings per share attributable to equity holders of the parent (in PLN / EUR)	5.86	4.90	1.34	1.17

ITEMS OF THE STATEMENT OF FINANCIAL POSITION	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total assets	743 353	610 960	168 027	143 367
Non-current assets	367 149	264 268	82 990	62 013
Current assets	376 204	346 691	85 037	81 354
Shareholders' equity	479 635	421 397	108 417	98 885
Issued capital	1 538	1 523	348	357
Non-current liabilities	66 297	18 307	14 986	4 296
Current liabilities	197 421	171 256	44 625	40 187
Number of shares	15 378 980	15 228 210	15 378 980	15 228 210
Basic carrying amount per share (PLN/EUR)	31.34	27.81	7.08	6.53
Diluted carrying amount per share (PLN/EUR)	31.25	27.61	7.06	6.48
Declared or paid dividend per share (PLN/EUR)	2.92*	2.55	0.66*	0.60

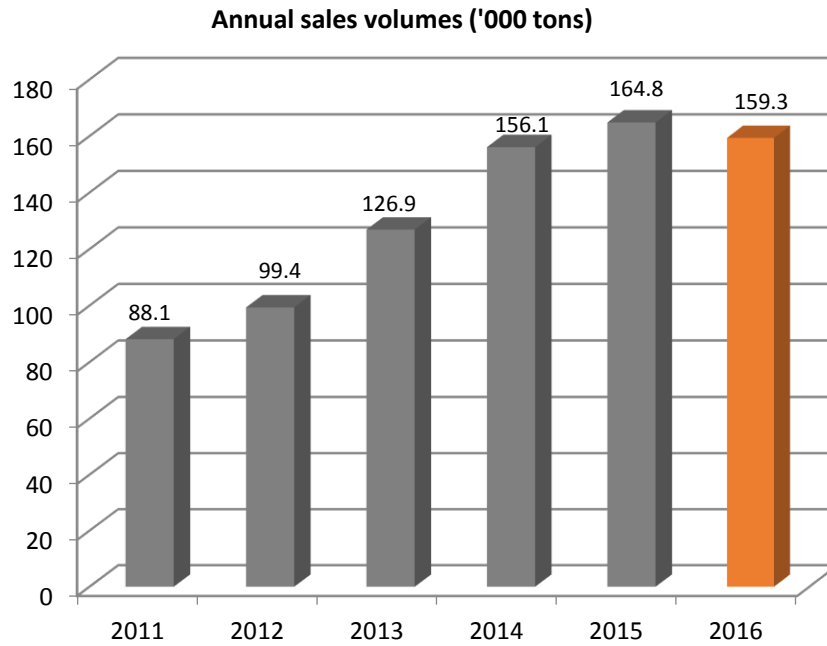
* dividend declared

The above financial data for 2016 and 2015 were translated into EUR in the following manner:

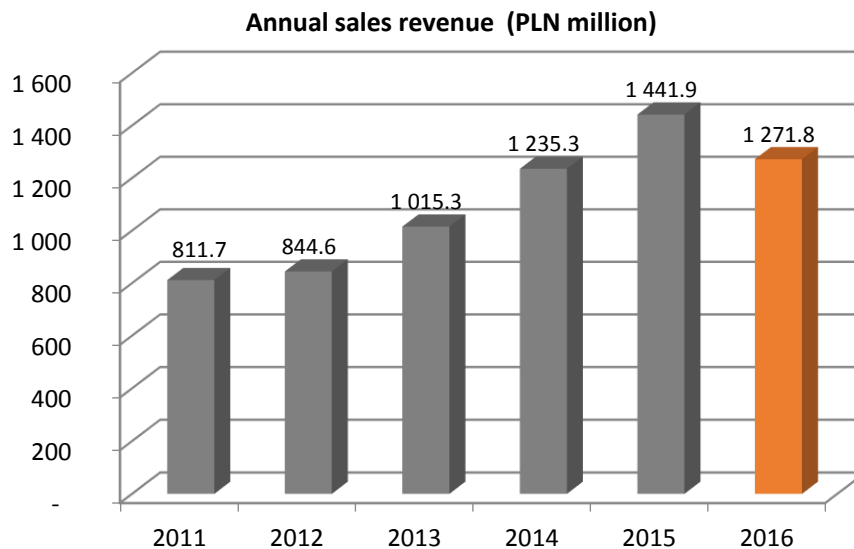
- components of assets and liabilities – at the average NBP exchange rate prevailing as at 31 December 2016 i.e. EUR/PLN 4.4240, and 31 December 2015 i.e. EUR/PLN 4.2615
- components of the statement of comprehensive income and the statement of cash flow – at the exchange rate being the mathematical average of the NBP exchange rates prevailing at the last days of the month: for 12 months of 2016 - EUR/PLN 4.3757 and for 12 months of 2015 - EUR/PLN 4.1848.

Due to the fact that sales of the *Castings alloys* segment account for approx. 95% of total sales revenue of the Group in 2016, it is this particular segment that decides about the overall results of the Group. Nevertheless the results of other segments (*Fluxes and salts and Other*) are also positive, and detailed information on the profitability of each segment was included in point III.1 of this Directors' Report.

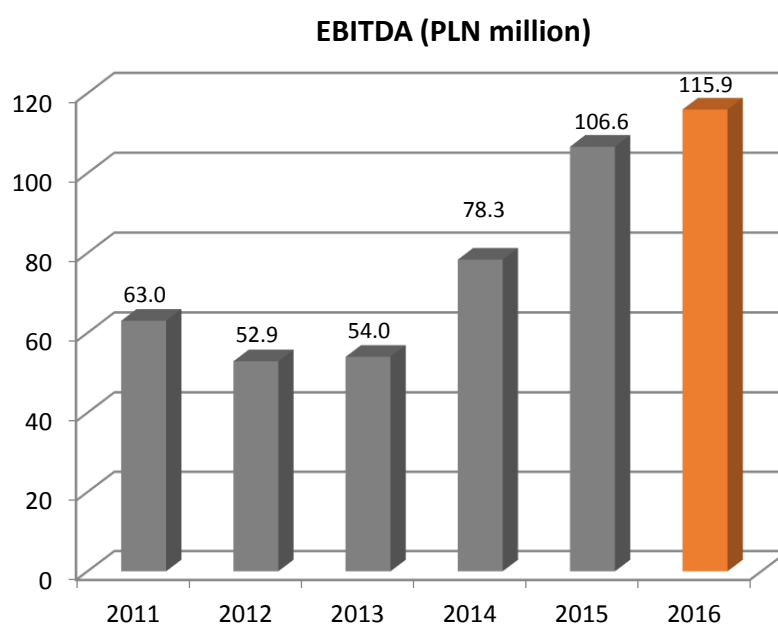
In 2016, despite good situation in the automotive industry and improved capacity of the existing production lines in some production plants, and despite launch in September 2016 of new production capacities, the Group was again unable to increase the production volume, which fell by 3% compared to the prior year. This results mainly from difficult market situation in the sales of the 226 group alloys and caused that the Alumetal Group wilfully reduced its sales level to 159.3 thousand tons. Compared to 2011, sales volume increased by 81%.



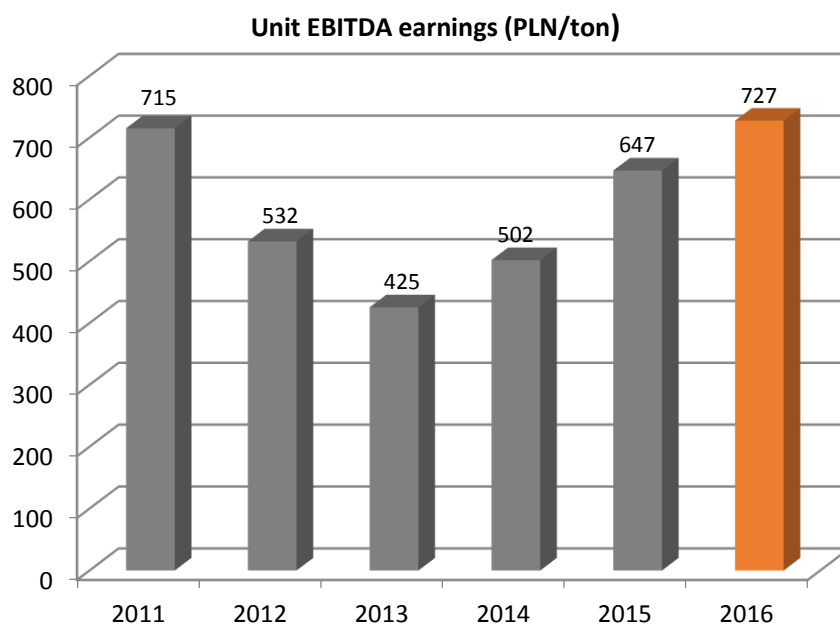
Revenue of the Alumetal Group fell in 2016 by 12%, which was due to a 3% decrease in sales volume and to a 8% drop in average selling price of goods compared to the prior year (revenue of the *Other* segment was higher compared to 2015). Compared to 2011, sales revenue increased by 57%.



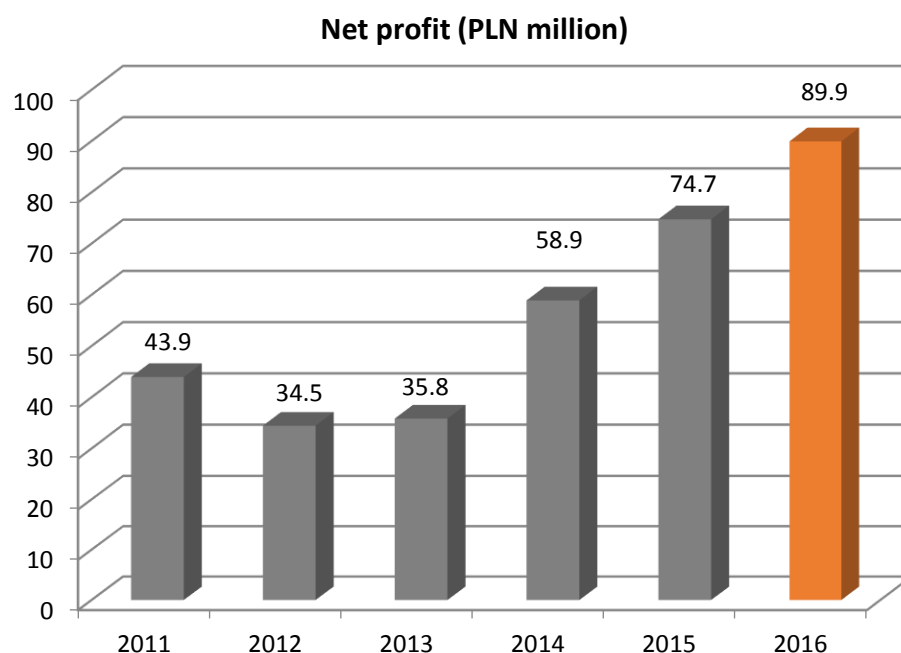
The EBITDA earnings amounted in 2016 to PLN 115.9 million and were 9% higher compared to 2015. The main factors which had positive impact on this best ever result in the history of the Alumetal Group was limiting of the product offer to these finished goods, for which favourable relation existed between selling prices of alloys and purchase prices of raw material scrap, as well as positive outcome of the investment in the area of metal management and the product mix realised in the years 2014 – 2016.



The unit EBITDA ratio in 2016 was PLN 727/ton, and was 12% higher compared to 2015. The unit EBITDA earnings in 2016 were the highest for the last 6 years.



Annualised 2016 net profit hit the record high level in the history of the Group and was PLN 89.9 million, which means that it was 20% higher compared to 2015 when it was PLN 74.7 million. Compared to 2011, net profit increased by 105%.



In view of the recommendation of the Polish Financial Supervision Authority (PFSA), the Management Board decided to recognise a deferred tax asset (DTA) relating to partial exemption from corporate income tax in Poland and in Hungary, which made it possible to remove qualification from the Auditor's opinion for 2016.

Valuation of deferred tax asset relating to partial exemption from corporate income tax increased equity in 2014 and brought about slightly negative impact on the net profit for 2015 and 2016. Valuation of deferred tax asset does not bear any impact on the realisation of the last tranche of share options program dedicated to management

In the ensuing years, the impact of DTA on the net profit may be positive (if investment expenditure will be incurred that create partial income tax exemption in the form of tax credits or investment tax reliefs) or negative (if the right to use the exemption from income tax is utilised).

The Alumetal Group intends to publish also normalised profit (the reported profit adjusted for valuation of deferred tax asset relating to income tax exemption), and, in consequence, has considered modification of its dividend policy which, starting from 2017 profit allocation, will consist in payment of dividend basing on normalised profit.

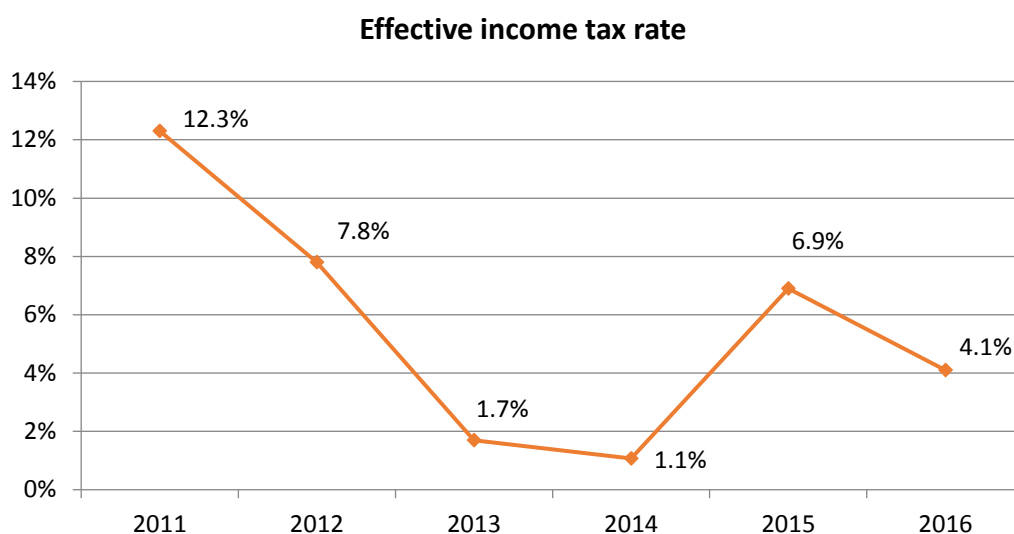
The table below shows the effect of valuation of deferred tax asset relating to income tax exemption on the results for the year 2015 and 2016 and on the closing balance for 2014.

Item	2014 with no DTA valuation	2014 with DTA valuation	2015	2016
Shareholders' equity	324 793	368 216	-	-
Valuation of DTA relating to income tax exemption	-	43 422	40 502	38 360
Reported net profit			74 733	89 944
Exclusion of DTA valuation on net profit			2 921	2 142
Normalised net profit			77 654	92 086

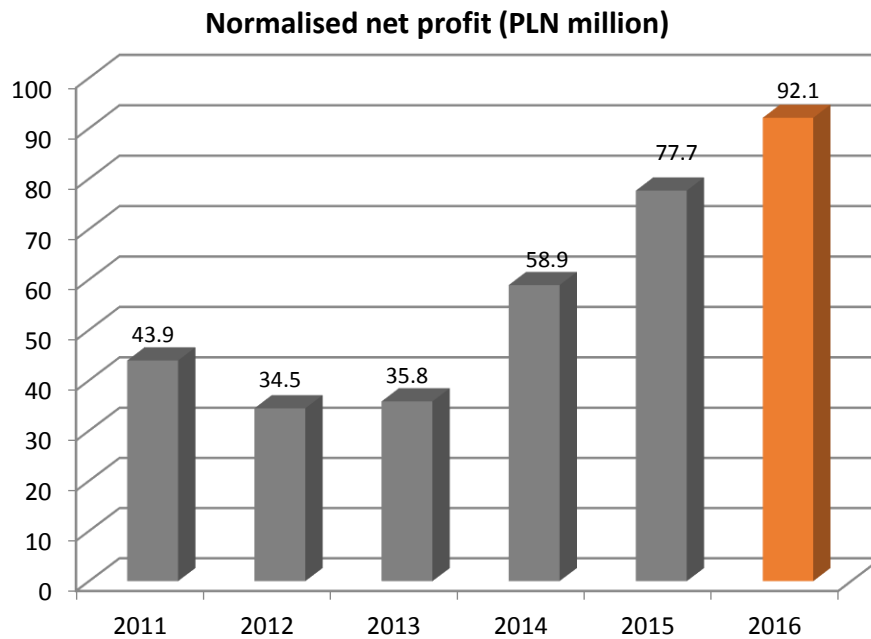
The table below shows the factors that affected change in the deferred tax asset relating to partial income tax exemption in the years 2015-2016

Factors with impact on change in deferred tax asset	2015	2016
Utilisation of income tax exemption (tax credit) in the given year	-13 371	-16 942
Increase in the income tax exemption (tax credit) due to qualified expenditure incurred in the given year	10 450	14 800
Total	-2 921	-2 142

The effective income tax rate of the Alumetal Group increased in the years 2015-2016 due to valuation of deferred tax asset relating to partial income tax exemption.



The chart below shows normalised net profit i.e. net profit, net of the effect of valuation of deferred tax asset relating to partial income tax exemption.

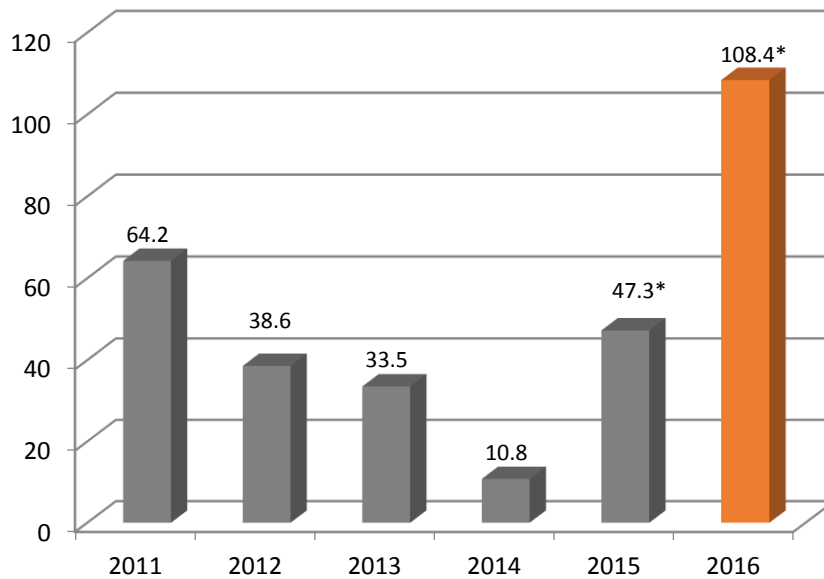


The Company informed about the impact of DTA valuation in its current report No. 6/2017 dated 5 April 2017.

In 2016, capital expenditure amounted to as much as PLN 108.4 million and was 129% higher compared to 2015. Higher investment level was caused by realization in 2016 of the fundamental phase of the construction of a new production plant in Hungary. The structure of this capital expenditure was as follows:

- PLN 6.2 million for reconstruction and retrofitting
- PLN 3.1 million for metal management
- PLN 99.1 million for product mix/increase of the production capacity (Hungary).

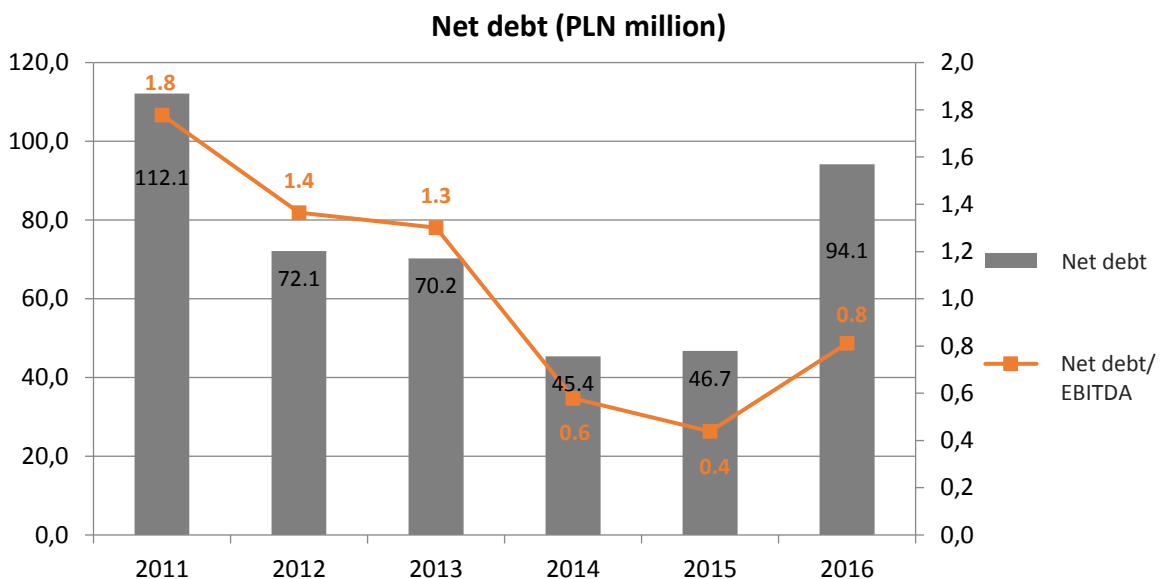
Capex - data from the cash flow statement (PLN million)



* after considering movements on the collateral manager account (the effect of escrow or trust construction services resulting from Hungarian regulations)

At the end of 2016, the net balance of interest due and payable was considerably higher than in the prior year due to significant increase in capital expenditure, greater need for net current assets caused by production commencement in the Hungarian plant, and due to dividend payment in the amount of PLN 38.8 million.

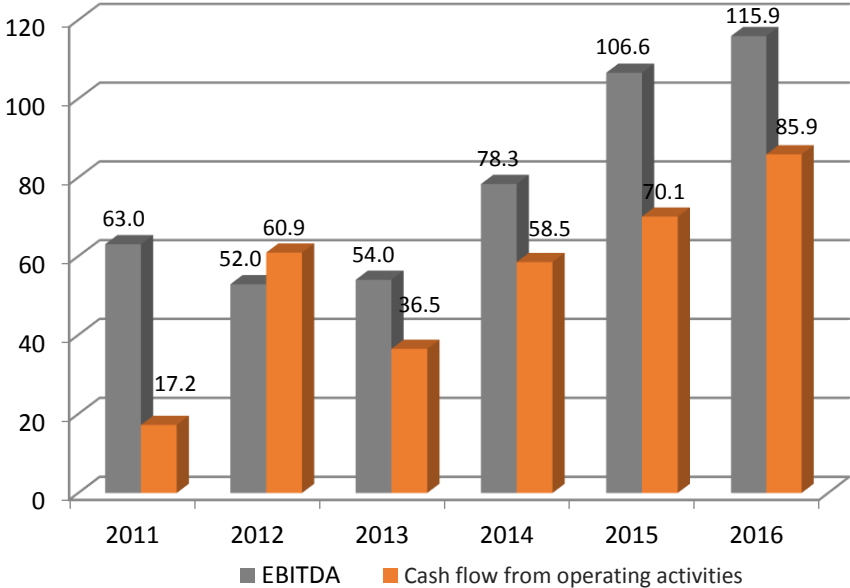
Despite the above, owing to very good financial results the ratio of Net debt /EBITDA at the end of 2016 continued to be at a relatively low level of 0.8.



In 2016, the difference between EBITDA and cash flow from operating activities amounted to PLN 30 million. The main factors that contributed to the conversion of EBITDA to cash flow from operating activities was higher need for working capital financing as a derivative of the launch of a new

production plant in Hungary and the necessity to collect appropriate stock levels in this entity for the planned production and sale, which – in turn – caused temporary increase in Inventory Days ratio and in the cycle of the entire Working Capital Days ratio by 9 days (for the cycles calculated at year-end, based on the Q4 data).

Cash flow from operating activities vs EBITDA (PLN million)



4. Financial ratios

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

These ratios demonstrate stable efficiency of the operations of the Group at the level of EBITDA margin in the long-term perspective and its noticeable increase in recent years.

Apart from sales profitability, the ratios of return on assets and return on equity showed a good rising trend.

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

The structure of the Group’s assets showed a significant growth in non-current assets due to the investment expenditure in the Hungarian production plant, which caused that in the structure of all assets the relatively liquid assets, such as receivables and inventories, ceased to predominate over non-current assets.

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

As regards short-term liabilities, trade payables have continued to exceed interest due and payable.

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

Financial ratio	Ratio description	2016	2015	2014	2013	2012
EBITDA margin	EBITDA/Net sales	9.1%	7.4%	6.3%	5.3%	6.3%
Net profit margin	Net profit/Net sales	7.1%	5.2%	4.8%	3.5%	4.1%
Return on assets (ROA) (%)	Net profit/Total assets	12.4%	12.2%	11.0%	7.4%	8.0%
Return on equity (ROE) (%)	Net profit/Shareholders' equity at the beginning of the period	21.9%	19.6%	20.6%	14.4%	16.1%
Liquidity I	Total current assets/Current liabilities	1.9	2.0	1.8	1.7	1.7
Working Capital Days	Inventory days + Debtors days – Creditors days	65 days	52 days	60 days	66 days	74 days
Stability of financing (%)	(Shareholders' equity + Non-current liabilities)/Total equity and liabilities	73.4%	72.0%	64.5%	65.9%	67.5%
Debt ratio (%)	(Total equity and liabilities – Shareholders equity)/Total assets	35.5%	31.0%	39.4%	40.9%	42.4%
Net debt/EBITDA	(Bank loans and borrowings – cash)/EBITDA	0.8	0.4	0.6	1.3	1.4

Margins realised by the Group show considerable stability, interest due and payable is low, working capital ratio is high and financial liquidity good, which all cause that the perspective of timely repayment by ALUMETAL S.A. and subsidiary companies of their liabilities is safe.

This assessment was confirmed by an independent external rating agency, EuroRating sp. z o.o., which on 28 January 2015 assigned ALUMETAL S.A. the "BBB investment credit rating". The EuroRating sp. z o.o. is registered as a rating agency in the European Union in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, and is subject to direct supervision of the European Securities and Markets Authority (ESMA). The EuroRating sp. z o.o. rating agency has therefore the status of ECAI (External Credit Assessment Institution) in accordance with article 4 paragraph 1 point 98 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

The rating assigned by this agency describes enterprise financial credibility and its capacity to service short- and long-term liabilities in the perspective of up to 3 years.

The assessment of the Alumetal Group considered specificity of its business, development plans of the Group, and applied dividend policy, as well as potential threats arising from a potentially high market

cyclicality and customer concentration, great volatility of working capital engagement, planned increase in bank debt and possible temporary decrease in business profitability. All these factors and threats did not prevent the agency from assessing the perspective of ALUMETAL S.A.'s rating as "stable".

During 2016, the awarded rating was updated after publication of each current report i.e. on 29 April, 24 June, 28 September and 20 December 2016 and was upheld at the original level. These re-assessments did not change either the awarded rating or the assessed perspective.

5. Significant events in 2016

A. Granting surety for cash subsidy contract

On 7 January 2016, ALUMETAL S.A. issued a surety to the ALUMETAL Group Hungary Kft. in connection with a Contract for cash subsidy of 27 October 2015 concluded with the Ministry of Foreign Affairs and Trade of Hungary, in case the ALUMETAL Group Hungary Kft. was obligated to return the received public aid and the related interest and did not discharge this obligation as provided in this Contract; the surety was issued to the amount not exceeding 120% of the received public aid. As at the reporting date, 2 tranches of cash subsidy pre-financing were paid out for the total amount of HUF 784,800,400 (the equivalent of PLN 11,163,000.89), while at the date of the preparation of this Directors' Report a total of 3 tranches of cash subsidy were paid out in the total amount of HUF 939,312,070 (the equivalent of PLN 13 306 077.75).

B. Investment in 15% of shares of a French producer of aluminium alloys

In the period from 28 January 2016 to 1 December 2016, ALUMETAL S.A. held 15% of shares in SKTB ALUMINIUM Spółka akcyjna uproszczona [simplified joint stock company] (French-law based company) headquartered in Gorcy (France) acquired from the majority shareholder, Fonds Lorrain de Consolidation Spółka akcyjna uproszczona [simplified joint stock company] (French-law based company), headquartered in Metz (France).

SKTB ALUMINIUM Spółka akcyjna uproszczona [simplified joint stock company] (hereinafter „SKTB”) is a producer of secondary aluminium alloys with an annual production capacity of approx. 45 thousand tons.

The main scope of SKTB's business activities comprises:

- smelting and forming process of non-ferrous metals, especially smelting of aluminium and other light metals, processing of materials and goods containing aluminium,
- production of other non-ferrous metals and alloys,
- trading in ferrous and non-ferrous metals, semi-finished goods, by-products and smelting waste.

On 18 October 2016, ALUMETAL S.A. exercised the put option included in the agreement with current majority shareholders i.e. the right of ALUMETAL S.A. to re-sell the earlier acquired shares to their prior owners at their acquisition price. The shares were re-sold on 1 December 2016, and the consideration was paid in full on 6 December 2016, which effectively means that as at 31 December 2016 the parties had no mutual liabilities or obligations under this transaction.

C. *Effective date of Contract for cash subsidy*

On 2 February 2016, the Contract for cash subsidy with the Ministry of Foreign Affairs and Trade of Hungary for the construction of a production plant by ALUMETAL Group Hungary Kft became formally and conclusively effective.

D. *Cash subsidy pre-financing payments*

On 18 April 2016, the first application for partial reimbursement of incurred investment expenditure was filed with the Hungarian Investment Promotion Agency („HIPA”), which was approved on 4 August 2016. On 20 September 2016, ALUMETAL Group Hungary Kft. received from HIPA the first instalment (tranche) of cash subsidy pre-financing payment in the amount of HUF 197,781,071. The second application for the return of the following part of incurred investment expenditure was filed on 8 July 2016, and the pre-financing payment of HUF 587,019,329 was made on 13 December 2016. At the reporting date, the total amount of paid pre-financing towards cash subsidy amounted to HUF 784,800,400 (the equivalent of PLN 11,163,000.89).

As at the date of this Directors’ Report, a total of 3 tranches of cash subsidy were paid out in the total amount of HUF 939,312,070 (the equivalent of PLN 13 306 077.75).

E. *Successive additional payments to the issued capital of Alumetal Group Hungary Kft.*

By the end of 2015, ALUMETAL S.A. made additional payments to the issued capital of the Alumetal Group Hungary Kft. for the amount of HUF 2,800,000,000.00, of which the amount actually paid in was HUF 2,300,000,000.00. The outstanding amount was paid in 1Q 2016. In 2Q 2016, another additional payments to the issued capital of the Alumetal Group Hungary Kft. were made in the amount of HUF 1,500,000,000.00. In 3Q 2016, ALUMETAL S.A. made yet another additional payments to the issued capital of the ALUMETAL Group Hungary Kft. for the amount of HUF 1,200,000,000.00, of which the whole amount was paid in. As a result, at the reporting date (and as at the date of this Directors’ Report) the paid-in issued capital of the ALUMETAL Group Hungary Kft. was HUF 5,500,000,000.00 (being the equivalent of PLN 75,080,492,00).

F. *Signing material contract with the Federal-Mogul Group*

On 3 March 2015, ALUMETAL Poland sp. z o.o. signed with Federal-Mogul Gorzyce sp. z o.o. a contract for the supply of aluminium alloys and purchase of aluminium scobs and swarf, the approximate value of which could exceed 10% of total sales revenue of the Alumetal Group for the period of the last four reporting quarters and, according to estimates, amounted to PLN 200,553,000 (in words: two hundred million five hundred fifty three thousand zloty). This contract represented continuation of economic relations between the Alumetal Group and the entities of the Federal-Mogul Group. Signing of this agreement and its terms and conditions were described in the Company’s current report No. 2/2016 dated 3 March 2016.

G. *Corporate recovery program at the Arche Group*

In 2015, two companies of the Arche Group i.e. F.V.M. Technologies Société anonyme (French-law based company) with its registered office in Villers la Montagne (France) and SIFA Technologies Société

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

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

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

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

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

By 31 December 2016, ALUMETAL Poland sp. z o.o. recorded inflow of the first declared instalment in the amount of EUR 34,992.43, and in the period from the reporting date to the date of this Directors'

report - of the three next instalments amounting to EUR 34,983.00 each: on 16 January 2017, 21 February 2017 and 23 March 2017.

H. *Signing material contract with the Volkswagen Group*

On 11 March 2016, the value of the contracts concluded by ALUMETAL Poland sp. z o.o. with the Volkswagen Group entities once again exceeded 10% of total sales revenue of the Alumetal Group for the period of the last four reporting quarters and amounted to PLN 149,795,936.33 (in words: one hundred forty nine million seven hundred ninety five thousand nine hundred thirty six zloty and thirty three groszy). ALUMETAL S.A. informed the public about this fact in its current report No. 4/2016 of 11 March 2016.

I. *Receipt of another instalment of overdue receivables from CIMOS d.d.*

On 28 April 2016 and 27 October 2016, the Group recorded payment of another two instalments by Cimos d.d. in the amount of EUR 92 415.60 and EUR 92.415.60, respectively. As a result, the Group reversed an impairment write-down against this receivable and recognized it in the 2016 result in the amount of the two funds transfer received.

Until the date of the authorization of its financial statements, the Company has not received any new information on the recovery proceedings of Cimos d.d.

J. *Payment of dividend for 2015*

On 14 March 2016, the Management Board of ALUMETAL S.A. recommended that the Company's net profit for 2015 in the amount of PLN 56,255,805.90 (in words: fifty six million two hundred fifty five thousand eight hundred five zloty and ninety groszy) was appropriated in the following manner:

- PLN 38,831,935.50 (in words: thirty eight million eight hundred thirty one thousand nine hundred thirty five zloty and fifty groszy) – to payment of dividend to the Company's shareholders i.e. PLN 2.55 (in words: two zloty fifty five groszy) per share,
- PLN 34,200.00 (in words: thirty four thousand two hundred zloty zero groszy) – to transfer to the Company's Social Fund
- the remaining amount of PLN 17,389,670.40 (in words: seventeen million three hundred eighty nine thousand six hundred seventy zloty forty groszy) – to transfer to the Company's reserve capital.

The Management Board recommended establishment of dividend date at 20 May 2016 and dividend payment date – at 31 May 2016.

The Supervisory Board of the Company at its meeting on 15 April 2016 approved the proposal of the Company's Management Board on the appropriation of profit for 2015 and recommended to the Annual General Meeting appropriation of profit consistently with the Management Board's proposal. At the same time, the Supervisory Board of the Company recommended to change the date of dividend payment from 31 May 2016, as proposed by the Management Board, to 7 June 2016.

The Company informed about the decisions of its authorities concerning appropriation of 2015 profit in its current reports No. 5/2016 of 14 March 2016 and No. 7/2016 of 15 April 2015. The Annual General Meeting of ALUMETAL S.A. with the agenda covering appropriation of profit for 2015 took place on 13 May 2016, about which the Company informed in its current report No. 10/2016 of 13 May 2016.

The Annual General Meeting of ALUMETAL S.A. concurred with the recommendation of the Management Board regarding appropriation of the Company's net profit for 2015 and with the opinion of the Supervisory Board regarding establishment of dividend date at 20 May 2016 and dividend payment date at 7 June 2016.

The Company informed the public about the Resolution of Annual General Meeting of ALUMETAL S.A. concerning profit appropriation and dividend payment in its current report No. 11/2016 of 13 May 2016.

Dividend in the amount stated above was paid on 7 June 2016.

K. Advance payment towards dividend by ALUMETAL Poland sp. z o.o. to ALUMETAL S.A.

In order to facilitate financing by ALUMETAL S.A. of the increase in the issued capital of ALUMETAL Group Hungary Kft., ALUMETAL Poland sp. z o.o. made in 3Q 2016 to ALUMETAL S.A. an advance payment towards 2016 dividend in the amount of PLN 11,500,000.00.

L. Extension of short-term loan agreements for another year

In 2Q 2016, the Alumetal Group extended with ING Bank Śląski S.A., BPH S.A. (currently Alior Bank S.A.) and Bank Handlowy w Warszawie S.A. its short-term loan agreements for another year, thus increasing its total Group's short-term loan facility in the banks in Poland (due to the planned commencement of production in Hungary) by PLN 30 million to the amount of PLN 130 million (detailed listing of loan agreements was presented in point VIII.1. of this Directors' Report).

M. Concluding a short-term loan agreement with Citibank Europe plc Hungarian Branch Office

ALUMETAL Group Hungary Kft. signed on 12 September 2016 a short-term bank loan agreement (two-currency overdraft facility – EUR, HUF) with a total amount of EUR 1,875,000 with a maturity date of 17 August 2017, which – given the earlier signed short-term loan agreements with Bank Handlowy w Warszawie S.A. and BPH S.A. (currently Alior Bank S.A.) – means full coverage for the financing of operational activity of this entity.

N. Launch of the service of receivables insurance

Given its further trade expansion, the Company decided to change its approach to trade risk management and 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 (the Federal Mogul Group, Nematik Group and the Volkswagen Group), and the insurance taken covered the period from 1 April 2016.

O. Progress in the execution of the project „Construction of a production plant in Hungary”

On 18 April 2016, the first application for partial reimbursement of incurred investment expenditure was filed with the HIPA which was approved on 4 August 2016. Payment of cash subsidy pre-financing was made on 20 September 2016. At the reporting date, 2 tranches of cash subsidy pre-financing

(advance) were paid out for the total amount of HUF 784,800,400 (the equivalent of PLN 11,163,000.89). As at the date of this Directors' Report, a total of 3 tranches of cash subsidy were paid out in the total amount of HUF 939,312,070 (the equivalent of PLN 13 306 077.75).

In June 2016, a legally valid permit was obtained for the use of part of the production plant regarding acceptance and warehousing of raw materials scrap. At the same time, employee recruitment and training process was carried out. This project was executed in accordance with the adopted substantive-financial timetable. On 18 July 2016, supply and warehousing of raw materials scrap commenced, while on 5 August 2016 a permit was obtained for the use of the entire production plant. On 17 August 2016, technical acceptance protocol was signed with the General Contractor concerning technical acceptance of all construction work and transfer of the entire property to the Investor, while on 22 August 2016, the ALUMETAL Group Hungary Kft. received a legally valid permit for the use of all constructed objects.

On 22 September 2016, the ALUMETAL Group Hungary Kft. started the production of its intended finished goods (casting alloys) using the first casting production line, and the first batch of finished goods was despatched to the client on 29 September 2016.

Since then, the company has systematically despatched aluminium alloys to more clients to verify quality of its products and to have its products accepted by more clients of the Komárom production plant as a certified supplier of aluminium alloys. In 2016, sales of the ALUMETAL Group Hungary Kft. reached the level of 3.8 thousand tons.

On 2 December 2016, the production plant of the ALUMETAL Group Hungary Kft. started a test production on the second production line, which effectively meant reaching by the Komárom plant of its planned production capacity at the level of 60 thousand tons, i.e. the full targeted production capacity.

Currently, operational efficiency optimization is carried out of the first production line (full utilisation of the production capacity and maximization of metallurgical efficiency/ yield) and of metal management equipment, as well as technological optimization of the second production line.

As at 31 December 2016, the headcount at the ALUMETAL Group Hungary Kft. counted at 106 persons, inclusive of all required white-collar employees (according to the agreement with the Hungarian government, the required employment level was set at 150 persons). The recruitment process is still underway.

The Company informed the public about the commencement and progress of the project „Construction of a production plant in Hungary” in its current reports No. 17/2014, 29/2016 and 32/2016 and in its periodic reports published in 2015 and 2016.

P. Full utilisation of the investment loan taken out to finance the construction of a production plant in Hungary

In connection with the continuation of investment processes at the Production Plant in Hungary, ALUMETAL S.A. drew the last tranche of the investment loan in ING Bank Śląski S.A. (drawn funds were immediately transferred to the ALUMETAL Group Hungary Kft. in the form of a long-term loan).

The amount of the incurred investment loan (and of the long-term loan to the Hungarian subsidiary) amounted as at 11 July 2016, 31 December 2016 and at the date of this Directors' Report to EUR 10,000,000.00 which means that the loan was disbursed in the full planned amount.

Q. *Development of Master Alloy Plant in Gorzyce*

In accordance with the information provided in the current report No. 25/2016 of 29 July 2016, the Alumetal Group took a decision in the matter of execution of a project called *Development of Master Alloy Plant in Gorzyce in the EUROPARK-WISŁOSAN Tarnobrzaska Special Economic Zone* (“*Rozbudowa Zakładu Stopów Wstępnych w Gorzycach w Tarnobrzaskiej Specjalnej Strefie Ekonomicznej EUROPARK-WISŁOSAN*”). More detail was provided in point V.3. of this Directors’ Report.

6. Significant events after the reporting date

A. *Execution of Corporate recovery program at the Arche Group*

On 16 January 2017, 21 February 2017 and 23 March 2017, ALUMETAL Poland sp. z o.o. recorded three payments from SIFA Technologies Société anonyme in the amount of EUR 34,983.00 each. These payments are consistent with the provisions of the Protocol of Settlement included in the corporate recovery plan validated on 24 November 2016 by the Commercial Court in Paris.

B. *Cash subsidy pre-financing payment*

On 30 September 2016, the third application for partial reimbursement of incurred investment expenditure was filed with the HIPA, which was approved on 14 March 2016. On 20 March 2017, ALUMETAL Group Hungary Kft. received from HIPA the third instalment (tranche) of cash subsidy pre-financing payment in the amount of HUF 154,511,670 (the equivalent of PLN 2,143,076.86).

V. Realised investments and development work

1. Information on major research and development achievements

In 2016, the value of investment expenditure incurred for the purchase of property, plant and equipment and intangible assets in the Alumetal Group was as follows:

Total expenditure (PLN thousand)	01.01.2016 – 31.12.2016	01.01.2015 - 31.12.2015
	108,413.92*	47,254.12*

* after considering movements on the collateral manager account (the effect of escrow or trust construction services resulting from Hungarian regulations)

The investment projects carried out in 2016 related to the tasks in the following areas:

- investments in the area of product mix and production capacity development – PLN 99.1 million,
- replacement - retrofitting type investment projects – PLN 6.2 million,
- investments in the area of metal management – PLN 3.1 million.

2. Project called *Construction of a production plant in Hungary*

The most significant events relating to the project called *Construction of a production plant in Hungary* (*"Budowa Zakładu na Węgrzech"*), which were realised in 2016 are as follows:

- signing on 17 August 2016 with the General Contractor of a technical acceptance protocol for construction work and transfer of the property to the Investor,
- obtaining on 22 August 2016 of a legally valid permit for the use of construction objects,
- commencement on 22 September 2016 of the production of finished goods (casting alloys) on the first casting alloys production line; the potential production capacity of the first production line was up to 36 thousand tons per annum, which equated to 60% of the assumed production capacity of the entire plant,
- achieving on 2 December 2016 of operational readiness for production commencement on the second production line, which effectively means achieving by the plant of planned production capacity at the level of 60 thousand tons, i.e. full targeted production capacity of the Komarom plant,
- currently, operational efficiency optimization is carried out of the first production line (full utilisation of the production capacity and maximization of metallurgical efficiency/ yield) and of metal management equipment, as well as technological optimization of the second production line.

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

On 29 July 2016, the Supervisory Board of the Company consented to executing of the investment plan called *Development of Master Alloy Plant in Gorzyce* (*"Rozbudowa Zakładu Stopów Wstępnych" w Gorzycach*) and to incurring the related investment expenditure up to the amount of PLN 58,500,000.00 (in words: fifty eight million five hundred thousand zloty zero groszy). The investment project is scheduled for completion by the end of 2Q 2018. The project has been financed solely from own funds of the Alumetal Group.

On 27 September 2016, ALUMETAL Poland sp. z o.o. obtained a Permit from the Agencja Rozwoju Przemysłu S.A. for the execution of this investment project.

The Project has been executed to the planned budget and to deadlines set forth in project timetable. Currently, the Company is in the process of obtaining appropriate permits. Project completion in the construction phase reached 70%, while in the technological part - 40%. In 1Q 2017, more equipment and fittings for Project execution were contracted.

4. Financing the development of ALUMETAL Group

The Company concluded a number of contracts with a view to securing finance for the project *Construction of a production plant in Hungary* 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,
- 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 the amount of EUR 10 million with the maturity date set at 14 October 2022,
- in 2Q 2016, the Alumetal Group extended with ING Bank Śląski S.A., BPH S.A. (currently Alior Bank S.A.) and Bank Handlowy w Warszawie S.A. its short-term loan agreements for another year, and ALUMETAL Group Hungary Kft. signed on 12 September 2016 an agreement with Citibank Europe plc Hungarian Branch Office for a short-term bank loan of EUR 1,875,000 thus increasing, due to the planned commencement of production in Hungary, the total loan limit of the Alumetal Group by approx. PLN 30 million to the amount of approx. PLN 138 million.

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

The main capital investment made in the Alumetal Group in 2016 was the increase in the issued capital of the Hungarian-law based company, ALUMETAL Group Hungary Kft. with the issued capital of HUF 2,800,000,000 as at 31 December 2015 (the cumulative increase in the paid in capital amounted as at that date to HUF 2,300,000,000) and HUF 5,500,000,000.00 as at 31 December 2016 (the equivalent of PLN 75,080,492.00), paid for in full.

6. Development directions of the ALUMETAL Group

The objective of the Group is to build value for the shareholders by increasing sales volume of Group's products and maximizing the Group's profitability with simultaneous maintenance of the Company's dividend capacity.

The elements of the strategy of the Group that are to ensure the achievement of the above objectives cover:

A. Increase in sales volume of ALUMETAL Group products

The strategic objective of the Group is to realize systematic growth in sales volumes from approx. 127 thousand tons in 2013 to approx. 210 thousand tons in 2018, which translates into expected increase in the share of the European market of secondary aluminium casting alloys from 5% in 2013 to 7.5% in 2018.

The key activities that are to contribute to the increase in the sales volume of the Group cover:

- increase in the efficiency (productivity) of the current production capacities,
- business development through product offer extension,
- increase in sales of products with higher added value,
- development of production capacities, among others, through the commencement of production in a new production plant in Hungary as of 4Q 2016.

As at the date of the preparation of this Directors' Report, the real aggregate production capacity of the three production plants of the Group amount to 233 thousand tons per year. To maximize utilisation of the existing production capacity at each of the three plants, the Group intends to continue to intensify collaboration with current clients by increasing volumes of secondary alloys currently sold to these clients and by profiting from the expected higher demand for secondary aluminium alloys in the forthcoming years, and [intends] to attract new clients. These activities are to also ensure seamless utilisation of the production capacity of the newly constructed production plant in Hungary by securing production and sales orders. At the same time, the Group has systematically worked, with positive effect, on productivity increase of the operated production lines.

In addition, the Group intends to focus on product offer extension and on increase in sales volumes of the products with higher added value. In the first half of 2015, the Group started delivery of aluminium alloys in the liquid form from the Nowa Sól production plant. The Group also plans to further increase sales of master alloys in the form of waffle plates (wafers). In addition, in 2016, the Group commenced realisation of the investment consisting in increasing production capacities in the area of production of master alloys, as well as extending product offer in this segment.

The Group is currently in the process of operational optimization of its production plant in Hungary with a production capacity of approx. 60 thousand tons, which will allow it to extend the scale of business operations of the Group in the CEE markets, on which the Group has already been actively present, and to intensify its presence in the markets of the Southern Europe.

B. *Maximization of ALUMETAL Group profitability*

As part of its business strategy, the Group intends to focus on the improvement of its profitability measured using the ratio of EBITDA earnings per 1 ton of sold goods through the following activities:

- development of the preparation system and further optimization of raw materials management in the production process (metal management) and maximization of metal yield,
- product offer optimization (e.g. through higher sales of master alloys),
- streamlining unit production cost through the increase of production output of operated production lines.

The Group intends to maintain its cost efficiency by optimizing production costs, including the costs of energy and transport. Positive contribution to maintaining costs efficiency should have further increase in the production volume, which is expected to reduce the share of fixed costs in the operating expenses. The Group made investments in Hungary and in the Nowa Sól plant in relatively large and modern furnaces with high production capacity and efficiency (with low energy consumption and less intensive use of labour).

VI. Human capital management

1. Recruitment policy

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

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

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

The investment in and launch of a new production plant in Hungary caused that the Alumetal Group has become an international employer. This requires that the Group and its foreign subsidiary learned about each other's tradition and culture, regional conditions and behaviours, and, more importantly, created an efficient platform for communication and cooperation. Competent exchange and use of shared practice and experience in the international environment should bring about many added values to the Group.

2. Structure of employment

As at 31 December 2016, the Alumetal Group had 659 employees. In the prior year, the Group minimized its services based on temporary employment and on temporary employment of Ukrainian nationals. The best-performing Ukrainian temporary employees were offered non-temporary or permanent employment (i.e. based on work contract).

Due to the launch of a new production plant in Hungary, in July 2016 an intensive recruitment process commenced for both blue- and while-collar posts. In the period of half year, owing to the in-house Human Capital resources, effective employment was offered to more than 100 persons. This process was continued through to 2017 with a view to increasing headcount levels by several dozens to reach the optimum employment level.

Company	31 December 2016	31 December 2015
ALUMETAL S.A.	55	41
ALUMETAL Poland sp. z o.o.	491	516**
T+S sp. z o.o.	7	7
ALUMETAL Group Hungary Kft.	106	2
TOTAL	659*	566***

* As at 31 December 2016, the Group did not use services of temporary Polish and Ukrainian employees

** As at 31 December 2015, the Group additionally employed 11 Hungarian nationals undergoing on-job training

*** As at 31 December 2015, the Group additionally used services of 10 Polish and 22 Ukrainian temporary employees

Employees	31 December 2016	31 December 2015
Blue-collar employees	535	468
White-collar employees	124	98
Total	659	566

3. Communication

The Group places great emphasis on the development of communication skills (soft skills). The Group ensured that its internal and external communication is clear, adequate and transparent, while emphasizing the importance of such values as trust, openness, cooperation and loyalty.

In 4Q 2016, the Group also started a considerably lengthy (lasting several months) cycle of communication workshops that are to improve communication skills of its employees. This cycle is dedicated to several dozen employees of the Alumetal Group.

4. Professional development and training

In 2016, the Group commenced the cycle of executives training with a view to strengthening employee competences and shaping business culture of the Group. This training is continued in 2017 and the number of training participants has systematically increased.

Depending on the length of service, occupied position, needs and strategy of the Group and the plans of individual departments, Group employees participate in:

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

VII. Quality, environmental protection and labour hygiene and safety

1. Quality

The production plants of the Alumetal Group maintain the highest and reproducible quality of products required by all clients of the automotive industry, to which predominantly casting alloys are delivered. This highest and reproducible quality of our products and meeting client requirements, as the necessary certifying criteria for the ISO/TS 16949:2009 norm, were confirmed during supervisory audits. All Polish production plants of the Alumetal Group completed these audits with positive results.

In 2016, Group clients performed 13 audits and all ended with positive results. Three of said audits were the audits admitting the production of aluminium casting alloys for the automotive clients from the new production plant of the ALUMETAL Group Hungary Kft. in Hungary.

The Group developed its cooperation in the field of supplies of casting alloys in the form of liquid metal from the Nowa Sól plant. Currently, apart from regular cooperation with Volkswagen Poznań sp. z o.o. in Poznań, client portfolio was extended to include other clients from Germany. It is the example of the highest and reproducible quality of both our products and provided service and logistics.

2. Environmental protection

Here, at the Alumetal Group we perceive the protection of natural environment and its resources, and the impact of operating our plants on natural environment as an important issue and this standpoint results not only from the necessary compliance with legal requirements.

The Alumetal Groups for many years have operated their management system in accordance with the ISO 14001 norm, which is the platform for continuous improvement and extension of ecological efficiency. The environmental policy of the Company is directed to clean production understood as making effort to reduce resource consumption, to reduce harmful emissions and to efficiently prevent damage. In October 2016, all three plants of ALUMETAL Poland sp. z o.o. and ALUMETAL S.A., as the managing company, were successfully re-certified, which extended our certification validity for the next three years. In autumn 2017, during supervisory audit, the Alumetal Group companies will undergo certification according to the new issue of the ISO14001:2015 norm.

The objective of reduction of natural resource consumption is executed through the use of aluminium scrap obtained from the market. More than 90% of raw materials for the production of aluminium casting alloys are re-cycled scrap raw materials. The ongoing optimization process is carried out with a view to using other types of scrap metals with the concurrent aim of reducing gas or energy consumption.

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

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

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

The Company has not received any complaints for violating environmental norms, laws and regulations. Lack of complaints from local residents only proves that the impact of our production plants on natural environment is properly controlled and managed.

3. Labour hygiene and safety

Employee labour hygiene and safety and ensuring good working conditions are the main priority at the Alumetal Group. To this end, not only the activities required directly by legal regulations are executed, but additional training is provided to improve employee awareness of the importance of personal and fellow employee safety at work; all these activities are to eliminate any potential workplace health and safety hazards.

In 2016, a total of several hundred employees of the Alumetal Group participated in the labour hygiene and safety training (both obligatory i.e. preliminary and cyclical, and advanced training). In addition, training was provided to several dozen persons from other entities who performed repair work on the premises of Group production plants.

The initiatives executed in the area of work hygiene and safety increased workplace safety and improved working conditions of Group employees. In 2016, 2 work accidents occurred in the production plants of the Group, i.e. 5-times less than in the prior year, and none of those accidents was classified as a serious incident.

In October and November 2016, ALUMETAL S.A. and ALUMETAL Poland sp. z o.o. with the plants in Kęty, Gorzyce and Nowa Sól successfully completed re-certification of the System of Management of Labour Hygiene and Safety according to the norm BS OHSAS 18001:2007, which extended validity of said certificate for another 3 years.

VIII. Loans and borrowings, and other financial agreements

1. Loans and borrowings taken out

				31 December 2016	31 December 2015
	Available limit	Currency*	Maturity date	Limit utilised	Limit utilised
<i>Overdraft facility:</i>					
Aggregate limit facility for several Group companies at ING Bank Śląski S.A. with an interest rate based on 1M LIBOR (USD) + margin, 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin	36 000 000.00***	PLN*	21.06.2017	8 800 178.06	16 613 156.50
Aggregate limit facility for several Group companies at Alior Bank (loan assumed from BPH S.A.) with an interest rate based on 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin, 1M BUBOR (HUF) + margin	46 000 000.00****	PLN*	22.06.2017	19 062 544.70	11 162 833.43
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	48 000 000.00	PLN*	19.05.2017	23 619 443.43	15 992 951 .35
Limit facility for Alumetal Group Hungary Kft. at Citibank Europe Hungarian Branch Office with an interest rate based on O/N EURIBOR (EUR) + margin, O/N BUBOR (HUF) + margin	1 875 000.00	EUR*	16.08.2017	5 853 332.81	-
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	10 000 000.00*****	EUR	14.10.2022	1 477 616.00	-
Short-term portion of the investment loan issued to Alumetal Poland Sp. z o.o. by ING Bank Śląski S.A. in the amount of EUR 9.5 million, with an interest rate based on 1M WIBOR + margin, 1M EURIBOR + margin	9 500 000.00**	EUR*	30.06.2016	-	3 636 472.03
Total short-term portion	-	-	-	58 813 115.00	47 405 413.31
Long-term portion of the investment loan issued to Alumetal Poland sp. z o.o. by ING Bank Śląski S.A. in the amount of EUR 9.5 million, with an interest rate based on 1M WIBOR + margin, 1M EURIBOR + margin	9 500 000.00**	EUR*	30.06.2016	-	-
Long-term investment loan issued to Alumetal S.A. by ING Bank Śląski S.A. in the amount of EUR 10 million, with an interest rate based on 1M EURIBOR + margin, taken out to finance the construction of a production plant in Hungary	10 000 000.00*****	EUR	14.10.2022	42 762 384.00	3 109 045.51
Total	-	-	-	101 575 499.00	50 514 458.82

* 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 9.5 million

*** as part of the loan agreement, the available limit was formally increased by PLN 3.6 million to the amount of PLN 39.6 million as a mechanism hedging the Bank against fluctuations in the EUR/PLN and USD/PLN exchange rates and against origination of past due loan liability

**** as part of the loan agreement, the available limit is increased by the limit for financial market transactions by the amount of PLN 2 million to the amount of PLN 48 million

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

2. Loans granted

ALUMETAL S.A. or its subsidiary company issued in the reporting period the following loans and borrowings:

- increase from PLN 24 thousand to PLN 30 thousand of a short-term, PLN-based loan issued to the related company, ALUMETAL Kęty sp. z o.o., with an interest rate of 1M WIBOR and maturity date set at 30 June 2017;
- issuance on 26 October 2015 of a long-term loan by ALUMETAL S.A. to its subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of a production plant in Hungary, in the amount of EUR 10 million and with the maturity date set at 14 October 2022. As at 31 December 2016, the value of the loan disbursed was EUR 10 million.

3. Other financial agreements

- Factoring agreement of 15 September 2014 with Bank UniCredit Luxembourg S.A. on full factoring of Euro-based receivables from one of the clients of the Alumetal Group i.e. at the risk of this client and with no recourse to the Alumetal Group, and with no limit (limited in practice by the scale of cooperation with the given client);
- Agreement of 28 June 2011 (with subsequent amendments) between ALUMETAL Poland sp. z o.o. and Bank Handlowy w Warszawie S.A. on collaboration between the parties in the area of acquiring by the Bank, based on separate agreements, of trade liabilities of ALUMETAL Poland sp. o.o. towards its business partners, with a total limit of PLN 7 million (full factoring for suppliers executed at their cost).
- the Alumetal Group Hungary Kft. received from the Hungarian government a binding offer, and accepted it, concerning cash subsidy for this project, and the underlying support agreement became finally effective on 2 February 2016; As at the reporting date the amount of advance payment under this agreement amounted to PLN equivalent of PLN 11,163,000.89, while as at the date of the preparation of this Directors' Report – PLN 13,306,077.75.

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

1. Court and litigation proceedings

As at 31 December 2016, neither the Company nor any of its subsidiary companies was a party to litigation proceedings with a value equating or exceeding, in whole or in part, 10% of the shareholders' equity of the Company.

2. Sureties

- ALUMETAL S.A. issued a surety in respect of a long-term investment loan taken out in 2010 by Alumetal Poland sp. z o.o. at ING Bank Śląski S.A. in the amount of EUR 9 500 000.00, with an interest rate of 1M WIBOR +margin, 1M EURIBOR + margin. As at 31 December 2016, the loan was repaid in full (by 30 June 2016).
- on 7 January 2016, ALUMETAL S.A. issued a surety to the ALUMETAL Group Hungary Kft. in connection with a Contract for cash subsidy of 27 October 2015 concluded with the Ministry of Foreign Affairs and Trade of Hungary, in case the ALUMETAL Group Hungary Kft. was obligated to return the received public aid and the related interest and did not discharge this obligation, as provided in this Contract; the surety was issued to the amount not exceeding 120% of the received public aid. As at the reporting date, 2 tranches of cash subsidy pre-financing (advance payment) were paid out for the total amount of HUF 784,800,400 (the equivalent of PLN 11,163,000.89), while at the date of the preparation of this Directors' Report a total of 3 tranches of cash subsidy were paid out in the total amount of HUF 939,312,070 (the equivalent of PLN 13 306 077.75).
- in 2016, Alumetal SA and Alumetal Poland sp. z o.o. issued guarantees and sureties in respect of trade liabilities of Alumetal Group Hungary Kft in favour of the suppliers of the Hungarian subsidiary. The total value of these guarantees and sureties amounted as at 31 December 2016 to the equivalent of PLN 3,983,920.74.

3. Contingent liabilities

Based on a contract with the National Fund for Environmental Protection and Water Management (*Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej*) on financial compensation under the operational program *Infrastructure and Environment 2007-2013* („Infrastruktura i Środowisko 2007-2013”) for the execution of the investment project called *Construction of a plant for the scrap and aluminium waste processing and production of casting alloys – Phase I* („Budowa zakładu przerobu złomów, odpadów aluminiowych i produkcji stopów odlewniczych – etap I”) with a value of PLN 20,000,000.00, ALUMETAL Poland sp. z o.o. is required to fulfil contractual obligations (covenants), including those relating to project durability over the entire term of the project defined in the contract. The security for the fulfilment of the obligations under project financial compensation contract (*umowa o dofinansowanie projektu*) is an *in blanco* promissory note.

Apart from the above contingent liability, as at 31 December 2016, the Company and its subsidiary companies had no other contingent liabilities with a total or individual value of at least 10% of the Company's issued capital.

X. Financial risk management objectives and policies

The main type of business activity of the Company is conducting operations of a holding company. As part of these operations, the Company manages the financial risk of the companies of the Alumetal Group. The main types of risk described in detail in the consolidated financial statements of the Alumetal S.A. Capital Group prepared for the year ended 31 December 2016 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 2015, except for the developments in the area of credit risk consisting in seeking insurance coverage for receivables, starting from 1 April 2016.

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

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

1. Interest rate risk

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

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

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

2. Foreign currency risk

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

The Group regularly monitors its EUR/ PLN, USD/ PLN and EUR/HUF currency position, and systematically concludes hedging transactions, in accordance with its hedge accounting policy and using the accepted types of derivative financial instruments. In practice, the Group uses 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 are directly or indirectly related to the quotations on the London Metal Exchange ("LME") (*Londyńska Giełda Metali*). The quotations with the most significant effect are the quotations of pure aluminium (LME HG) and aluminium alloys (LME AA), while the quotations of several other metals such as nickel or copper are of far lesser importance. The correlation of these quotations with the prices of goods of the Alumetal Group, although relatively strong, is not – however - full, especially in a short period of time. In addition, the mechanism of natural hedging is applied in this area as the prices of purchase of raw materials, which account for approx. 85% -90% of the production costs, are also correlated with LME's quotations, particularly in a long term. This causes that the risk of LME's commodity price fluctuations causes a 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 client financial standing (based on the financial data made available by clients and based on the information obtained from credit bureaus), monitoring of this standing and the ongoing analysis of timeliness of trade debtor payments through the proactive approach of debt recovery team, operating in accordance with Group's relevant debt collection procedure.

Given its further trade expansion, the Company decided to change its approach to trade risk management, and in the 1st half of 2016 signed an agreement for receivables insurance. Verification of trade receivables covered the entire balance of sales to non-related entities, except for the sales to the three largest customers of the Alumetal Group (the Federal Mogul Group, Nemak Group and the Volkswagen Group), and the insurance taken covered the period from 1 April 2016. As a result, the credit risk of the Company became considerably limited. However, one should note that pursuant to the policies operating in this type contracts, 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 originates receivables from customers in the amount higher than the coverage limit granted by the insurer.

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

5. Liquidity risk

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

However, for many years now, the Group has used multi-currency overdraft facility lines which fully match its financial liquidity requirements. To this end, the Group has used services of several banks by taking out short- and long-term loans and borrowings in those banks, 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 higher demand for working capital financing), the risk of the loss of financial liquidity does not occur.

XI. Risk factors with possible impact on Group financial results

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

1. Geopolitical and macroeconomic situation in Europe

The activities of the Group are affected by macroeconomic conditions relating to Polish, German, Central European and European economy, economic policy of individual governments, tax systems, GDP, unemployment rate, interest rates, currency exchange rates, inflation rate, consumption levels, investment expenditure and the amount of budget deficit. Fluctuations in the market prices of secondary aluminium alloys have direct impact on the prices of Group products and, to a limited extent, on the margins earned. Market prices of secondary aluminium alloys depend on the supply and demand as well as on other factors, on which the Group has no or only limited influence, such as general macroeconomic conditions, situation in the industry sectors that are the key consumers of secondary aluminium alloys, prices of original aluminium and prices of aluminium scrap. Deterioration of general economic conditions in Europe, and especially in Poland, Germany, Hungary or in the Central and Eastern Europe may have adverse impact on the activities, financial position, financial results or business perspectives of the Alumetal Group by the end of 2017. Geopolitical situation may also have indirect impact on the results of the Group.

2. Situation of automotive industry

Group structure of consumers of secondary aluminium casting alloys is strongly focused on the automotive industry. In consequence, business activities of the Group are sensitive to trend changes in the automotive industry. The economic situation of 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. Despite considerable recovery of the automotive industry since the mid of 2013, one may not, however, exclude the possibility of raising trend reversal in the near future, which could have 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). 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 (e.g. problems at the Volkswagen Group).

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

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

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

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

4. Limited availability of raw materials scrap in Europe

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

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

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

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

6. Higher competition on the market of secondary aluminium alloys

Emergence of new entities or stronger market position of present competitors - secondary aluminium alloys producers, or a potential increase of production capacity or development plans of domestic or international competitors of the Group may result in higher market competition. It cannot be certain that in the future, Group competitors will not intensify development of their business and will not conduct aggressive product and price policy against present or potential suppliers and customers of the Alumetal Group.

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

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

Another risk to the financial results of the Group may pose the fact that the ALUMETAL Group Hungary Kft. has received cash subsidy and will use the investment tax relief (tax credit). Should it transpire in the future that this company does not meet its obligations arising from the obtained public aid, it may be required to return the received public aid in whole or in part, and this – in turn – may be a significant burden and threat to the liquidity of the Group. However, the long-standing experience of the Alumetal Group in benefiting from public aid greatly reduces this risk.

8. Other accidental, unfavourable one-off events

Other unforeseen and unexpected one-off events may also have material unfavourable impact on the financial results of ALUMETAL S.A. and the Alumetal Group.

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

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