

**DIRECTORS' REPORT  
ON ACTIVITIES OF ALUMETAL S.A.  
FOR THE YEAR 2018**



Kęty, 21 March 2019

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## I. Issuer and its Capital Group corporate data

### 1. Description of ALUMETAL S.A.

**ALUMETAL S.A.** is a holding company rendering management, 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").

#### 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:	<a href="http://www.alumetal.pl">www.alumetal.pl</a>
E-mail address:	<a href="mailto:alumetal@alumetal.pl">alumetal@alumetal.pl</a>
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. Based on the resolution of the Shareholders' Meeting of „ALUMETAL” sp. z o.o. of 5 September 2003, the Company was transformed into a joint stock company ALUMETAL S.A. The transformation was registered with the competent registry court on 28 October 2003.

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

The Company's scope of business is defined in § 4 of its Statutes, being in particular: head office and holding operations, except for financial holdings (PKD 70.10.Z).

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

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

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

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

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

## **B. Subsidiary companies**

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

### **ALUMETAL Poland sp. z o.o.**

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

Corporate information:

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

### **T + S sp. z o.o.**

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

Corporate information:

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

### **ALUMETAL Kęty sp. z o.o.**

The Company held 100% shares in the issued capital of ALUMETAL Kęty sp. z o.o., which gave it the right to exercise 100% votes at the shareholders' meeting of this company. On 26 July 2018, the Extraordinary Annual General Meeting of Alumetal Kęty sp. z o.o. resolved to dissolve the company and open winding-up procedure as of 31 July 2018. After that on 5 October 2018, 100% of shares in the liquidated company was sold by Alumetal S.A.

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.**

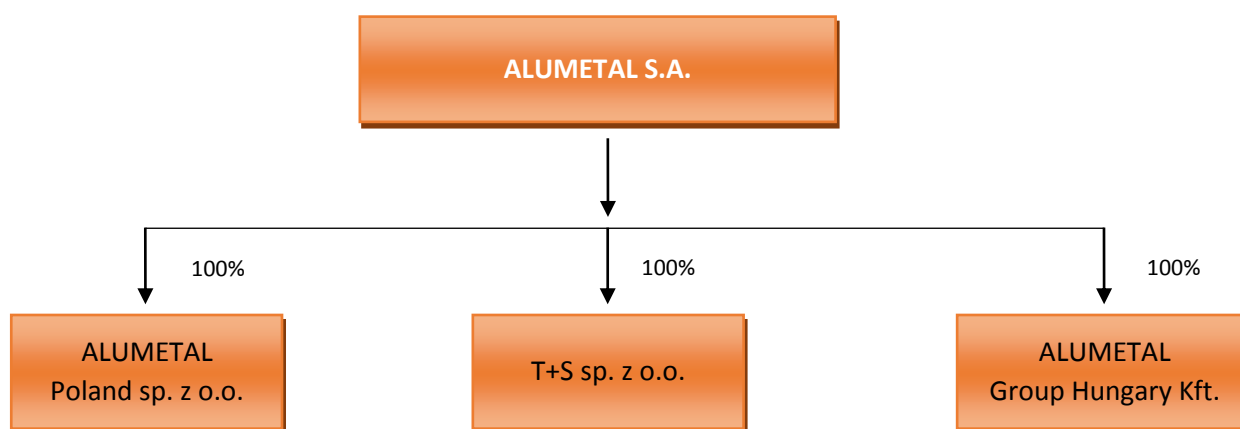
The Company holds 100% shares in the issued capital of ALUMETAL Group Hungary Kft., which was incorporated on 11 July 2014 to realize the investment of the Alumetal Group in Hungary.

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 2018, the organizational structure of the Alumetal Group was as follows:

**Organizational structure of the ALUMETAL S.A. Capital Group**



			% share held by ALUMETAL S.A. in the issued capital	
			31 Dec 2018	31 Dec 2017
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%
ALUMETAL Group Hungary Kft.	Komarom, Hungary	Production	100%	100%

**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 Polish production plants of the Group, which are located in Kęty (Małopolskie Voivodship), Nowa Sól (Lubuskie Voivodship) and Gorzyce (Podkarpackie Voivodship).

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

**Alumetal 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 the production and sale of aluminium casting alloys in September 2016.

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

In 2018 and as at the date of the publication of this Directors' Report, the organisational structure of the ALUMETAL S.A. did not change.

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

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

The Issuer is also related by capital with the entity controlled by Mr Grzegorz Stulgis, Chairman of the Supervisory Board: IPO 30 FIZAN A/S, which as at 31 December 2018 held a total of 5 108 221 shares of ALUMETAL S.A. which translated into a 32.99% share in the issued capital of the Company.

# **II. Statement of Corporate Governance**

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

ALUMETAL S.A. has conducted business in accordance with Polish laws and the Company's Statutes. For many years, the 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 is the Hungarian-law based Group company, ALUMETAL Group Hungary Kft., which does not have management board within the meaning of Polish regulations, and the persons authorised to manage and represent this company as at the date of the preparation of this Directors' Report are



Mr Andrzej Słupski and Mr Robert Ozóg (employees of ALUMETAL S.A.). This exception is the effect of the requirements of Hungarian laws.

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

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

In the period from 31 December 2017 to 31 December 2018, the principles of management of the Alumetal Group did not change.

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

Pursuant to the provisions of § 11 section 2 point 6 of the Statutes of ALUMETAL S.A. any changes to the Company's Statutes are solely the matter for the General Shareholders' Meeting. All issues relating to the manner of changes to the Statutes are regulated solely and entirely by the Code of Commercial Companies. The Company's Statutes do not contain any special provisions in this regard.

## **3. Authorities of ALUMETAL S.A.**

### ***A. Annual General Meeting***

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

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

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

Apart from the matters regulated by the provisions of the Code of Commercial Companies, other legal acts or provisions of the Company's Statutes, a resolution of the Annual General Meeting is required for:

- 1) creation and elimination of all types of capital and funds, including special purpose capital and funds,
- 2) Company liquidation,
- 3) re-acquisition of own shares for redemption purposes, cancellation or decrease of the Company's issued capital,
- 4) disposal or lease of the Company's enterprise or an organised part thereof, or establishment of a limited property right thereon (*limited right in rem*), disposal of the Company's interest in subsidiary companies,

- 5) merger with another entity (business combination),
- 6) amendments in the Company's Statutes,
- 7) adoption of Regulations of the Company's Annual General Meeting.

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

On 23 May 2018, 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 2017;
- authorization of the Financial statements of ALUMETAL S.A. for the year ended 31 December 2017;
- approval of Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year ended 31 December 2017;
- authorization of Consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2017;
- approval of the Report of Supervisory Board for 2017;
- approval of the Report on activities of Supervisory Board in 2017;
- approval of the Assessment of Alumetal Group's situation prepared by the Supervisory Board as well as of other assessments and information relating to certain defined aspects of the functioning of the Company set forth in the *Code of Best Practice for WSE Listed Companies*;
- appropriation of profit for 2017, dividend payment, determining dividend date and dividend payment date,
- acknowledgment of the fulfilment of duties by Members of the Company's Management Board in 2017;
- acknowledgment of the fulfilment of duties by Members of the Company's Supervisory Board in 2017;
- appointment of the Supervisory Board for the next term of office.

The Company made available to the public the full contents of resolutions of the Ordinary Annual General Meeting in its current report No. 12/2018 of 23 May 2018.

On 3 October 2018, the Extraordinary Annual General Meeting passed resolutions in the following matters:

- changes in the composition of the Company's Supervisory Board;
- determining the rules of remuneration of Audit Committee Members;
- change in the Resolution No. 3 of the Extraordinary Annual General Meeting of 7 November 2017 in the matter of conditional increase in the issued capital of the Company and issuance of subscription warrants with the full exclusion of shareholders' rights issue with respect to the subscription warrants and shares issued under conditional capital, and change in the Company's Statutes.

The Company informed the public about the contents of resolutions and the results of votes at the Extraordinary Annual General Meeting in its current report No. 25/2018 of 3 October 2018.

## **B. Supervisory Board**

As at 31 December 2017, 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.

Due to the completion of the term of office of Supervisory Board, on 23 May 2018 the Ordinary Annual General Meeting of ALUMETAL S.A. resolved to appoint as Supervisory Board Members the following persons:

- Mr Grzegorz Stulgis,
- Mr Frans Bijlhouwer,
- Mr Marek Kacprowicz,
- Mr Paweł Małycka,
- Mr Michał Wnorowski.

The Company informed the public about changes in the composition of the Supervisory Board in its current report No. 14/2018 of 23 May 2018.

On 2 October 2018, the Company received from Mr Marek Kacprowicz written letter of resignation from the post of Supervisory Board member with effect as at 2 October 2018, about which the Company informed the public in its current report No. 24/2018 of 2 October 2018.

On 3 October 2018, the Extraordinary Annual General Meeting appointed Mr Szymon Adamczyk as member of the Supervisory Board, about which the Company informed the public by publishing its current report No. 26/2018 of 3 October 2018.

As at 31 December 2018, the composition of the Supervisory Board was as follows:

- Mr Grzegorz Stulgis,
- Mr Frans Bijlhouwer,
- Mr Paweł Małycka,
- Mr Michał Wnorowski
- Mr Szymon Adamczyk.

In the period from 31 December 2018 to the date of this Directors' Report, the composition of the Supervisory Board did not change.

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

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.

The powers of the Supervisory Board include, in particular:

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

Pursuant to the regulations of the „2016 Code of Best Practice for WSE Listed Companies” implemented by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015, the Supervisory Board of ALUMETAL S.A., on its meeting of 17 April 2018, passed resolutions in the following matters:

- assessment of the Directors' Report on activities of ALUMETAL S.A. for the year 2017 and of the Financial statements of ALUMETAL S.A. for the year ended 31 December 2017, assessment of Management Board's proposal regarding 2017 profit appropriation, and assessment of the Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2017 and of the Consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2017;
- acceptance of the report of ALUMETAL S.A.'s Supervisory Board on the assessment of Directors' Report on activities of ALUMETAL S.A. for the year 2017 and of the Financial statements of ALUMETAL S.A. for the year ended 31 December 2017, on the assessment of Management Board's proposal regarding 2017 profit appropriation, as well as on the assessment of Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2017 and of the Consolidated financial statements of the ALUMETAL S.A. Capital Group for the year ended 31 December 2017;
- assessment of the need to establish the internal audit function;
- acceptance of the Report of ALUMETAL S.A.'s Management Board on the assessment of internal control and risk management systems;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. an assessment of the position of the ALUMETAL S.A. Capital Group in 2017;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. the Report on activities of Supervisory Board in 2017;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. the assessment of the manner of fulfilling by the Company of information disclosure obligations regarding application by the Company of rules of corporate governance;
- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. information on non-pursuing sponsoring, charity or other similar activities;
- providing an opinion on the matters and materials that are to be the subject of resolutions of Ordinary Annual General Meeting of ALUMETAL S.A. for the year 2017.

### **B.1 Audit Committee**

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

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

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

The tasks of the Audit Committee comprise, in particular:

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

As at 31 December 2017, the composition of the Audit Committee of ALUMETAL S.A. was as follows:

- Mr Marek Kacprowicz – Chairman of the Audit Committee,
- Mr Tomasz Pasiewicz – Member of the Audit Committee,
- Mr Grzegorz Stulgis – Member of the Audit Committee.

Due to the change in the composition of Supervisory Board on 23 May 2018, at its meeting on 16 July 2018 the Supervisory Board appointed the Audit Committee for a new term of office comprising the following persons:

- Mr Paweł Małycka - Chairman of the Audit Committee,

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

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

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

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

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

During the reporting period, no allowed non-audit services were provided to the Company by its auditor.

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

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

- Independence of an audit firm and certified auditor;
- Audit firm and certified auditor rotation rules in such way that the maximum period of continuous statutory audit engagements conducted by the same audit firm or an audit firm related to that audit firm or any member of this audit firm network operating in EU member states does not exceed 5 years, and the key certified auditor does not conduct statutory audits

for the period longer than 5 years (in this case, the key certified auditor may again engage in the audit of Company's statutory financial statements after 3 years of the completion of his last statutory audit);

- Factual findings and conclusions included in the annual report of the Audit Supervision Committee (*Komisja Nadzoru Audytowego*) which may affect audit firm selection;
- Fee of the audit firm or its subcontractors which should reflect the work input and work complexity and the required qualifications, and which shall not:
  - depend on any conditions, and by no means on audit results;
  - be warranted by or depend on providing to the Company or its related entities any additional non-audit services by the audit firm, entity related to the audit firm or any entity belonging to the network of the audit firm.

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

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



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

On 31 January 2018, Audit Committee of ALUMETAL S.A. passed a resolution in the matter of recommendation to the Supervisory Board on the appointment of an audit firm for the audit of separate (Alumetal S.A.) and consolidated (the Alumetal S.A. Capital Group) financial statements. This recommendation met all formal requirements regarding scope and legal basis.

In 2018, three meetings of the Audit Committee took place i.e. on 20 July 2018, 17 August 2018 and 5 December 2018. Audit Committee also carried out its procedures in the out of office mode i.e. using the writing procedure on 31 January 2018 and 19 September 2018.

### **C. Management Board**

As at 31 December 2017, 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,
- Ms Agnieszka Drzyżdżyk – Member of the Management Board.

On 21 August 2018, the Company received from Mr Szymon Adamczyk written letter of resignation from the post of the President of the Management Board with effect as at 30 September 2018, about which the Company informed the public in its current report No. 19/2018 of 21 August 2018.

On 3 October 2018, the Supervisory Board appointed Mr Marek Kacprowicz as President of the Management Board about which the Company informed the public in its current report No. 27/2018 of 3 October 2018.

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

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

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

Pursuant to the provisions of § 12 section 5 of the Company's Statutes, the Company's Management Board is appointed for a 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.

The powers of the Management Board comprise, in particular:

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

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

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

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

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

The scope of rights and obligations of the Management Board, as well as its operating arrangements are defined in the Work Regulations of the Management Board. Current contents of these Regulations are available on the Company's website under the tab: *Investor relations /Corporate Governance/Management Board*.

## 4. Shareholding structure

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

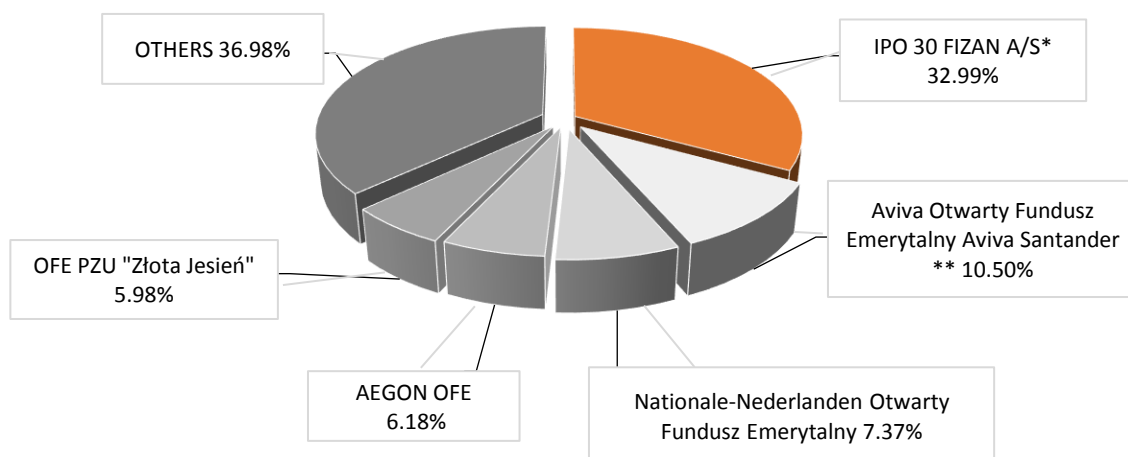
As at 31 December 2018, the Company had below information (in accordance with the notifications based on the Act of 29 July 2005 on public offering, terms and conditions of introducing financial instruments into organised system of trading and on public companies) ("Act on public offering") on the shareholders holding, directly or indirectly through subsidiary companies, at least 5% of the total number of votes at the Annual General Meeting of ALUMETAL S.A.

<b>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 2018</b>				
<b>Shareholder</b>	<b>No. of shares</b>	<b>% of issued capital</b>	<b>No. of votes</b>	<b>% of votes at the AGM</b>
IPO 30 FIZAN A/S*	5 108 221	32.99	5 108 221	32.99
Aviva Otwarty Fundusz Emerytalny Aviva Santander**	1 625 112	10.50	1 625 112	10.50
Nationale-Nederlanden Otwarty Fundusz Emerytalny	1 140 650	7.37	1 140 650	7.37
AEGON Otwarty Fundusz Emerytalny	956 216	6.18	956 216	6.18
Otwarty Fundusz Emerytalny PZU „Złota Jesień”	925 305	5.98	925 305	5.98
Others	5 723 989	36.98	5 723 989	36.98
<b>Total</b>	<b>15 479 493</b>	<b>100.00</b>	<b>15 479 493</b>	<b>100.00</b>

\*entity controlled by Mr Grzegorz Stulgis

\*\* formerly Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK

### Shareholding structure of ALUMETAL S.A. as at 31 December 2018



On 16 October 2018, the Company received from Powszechne Towarzystwo Emerytalne PZU S.A. (PTE PZU S.A.), acting on behalf of Otwarty Fundusz Emerytalny PZU „Złota Jesień” (OFE PZU), a notification, forwarded based on article 69 paragraph 1 point 1 and article 69a paragraph 1 point 1 of the Act on public offering, stating that in connection with the completion on 12 October 2018 of liquidation of Pekao Open End Pension Fund (Pekao OFE) causing that on that date all assets of Pekao OFE were transferred to OFE PZU and that OFE PZU assumed on that date all rights and obligations of Pekao OFE, the then current share of OFE PZU in the total number of votes in the Company exceeded the 5% threshold of the total number of votes and was 925 305 shares, which accounted for 5.98% of the Company's issued share capital. The Company informed the public about this fact in its current report No. 30/2018 of 16 October 2018.

According to the contents of the notifications forwarded to the Company, as at 21 March 2019 the shareholding structure of ALUMETAL S.A. covered by the obligation to report significant blocks of shares did not change.

#### ***B. Share issue and re-acquisition of own shares***

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

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

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

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

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

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

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

<b>Shares in ALUMETAL S.A. held by members of Issuer's Management and Supervisory Boards as at 31 December 2018</b>					
<b>Shareholder</b>	<b>No. of shares</b>	<b>% of issued capital</b>	<b>No. of votes</b>	<b>% of votes at the AGM</b>	<b>Nominal value of shares in PLN</b>
Grzegorz Stulgis, directly or through IPO 30 FIZAN A/S	5 108 231	32.99	5 108 231	32.99	510 823.10
Krzysztof Błasiak	404 143	2.61	404 143	2.61	40 414.30
Szymon Adamczyk	276 333	1.79	276 333	1.79	27 633.30
Przemysław Grzybek	167 386	1.08	167 386	1.08	16 738.60
Agnieszka Drzyżdzyk	7 783	0.05	7 783	0.05	778.30
Frans Bijlhouwer	0	0	0	0	0
Marek Kacprowicz	0	0	0	0	0
Michał Wnorowski	0	0	0	0	0
Paweł Małyska	0	0	0	0	0

During the reporting period, the following transactions of acquisition and disposal of shares were realized by Mr Krzysztof Błasiak:

- On 14 February 2018, Mr Krzysztof Błasiak, in a transaction on the WSE regulated market, sold 2 000 shares, about which the Company informed the public in its current report No. 3/2018 of 15 February 2018;
- On 6 September 2018, Mr Krzysztof Błasiak, in a transaction on the WSE regulated market, acquired 2 295 shares, about which the Company informed the public in its current report No. 22/2018 of 11 September 2018;
- On 11 September 2018 and on 14 September, Mr Krzysztof Błasiak, in the transactions on the WSE regulated market, acquired, as appropriate, 239 and 2 609 shares, about which the Company informed the public in its current report No. 23/2018 of 14 September 2018.

In the period from 31 December 2018 to the date of the publication of this Directors' Report, the number of shares held in ALUMETAL S.A. by the members of Management and Supervisory Boards of the Company did not change.

## 6. Emoluments of the members of Management and Supervisory Boards

Remuneration of Supervisory Board Members		Year ended 31 December 2018
Grzegorz Stulgis*	Chairman of the Supervisory Board	-----
Frans Bijlhouwer	Member of the Supervisory Board	36 000.00
Marek Kacprowicz	Member of the Supervisory Board to 2.10.2018	30 260.87
Tomasz Pasiewicz	Member of the Supervisory Board to 23.05.2018	17 100.00
Emil Ślęzak	Member of the Supervisory Board to 23.05.2018	17 100.00
Michał Wnorowski	Member of the Supervisory Board from 23.05.2018	20 813.04
Paweł Małyska	Member of the Supervisory Board from 23.05.2018	21 769.57
Szymon Adamczyk	Member of the Supervisory Board from 3.10.2018	5 739.13
<b>Total remuneration paid</b>		<b>148 782.61</b>

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

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

Remuneration of Issuer's Management Board Members at the parent		Year ended 31 December 2018
Szymon Adamczyk	President of the Management Board, CEO until 30.09.2018	1 519 525.38
Marek Kacprowicz	President of the Management Board, CEO as of 3.10.2018	186 318.14
Krzysztof Błasiak	Vice-President of the Management Board, Development and Metal Management Director	1 846 812.20
Przemysław Grzybek	Member of the Management Board, Financial Director	876 639.05
Agnieszka Drzyżdżyk	Member of the Management Board, Trade Director	403 704.19
<b>Short-term employee benefits (payroll and surcharges), total</b>		<b>4 832 998,96</b>

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.

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

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

ALUMETAL S.A. does not operate retirement benefits or similar programs dedicated to the members of its management or supervisory boards.

Based on the agreement signed in 2018 with the company operating under the name of *Szymon Adamczyk Doradztwo* regarding purchase of advisory services, the Group received in that year invoices for the total amount of PLN 170 000.00.

## 7. Incentive Programs

### *Incentive Program III for the years 2018-2020*

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

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

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

Pursuant to the above Resolution of the Extraordinary Annual General Meeting of the Company, the issue price of the Incentive Shares 3 was set at PLN 48.60 (in words: forty eight zloty sixty groszy). The adoption of a conditional increase in the issued capital of the Company equates the adoption of a new Incentive Program („Incentive Program III”). The right to take up the G-, H- and I-series Shares will have only the holders of the subscription warrants, series, as appropriate, D, E and F; this right will have to be exercised not later than by 31 December 2022 on the terms and conditions defined in the above Resolution and in the Incentive Program Policy („Incentive Program III Policy”) adopted by the

Supervisory Board based on the Resolution No. 2 on 14 December 2017. The issue of Incentive Shares 3 will exclude, in full, the rights issue of the current Company's shareholders. The Company informed the public in detail on this issue and provided justification for rights issue exclusion in its current report No. 48/2017.

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

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

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

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

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

The Company performed valuation of the cost of this incentive program in accordance with IFRS 2 *Share-based Payment*.

<b>Value of capital and cost of incentive programs</b>	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Capital under Incentive Program III	916 885.01	0.00
Cost of Incentive Program III	916 885.01	0.00

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



## 8. Diversity policy

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

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

## 9. Rules of best practice and corporate governance

### A. *Best practice and corporate governance in 2018*

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

In 2018, the following Rules (Recommendations) for Best Practice 2016 for WSE Listed Companies *were not* complied with by the Company:

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

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

**II.Z.10.1.** *In addition to its responsibilities laid down in the legislation, the supervisory board should prepare and present to the ordinary general meeting once per year the following: an assessment of the company's standing including an assessment of the internal control, risk management and compliance systems and the internal audit function; such assessment should cover all significant controls, in particular financial reporting and operational controls*

The assessment of the ALUMETAL S.A. Capital Group prepared by the Supervisory Board on 17 April 2018 does not cover the assessment of the compliance system or the internal audit function due to the fact that the compliance and internal audit functions were not established at the ALUMETAL S.A. Capital Group. The assessment of the ALUMETAL S.A. Capital Group as regards its internal control and risk management functions was prepared based on the rules of the „The Code of Best Practice for WSE Listed Companies 2016”.

**III.Z.4.** *The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in Rule III.Z.1 a relevant report.*

The Supervisory Board of ALUMETAL S.A. received in April 2018 an assessment report of the Management Board on the efficiency of functioning of the internal control and risk management systems in 2017 due to non-separation of the internal audit function in said period. This Management's report was drafted based on the rules of the „The Code of Best Practice for WSE Listed Companies 2016“.

**III.Z.5** *The supervisory board should monitor the efficiency of the systems and functions referred to in Rule III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to Rule II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in Rule III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.*

The assessment of the ALUMETAL S.A. Capital Group drafted by the Supervisory Board of ALUMETAL S.A. on 17 April 2018 does not cover the assessment of the compliance and internal audit functions as these functions were not separated at ALUMETAL S.A. The assessment of the ALUMETAL S.A. Capital Group was prepared based on the rules of the „The Code of Best Practice for WSE Listed Companies 2016“ and related to the internal control and risk management systems only.

**V.Z.6** *In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.*

The issue of the conflicts of interest was regulated at the level of Management Board by the modification on 10 October 2017 of Work Regulations of the Management Board consisting in including the issues relating to preventing conflicts of interest.

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

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

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

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

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

ALUMETAL S.A. as the holding company sets out the direction for all Group companies in the area of pursuing sponsoring activities, which shapes the cooperation with the local communities of the sites, in which it has its registered office and in which the production plants of ALUMETAL Poland sp. z o.o. and the ALUMETAL Group Hungary Kft. are located, and with the respective local government units.

For many years now, ALUMETAL S.A. and its subsidiary companies have 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.

Financial assistance was provided to local kindergartens, schools, support was provided for the 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.

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

### ***C. Internal control system and risk management***

The Management Board of the parent is responsible for the internal control system of the Company and of the entire Group and for its efficiency during the process of preparation of periodic reports, separate and consolidated accounts, prepared and published in accordance with the Decree of the Minister of Finance dated 29 March 2019 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 Company is realised by the Financial Director – Member of the Management Board of ALUMETAL S.A. (CFO).

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

The internal control and risk management systems operated by the Company 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 Issuer's internal specialists at individual stages of reports preparation and arriving at financial results (minimization of substantial-type risk),
- financial results and financial ratios analysis at each level of business by appropriate control units, at the level of a subsidiary and the parent,
- regular cooperation with financial-accounting, tax and legal advisors to ensure correct (consistent with binding accounting policies and legal regulations) recognition and disclosure of individual business operations and business events in periodic reports and annual accounts,
- audit of financial statements by an audit firm.

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

### **III. Representations concerning non-financial reporting**

Due to the fact that the Company does not meet the conditions defined in article 49b para. 1 of the Act of 29 September 1994 on accounting (the „Accounting Act”), the „*Representations concerning non-financial reporting by the ALUMETAL S.A. Capital Group*” are provided in the Directors' Report on the activities of the ALUMETAL S.A. Capital Group for the year 2018. Pursuant to the provisions of article 49b para. 11 of said Act, „an entity being a subsidiary company, including lower level subsidiary company, may be exempted from preparing representations on non-financial information or report on non-financial information, if its higher level/ultimate parent company having registered office or place of management in the territory of the European Economic Area (EEA) prepares the representations of the capital group or the report of the capital group on non-financial reporting in accordance with the laws of an EEA's member state it is subject to, which covers this particular entity and its subsidiary companies of all levels. If this is the case, the entity discloses in its directors' report on activities the name and the registered office of its higher level/ ultimate parent company preparing such representations or report of the capital group on non-financial reporting covering this particular entity and all-level subsidiary companies of this capital group”.

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

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

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

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

The exception to the above is the ALUMETAL Group Hungary Kft., which in the area of tax and payroll has been serviced in 2018 by companies from its mother country.

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

## **V. Assessment of situation of ALUMETAL S.A.**

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

The financial statements for 2018 as well as the comparative data for the prior financial year have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and the related interpretations issued in the form of regulations of the European Commission.

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

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

The table below shows remuneration of the entity authorised to audit financial statements, paid or payable for the year ended 31 December 2018 and 31 December 2017, by type of services:

<i>Type of service</i>	<i>Year ended 31 December 2018</i>	<i>Year ended 31 December 2017</i>
Statutory audit of financial statements	35 500.00	35 500.00
Review of interim financial statements	20 000.00	20 000.00
<b>Total</b>	<b>55 500.00</b>	<b>55 500.00</b>

## **2. Sources of revenues of ALUMETAL S.A.**

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

The main source of revenues of the Company are received dividends and revenue from provided holding services. The Company does not conduct manufacture or production activities which are realised by the subsidiary companies. In the opinion of the Company, the previously applied method of recognition of dividends under financing activities did not reflect the real character of earned revenues. Given the above, the Company's Management Board decided to change the method of presentation of dividends obtained as revenues from providing holding services at the level of Company's operating result.

In the opinion of the Management Board, changed presentation reflects better, compared to prior solution, the character of the business of the Company as a holding company.

Given the above, the Company decided to change the presentation method of revenues from dividends with effect from 1 January 2018. After said presentation change and after restatement of the comparative data for 2017, revenues from dividends are presented in the operating result of the Company. Previously, revenues from dividends were not recognised in the Company's operating result, but at the level of the Company's financial result i.e. the Company's gross result.

The above change did not affect the financial result of the Company.

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

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

Structure of revenues of ALUMETAL S.A.	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from dividends	45 012 462.72	40 384 468.83
Revenue from contracts with customers	16 200 166.46	13 765 355.94
<b>Total revenues from conducted activities</b>	<b>61 212 629.18</b>	<b>54 149 824.77</b>

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

Dividends received, of which from:	Year ended 31 December 2018	Year ended 31 December 2017
T+S sp. z o.o.	1 012 462.72	1 884 468.83
ALUMETAL Poland sp. z o.o.	44 000 000.00	38 500 000.00
<b>Total</b>	<b>45 012 462.72</b>	<b>40 384 468.83</b>

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

On 9 April 2018, the Management Board of ALUMETAL S.A. resolved to propose to the Supervisory Board and to the Ordinary Annual General Meeting that the net profit of the Company for 2017 is appropriated and dividend of PLN 45 200 119,56 (in words: forty five million two hundred thousand one hundred nineteen zloty fifty six groszy) is paid deriving from the following:

- 1) PLN 40 102 179.07 (in words: forty million one hundred two thousand one hundred seventy nine zloty seven groszy) deriving from the Company's 2017 net profit, and
- 2) part of the Company's reserve capital in accordance with article 348 § 1 of the Code of Commercial Companies in the amount of PLN 5 097 940.49 (in words: five million ninety seven thousand nine hundred forty zloty forty nine groszy).

The Management Board recommended setting dividend date at 7 June 2018 and dividend payment date – at 29 June 2018

Pursuant to the provisions of article 382 § 3 of the Code of Commercial Companies, this proposal was filed with the Supervisory Board of the Company to obtain its opinion. The Supervisory Board of the Company approved Management Board' proposal. The Ordinary Annual General Meeting of the Company at its meeting on 23 May 2018 concurred with the recommendation of the Management Board regarding dividend payment in the amount proposed by the Management Board and established dividend date at 7 June 2018 and dividend payment date at 29 June 2018.

The Company informed the public about Resolution of the Annual General Meeting of ALUMETAL S.A. regarding profit appropriation and dividend payment in its current report No. 13/2018 dated 23 May 2018.

## **B. Finance income**

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

## **C. One-off revenue items**

In 2018, no significant one-off revenue items occurred.

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

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

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

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

The table below shows summarized 2018 results of Alumetal S.A. compared to the prior year:

ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME & STATEMENT OF CASH FLOWS	In PLN thousand		In EUR thousand	
	12 -month period of 2018	12 -month period of 2017	12 -month period of 2018	12 -month period of 2017
Revenue from holding activities	61 213	54 150	14 346	12 757
Operating profit	43 993	40 009	10 310	9 426
EBITDA	44 715	40 638	10 480	9 574
Profit before tax	43 988	40 211	10 309	9 473
Net profit	43 917	40 142	10 292	9 457
Net cash flow from operating activities	45 838	41 210	10 743	9 709
Net cash flow from investing activities	9 095	869	2 131	205
Net cash flow from financing activities	-54 745	-42 905	-12 830	-10 108
Total net cash flow	187	-826	44	-195
Basic net earnings per share attributable to equity holders of the parent (in PLN / EUR)	2.84	2.59	0.66	0.61
Diluted net earnings per share attributable to equity holders of the parent (in PLN / EUR)	2.83	2.59	0.66	0.61



ITEMS OF THE STATEMENT OF FINANCIAL POSITION	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Total assets	293 362	301 822	68 224	72 364
Non-current assets	282 230	290 052	65 635	69 542
Current assets	11 131	11 770	2 589	2 822
Shareholders' equity	257 172	257 539	59 808	61 747
Issued capital	1 548	1 548	360	371
Non-current liabilities	24 773	32 288	5 761	7 741
Current liabilities	11 416	11 995	2 655	2 876
Number of shares	15 479 493	15 479 493	15 479 493	15 479 493
Basic carrying amount per share (in PLN / EUR)	16.61	16.64	3.86	3.99
Diluted carrying amount per share (in PLN / EUR)	16.59	16.64	3.86	3.99
Declared or paid dividend per share (in PLN / EUR)	4.08*	2.92**	0.95*	0.70**

\* dividend declared

\*\* dividend paid

The above financial data for 2018 and 2017 were translated into EUR in the following manner:

- components of assets and liabilities – at the average NBP exchange rate prevailing as at 31 December 2018 i.e. EUR/PLN 4.3000, and 31 December 2017 i.e. EUR/PLN 4.1709,
- 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 2018 - EUR/PLN 4.2669 and for 12 months of 2017 - EUR/PLN 4.2447.

Net profit for the entire year 2018 amounted to PLN 43 916 655.46, while for 2017 – to PLN 40 142 179.07 thousand.

In 2018, ALUMETAL S.A. paid dividend for 2017 in the amount of PLN 45 200 119.56, which means that the value of paid dividend per share was PLN 2.92.

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

Financial ratio	Ratio description	2018	2017	2016	2015	2014
Return on assets (ROA) (%)	Net profit/Total assets	14.97%	13.30%	25.3%	24.7%	0.8%
Return on equity (ROE) (%)	Net profit/Shareholders' equity at the beginning of the period	17.05%	15.48%	35.9%	30.8%	0.8%
Liquidity I	Total current assets/Current liabilities	1.0	1.0	1.3	0.6	0.8
Capital immobility ratio (multiplicity)	Total non-current assets /Total current assets	25.4	24.6	59.4	45.0	60.6
Stability of financing (%)	(Shareholders' equity + Non-current liabilities)/Total equity and liabilities	96.11%	96.03%	98.7%	96.2%	98.1%
Debt ratio (%)	(Total equity and liabilities – Shareholders' equity)/Total assets	12.34%	14.67%	15.4%	5.4%	2.2%

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

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

The above assessment of the financial position was confirmed by an external institution i.e. the EuroRating sp. z o.o. rating agency, which on 28 January 2015 assigned ALUMETAL S.A. the BBB investment level credit rating. The EuroRating sp. z o.o. rating agency is registered as the rating agency in the European Union (in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies) and is under direct supervision of the European Securities and Markets Authority (ESMA). Thus the EuroRating sp. z o.o. agency holds the ECAI status (i.e. External Credit Assessment Institution – pursuant to the provisions of 4 section 1 point 98 of Regulation (EC) 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 rating agencies defines the financial credibility and ability of an enterprise to settle its short- and long-term liabilities in the perspective of up to 3 years.

The assessment of ALUMETAL S.A. accounted for its business specificity, Group development plans and the realized dividend policy, and covered the potential threat factors to its business arising from the relatively high market cyclicity and client concentration, considerable fluctuations in the employed working capital, planned increase in the balance of loans and borrowings and possible temporary business profitability decrease. All these factors and threats did not prevent the agency from assessing the perspective of ALUMETAL S.A.'s rating as "stable".

During 2018, the awarded rating was updated on 11 January, 10 May, 10 July and was upheld at the original level. On 29 August 2018, due to agreement termination, the EuroRating agency ceased to provide rating assessments for ALUMETAL S.A. and withdrew the awarded public credit rating.

## **5. Intra-Group transactions**

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

## **6. Significant and non-routine events, significant agreements and factors with impact on 2018 results**

### ***A. Continued implementation of IATF 16949- based quality system***

In 1Q 2018, the Company continued to implement the IATF 16949 – based quality system, which was successfully completed with the Company's being awarded appropriate quality certificate.

### ***B. Extension of auditor contract for another two years***

The Supervisory Board of ALUMETAL S.A. acting based on article 66 paragraph 4 of the Accounting Act, paragraph 20 section 3 point 4) of the Statutes of ALUMETAL S.A. and recommendations of the ALUMETAL S.A.'s Audit Committee, appointed on 1 February 2018 Ernst & Young Audyt Polska sp. z o.o. sp.k. with its registered office in Warsaw, Rondo ONZ 1, as an audit firm to perform the following:

- a) audit of the financial statements of ALUMETAL S.A. and of the Capital Group of ALUMETAL S.A. for the financial year 2018 and 2019,
- b) review of the interim (condensed) financial statements of ALUMETAL S.A. and of the interim (condensed) consolidated financial statements of the ALUMETAL S.A. Capital Group prepared for the period of 6 months ended 30 June 2018, and 30 June 2019, and authorised the Company's Management Board to extend the audit contract with said audit firm in the scope described above, pursuant to the provisions of paragraph 1 section 2 of the Procedure for the selection of entity authorised to audit the financial statements of the Company and of the Capital Group.

The Company informed the public about the selection of audit firm in its current report No. 2/2018 dated 1 February 2018.

### ***C. Expiry of surety issued by ALUMETAL S.A. in favour of the subsidiary company ALUMETAL Group Hungary Kft.***

On 11 October 2017, the ALUMETAL Group Hungary Kft. applied for a change in the contract for cash subsidy concluded on 21 October 2015 with the Hungarian Ministry of Foreign Affairs and Trade concerning subsidy for the project called *Construction of a production plant in Hungary (Budowa Zakładu na Węgrzech)*. The requested change related to the extension of final deadline for investment project completion from 31 December 2017 to 31 December 2018, reducing the obligatory number of minimum headcount at the ALUMETAL Group Hungary Kft. and changing the adopted security for this contract from the surety issued by ALUMETAL S.A. to a mortgage collateral established on the property belonging to the ALUMETAL Group Hungary Kft. (AGH). The appropriate annex was signed in January 2018 and came into effect upon effective mortgage establishment. On 3 April 2018, a contract was signed with the Hungarian Ministry of Foreign Affairs and Trade on establishing a mortgage on the plot of land in Komárom as the new collateral/ security for the subsidy to the ALUMETAL Group Hungary Kft. in exchange for the then current surety of ALUMETAL S.A.

#### ***D. Payment of dividend for 2017***

On 9 April 2018, the Management Board of ALUMETAL S.A. resolved to propose to the Supervisory Board and to the Ordinary Annual General Meeting that the net profit of the Company for 2017 in the amount of PLN 40 142 179.07 (in words: forty million one hundred forty two thousand one hundred seventy nine zloty seven groszy) is appropriated and dividend is paid in the total amount of PLN 45 200 119.56 (in words: forty five million two hundred thousand one hundred nineteen zloty fifty six groszy) in the following manner:

- 1) PLN 40,102,179.07 (in words: forty million one hundred two thousand one hundred seventy nine zloty seven groszy) deriving from the Company's 2017 net profit, and part of the Company's reserve capital in accordance with article 348 § 1 of the Code of Commercial Companies in the amount of PLN 5 097 940.49 (in words: five million ninety seven thousand nine hundred forty zloty forty nine groszy) is allocated to dividend payment to the Company's Shareholders i.e. in the total amount of PLN 45 200 119.56 which gives PLN 2.92 (in words: two zloty ninety two groszy) per share,
- 2) PLN 40 000.00 (in words: forty thousand zloty zero groszy) deriving from the Company's net profit for 2017 is allocated to the Company's Social Fund.

The Management Board recommended setting dividend date at 7 June 2018 and dividend payment date – at 29 June 2018

Pursuant to the provisions of article 382 § 3 of the Code of Commercial Companies, this proposal was filed with the Supervisory Board of the Company to obtain its opinion. On 17 April 2018, the Supervisory Board of the Company approved Management Board' proposal. The Ordinary Annual General Meeting of the Company at its meeting on 23 May 2018 concurred with the recommendation of the Management Board regarding dividend payment in the amount proposed by the Management Board and established dividend date at 7 June 2018 and dividend payment date at 29 June 2018.

The Company informed the public about Resolution of the Annual General Meeting of ALUMETAL S.A. regarding profit appropriation and dividend payment in its current report No. 13/2018 dated 23 May 2018.

#### ***E. Continuation of cooperation with banks financing current operations of the Alumetal Group***

Following negotiations carried out in 2Q 2018, a decision was taken to continue cooperation with the banks financing current operations of the Company. As a result, in the period May-June 2018, a roll forward was made for another year of short-term multi-currency facility with DNB Bank Polska S.A., with Bank Handlowy w Warszawie S.A. and with ING Bank Śląski S.A.

Signing of the above agreements means full coverage of the ALUMETAL S.A.'s needs in the area of financing of its operating activities.

#### ***F. Strategy of the ALUMETAL S.A. Capital Group for the years 2018-2022***

On 16 July 2018, the Supervisory Board of the Company authorised by way of resolution the „Strategy of the ALUMETAL S.A. Capital Group for the years 2018 – 2022” presented by the Company's Management Board. The adopted Strategy assumed increase in the value for shareholders (return for

shareholders) and strengthening of market position of the ALUMETAL S.A. Capital Group as leading European manufacturer of aluminium casting alloys and master alloys. The objectives of this Strategy are to be achieved through, among others:

- raising sales volumes of the ALUMETAL S.A. Capital Group's products to the level of more than 250 thousand tons in 2022;
- modernization of the production plant in Kęty;
- focusing on operational activities undertaken with a view to improving production efficiency, as well as its technological and cost efficiency;
- further intensification of trading activities, including product portfolio diversification;
- average annual EBITDA growth by 10%;
- raising declared dividend level from the current 50% to the minimum of 70% of normalised consolidated net profit.

The Company informed the public about authorization of the above Strategy in its current report No. 17/2018 of 16 July 2018.

### ***G. Incentive Program III***

On 7 November 2017, the Annual General Meeting of the Company passed a resolution in the matter of, and modified on 3 October 2018, the third incentive program for the years 2018-2020 ("Incentive Program III") dedicated to the management and executives of the Alumetal Group.

Detailed information regarding Incentive Program III were presented in point II.7 of this Directors' Report.

### ***H. Appointment of a new-composition Audit Committee***

Due to the completion of the term of office of the prior make-up of the Company's Supervisory Board, and hence of the Audit Committee, the Supervisory Board, at its meeting on 16 July 2018, appointed the following persons as Audit Committee members:

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

### ***I. Resignation of the President of Management Board***

On 21 August 2018, the Supervisory Board and the Company received from Mr Szymon Adamczyk written resignation from the post of the President of the Management Board and from his membership in the subsidiary companies' management boards with effect as of end of business on 30 September 2018, about which the Company informed the public in its current report No. 19/2018 of 21 August 2018.

### ***J. Resignation of Supervisory Board Member***

On 2 October 2018, the Company received from Mr Marek Kacprowicz written resignation from the post of Supervisory Board Member with effect as at 2 October 2018, about which the Company informed the public in its current report No. 24/2018 of 2 October 2018.

### ***K. Appointment of the President of Management Board***

On 3 October 2018, the Supervisory Board appointed Mr Marek Kacprowicz (the then current Supervisory Board Member) as President of the Management Board.

The Company informed the public about appointment of new President of the Management Board by publishing its current report No. 27/2018 of 3 October 2018.

### ***L. Appointment of Supervisory Board Member***

On 3 October 2018, the Extraordinary Annual General Meeting appointed Mr Szymon Adamczyk as member of the Supervisory Board, about which the Company informed the public by publishing its current report No. 26/2018 of 3 October 2018.

### ***M. Resolutions of Extraordinary Annual General Meeting***

On 3 October 2018, the Extraordinary Annual General Meeting passed resolutions in the following matters:

- changes in the composition of the Company's Supervisory Board;
- determining the rules of remuneration of Audit Committee Members;
- change in the Resolution No. 3 of the Extraordinary Annual General Meeting of 7 November 2017 in the matter of conditional increase in the issued capital of the Company and issuance of subscription warrants with the full exclusion of shareholders' rights issue with respect to the subscription warrants and shares issued under conditional capital, and change in the Company's Statutes.

The Company informed the public about the contents of resolutions and the results of votes at the Extraordinary Annual General Meeting in its current report No. 25/2018 of 3 October 2018.

### ***N. Agreements between Shareholders***

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

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

Between the reporting date and the date of the publication of this Directors' Report there were no significant, non-routine events or significant agreements material to the Company's business, or factors with impact on achieved results.

## **VI. Realised investment and development work**

### **1. Information on major research and development achievements**

The most significant development achievement of ALUMETAL S.A. in 2018 was operational improvement of the ALUMETAL Group Hungary Kft., the first foreign subsidiary company of the Group, which has systematically increased its scale of business and efficiency, which translated to professional development also of the Alumetal S.A.' employees who participate in management and oversight

functions for this entity. A matter of significant importance is also completion of the project called *Development of Master Alloy Plant in Gorzyce* (Rozbudowa Zakładu Stopów Wstępnych w Gorzycach) where investments were made in new technologies for the Group, development is carried out of the most technologically advanced types of alloys, and where new investment processes were commenced that related to the project of the *Modernization of the production plant in Kęty* (Modernizacja Zakładu w Kętach).

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

It is expected that in the foreseeable future, ALUMETAL S.A. will continue to realize the tasks of a holding entity consisting in rendering management, trading, development and investment, financial-accounting, controlling, people advisory (HR & Payroll) and IT services to the subsidiary companies. The execution of these tasks will contribute to realization of Group's development plans and to achievement of its strategic objectives, being - above all - building company's value for the shareholders through, among others, increasing sales volumes of Group products and maximizing profitability, while retaining the Company's dividend capacity.

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

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

Owing to high operating cash flows, the Alumetal Group is able to finance its development from own financial resources, while retaining the capacity to realize the adopted dividend policy. Good and stable operational profitability of the Group, satisfactory financial liquidity and low debt cause that the financial standing of the Group is very good. The ratio of Net debt/EBITDA, as the most significant ratio from the point of view of loan and credit agreements, fell in the last 7 years (i.e. from 1.8 at the end of 2011 to 0.9 at the end of 2018). Given the fact that in the loan agreements this covenant is set at the level of 3.0, the achieved ratio clearly indicates that the Group has considerable potential to finance its further development and realize at the same time the provisions of the adopted dividend policy.

The used and planned sources for Group development financing are mainly partially retained net profits, investment loans and public aid available to Group companies, both in the case of the Hungarian project and in the case of investments in Polish production plants located in special economic zones (SEZ) under the already held SEZ licenses. The source for working capital financing will continue to be current financial surplus, short-term loans and factoring agreements.

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

- an investment loan of 15 October 2015 between ALUMETAL S.A. and ING Bank Śląski S.A. taken out with a view to granting a loan to the subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of a production plant, in the amount of EUR 10 million with the maturity date set at 14 October 2022; at the end of 2017, repayment of this loan commenced in the form of 60 monthly instalments;
- contract of 21 October 2015 for cash subsidy between ALUMETAL Group Hungary Kft. and the Hungarian Ministry of Foreign Affairs and Trade;

- a long-term loan agreement of 26 October 2015 between ALUMETAL S.A. and the subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of the production plant in Hungary, in the amount of EUR 10 million with the maturity date set at 14 October 2022; at the end of 2017, repayment of this loan commenced in the form of 60 monthly instalments;
- in 2Q 2018, ALUMETAL S.A. and its subsidiary companies extended their short-term loan agreements with ING Bank Śląski S.A., Bank Handlowy w Warszawie S.A. and with DBN Bank Polska S.A. for another year, while the ALUMETAL Group Hungary Kft. extended in 3Q 2018 for another year its agreement with Citibank Europe plc Hungarian Branch Office for a short-term bank loan, which caused that the total short-term loan limit of the Alumetal Group remained unchanged at the equivalent of PLN 138 million.

The financial resources of the Alumetal Group allow to fully discharge its current and future liabilities relating to current development plans. Given the above, the Company decided to finance the project *Modernization of Kęty plant* from Group's own funds.

## VII. Human capital management

### 1. Recruitment policy

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

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

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

### 2. Structure of employment

As at 31 December 2018, Alumetal S.A. had 59 employees, which was 2 persons less than as at 31 December 2017.

Company	31 December 2018	31 December 2017
White-collar employees	59	61



### **3. Communication**

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

On 1 March 2018, *The rules of ethics and professional conduct at the Alumetal Group (Zasady etyki i postępowania w Grupie Alumetal)* were adopted which cover all rules of employee professional conduct and such issues as diversity, tolerance, non-discrimination and prohibition to employ young workers.

### **4. Professional development and training**

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

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

- adaptation training – part of the program is a one-day training during which employees with longer period of service at the Company share their knowledge on the matters related to the functioning and working at the Company. The new employee receives material information on employee-related matters, learns about binding rules and regulations, about used systems or basic technologies,
- all-Company projects – in the form of, for example, training relating to communication and client servicing or management skills,
- individual specialist training – in the form of, for example, training relating to project 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.

In 2016, the Group commenced the cycle of executives training with a view to strengthening employee competences and shaping business culture of the Group and this training cycle was completed in 2018.

In 2018, the Alumetal Group carried out training subsidized by the National Training Fund (*Krajowy Fundusz Szkoleniowy – KFS*) based on the agreement with the Labour Office. Training project covered 21 courses from the field of accounting, control and IT, and 80% of realized training sessions was financed by the National Training Fund.

## **VIII. Quality, environmental protection and labour hygiene and safety**

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

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

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

## IX. Loans and borrowings, and other financial agreements

### 1. Loans and borrowings taken out

				31 December 2018	31 December 2017
Interest-bearing loans and borrowings	Available limit	Currency*	Maturity date	Limit utilised in PLN	Limit utilised in PLN
<i>Overdraft facility:</i>					
Limit facility at <b>ING Bank Śląski S.A.</b> with an interest rate based on 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin	5 000 000.00	PLN*	19.06.2019	646 819.65	881 889.18
Aggregate limit facility for several group companies at <b>DNB Bank Polska S.A.</b> with an interest rate based on 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin, 1M BUBOR (HUF) + margin; 1M LIBOR (USD) + margin	40 000 000.00	PLN*	28.06.2019	14 710.53	259.56
Limit facility for several group companies at <b>Bank Handlowy w Warszawie S.A.</b> with an interest rate based on 1M LIBOR (USD) + margin, 1M WIBOR (PLN) + margin, 1M LIBOR (EUR) + margin, 1M BUBOR (HUF) + margin	54 000 000.00	PLN*	17.05.2019	46 154.00	607.58
Short-term portion of the investment loan issued by <b>ING Bank Śląski S.A.</b> 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	8 617 200.00	9 055 023.90
<b>Total short-term portion</b>				<b>9 324 884.18</b>	<b>9 937 780.22</b>
Long-term portion of the investment loan issued to Alumetal S.A. by <b>ING Bank Śląski S.A.</b> 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	24 329 400.00	31 957 435.80
<b>Total</b>				<b>33 654 284.18</b>	<b>41 895 216.02</b>

\* 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 PLN 10 million

## **2. Loans granted**

In 2018, ALUMETAL S.A. or its subsidiary company issued the following loans and borrowings:

1. increase from PLN 35 thousand to PLN 40 thousand of a short-term, PLN-based loan issued by ALUMETAL S.A. to the related company, ALUMETAL Kęty sp. z o.o., with an interest rate of 1M WIBOR. Following the decision to liquidate and then to dispose of this company, the loan was written-off;
2. 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 2018, the value of the loan disbursed was EUR 7 662 000.

## **3. Financial resource management and capacity to discharge liabilities**

The Company independently manages its own financial resources and external sources of finance. At the date of the preparation of this Directors' Report, no facts or circumstances were identified that would indicate a threat to the continued activity of Company. The slight excess of short-term liabilities over current assets in the amount of PLN 285 096.51 does not represent any threat to the Company's going concern due to the fact that the Company benefits from the financial strength of the entire Alumetal Group (among others, from the dividend and credit policy) and from the ongoing availability of credit facilities with a value equating to several tens of millions of zloty. The Company discharges its liabilities on time and currently there is no threat to its capacity for financial liabilities settlement.

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

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

As at 31 December 2018, the Company was not a party to any significant litigation proceedings before the court of justice, court of arbitration or public administration body.

### **2. Sureties for loans and borrowings and guarantees issued**

- 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. In the subsequent period it was decided that the collateral/security for the Contract for cash subsidy will be changed from the surety by ALUMETAL S.A. to the mortgage established on the property in Komarom. On 3 April 2018, a contract was signed with the Hungarian Ministry of Foreign Affairs and Trade on establishing a mortgage on the plot of land in Komarom. On 17 May 2018, mortgage on this property was effectively and formally established, which caused surety expiry.

- in 2018, ALUMETAL SA 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 2018 to the equivalent of PLN 1 500 731.35.

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

### **3. Contingent liabilities**

As at 31 December 2018, the Company did not report any contingent liabilities.

## **XI. Financial risk management objectives and policies**

The main type of business activity of the Company is conducting operations of a holding company. As part of these operations, the Company manages the financial risk of the companies of the ALUMETAL S.A. Capital Group. The financial position of ALUMETAL S.A. is closely related to the financial position of its subsidiary companies, which effectively means that the risks of those companies are also the risks of the Issuer. The main types of risk described in detail in the consolidated financial statements of the ALUMETAL S.A. Capital Group prepared for the year ended 31 December 2018 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 2017.

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

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

### **1. Interest rate risk**

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

The above financial instruments are based on variable interest rate of WIBOR (for PLN), EURIBOR (or LIBOR for EUR), BUBOR (HUF) and to the lesser extent – on 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 Company is exposed to foreign currency risk in connection with the transactions of current operations. Such exposure arises from the sale or purchase transactions made by Group companies in the currencies other than their measurement currency. The ALUMETAL S.A. Capital Group has widely used the so-called natural hedge mechanism, as sale transactions in foreign currencies have been largely balanced by purchase transactions. Nevertheless, as a result of the 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 represents rather limited threat to the financial results of the Group. For these reasons, the Group does not use any instruments hedging against fluctuations in LME's quotations of raw materials.

#### **4. Credit risk**

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

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

Given its further trade expansion, the Company decided to change its approach to trade risk management, and in the 1st half of 2016 signed an agreement for receivables insurance. Verification of trade receivables covered the entire balance of sales to non-related entities, except for the sales to the three largest customers of the Alumetal Group, and the insurance taken covered the period from 1 April 2016. In 2Q 2017 and in 2Q 2018, a decision was taken to continue with the insurance policy, which additionally improved the Group's need for the coverage of same risks as regards awarded insurance limits (the Group plans to continue to insure its receivables in the ensuing years). 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 customer 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, and by using 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.

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

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

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

### **1. Geopolitical and macroeconomic situation in Europe**

The activities of the 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, levels of consumption and investment expenditure and the amount of budget deficit. Fluctuations in the market prices of secondary aluminium have direct impact on the prices of Group products and, to a limited extent, on the margins earned. Market prices of secondary aluminium depend on the supply and demand as well as on other factors, on which the Group has no or has only limited influence, such as general macroeconomic conditions, situation in the industry sectors that are the key consumers of secondary aluminium alloys, prices of primary aluminium and prices of aluminium scrap. Deterioration of general economic conditions in Europe, and especially in Poland, Germany, Hungary or in the Central and Eastern Europe may have adverse impact on the activities, financial position, financial results or business perspectives of the Alumetal Group by the end of 2019. Geopolitical situation may also have indirect impact on the results of the Group.

### **2. Situation of automotive industry**

The 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. Considerable recovery of the automotive industry was noted since the mid of 2013. However, in 2H 2018, reversal of this trend was observed, 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) or by constrained vehicles production in the EU in connection with the uncertainties surrounding Brexit decision. In addition, the financial results of the producers of secondary aluminium alloys, including the Alumetal Group, may be affected by the economic situation of individual automotive companies as well as by more stringent regulations on vehicle CO<sub>2</sub> emissions such as implemented vehicle WLTP-type approval system (*World harmonised Light duty vehicle Test Produce*), which replaced the current NEDC system.



### **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 raw material scarcity in the near future. Al scrap availability and prices depend on a 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 results and liquidity of the Group. However, the long-standing experience of the Alumetal Group in benefiting from public aid greatly reduces this risk.

## **8. The risk of „trade war”**

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

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

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

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

The Management Board of the Company has decided not to publish any forecast results of the Company.

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**Marek Kacprowicz**  
President of the  
Management Board

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**Krzysztof Błasiak**  
Vice-president of the  
Management Board

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**Przemysław Grzybek**  
Board Member

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**Agnieszka Drzyżdżyk**  
Board Member