

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



Kęty, 21 March 2019

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I. Issuer and Capital Group corporate data

a) Organisation of the ALUMETAL S.A. Capital Group

As at 31 December 2018, the organisation of the ALUMETAL S.A. Capital Group (hereinafter referred to as the "Alumetal Group" or the "Group") is as follows:

A. Issuer corporate data

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

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

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

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

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

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

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

The D, E and F-series shares were issued as a result of execution of the Incentive Program II adopted based on the Resolution No. 5 of the Extraordinary Annual General Meeting of 28 May 2014.

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

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.

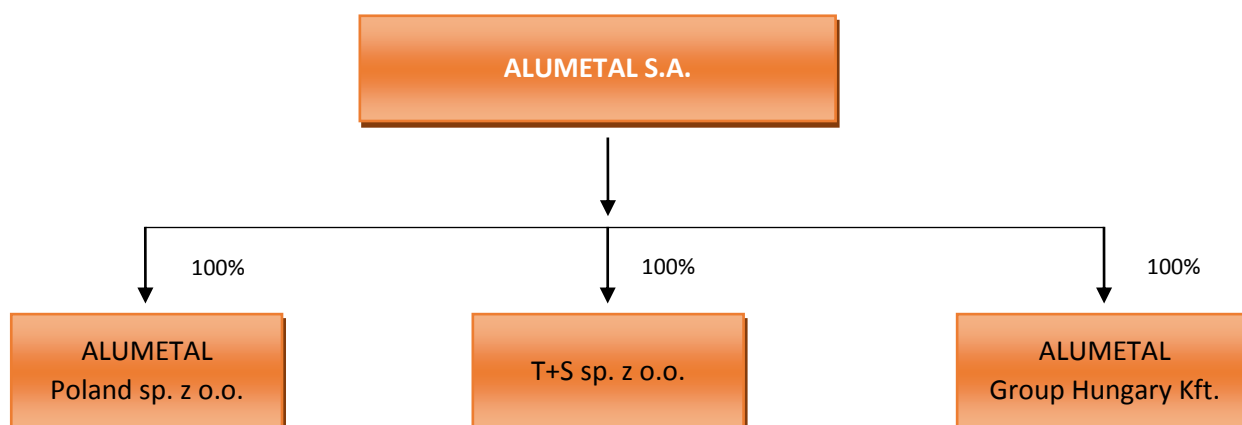
The Company holds 100% shares in the issued capital of ALUMETAL Group Hungary Kft., which give it the right to exercise 100% votes at the shareholders' meeting of this company.

Corporate information:

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

As at 31 December 2018, the organizational structure of the Alumetal Group was as follows:

Organizational structure of the ALUMETAL S.A. Capital Group



THE ALUMETAL S.A. CAPITAL GROUP
Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2018

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

ALUMETAL Poland sp. z o.o. is the main production company of the Group in Poland 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 production and sale of aluminium casting alloys in September 2016.

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

As at 31 December 2018, the following entities were consolidated:

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

b) Changes in the organisational structure of ALUMETAL Group

In 2018 and as at the date of the publication of this Directors' Report, the organisational structure of the Group did not change, except for the disposal of Alumetal Kęty sp. z o.o., which upon disposal was in the process of winding-up and did not conduct operating activities in 2018 or in prior years.

c) 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.

d) Intra-Group transactions

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

II. Statement of Corporate Governance

1. Principles of management of the ALUMETAL S.A. 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 Report are Mr Andrzej Słupski and Mr Robert Ožóg (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 matter.

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 Małyśka,
- 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 (who resigned from the post of the President of Management Board as of 30 September 2018, as described in more detail in section II.2.C of this Report) 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 Szymon Adamczyk,
- Mr Paweł Małycka,
- Mr Michał Wnorowski.

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

The Supervisory Board carries out continued monitoring and supervision of the activities of the Company in all aspects of its business. 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. of the Report on activities of Supervisory Board in 2017;

- drafting and submitting to the Ordinary Annual General Meeting of ALUMETAL S.A. of 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. of information on non-pursuing sponsoring, charity or other similar activities;
- providing an opinion on the matters and materials that are to be 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 para. 2 [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 Małyska - 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 Małyska and by Mr Michał Wnorowski.

Mr Paweł Małyska 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 ustawowych 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 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*

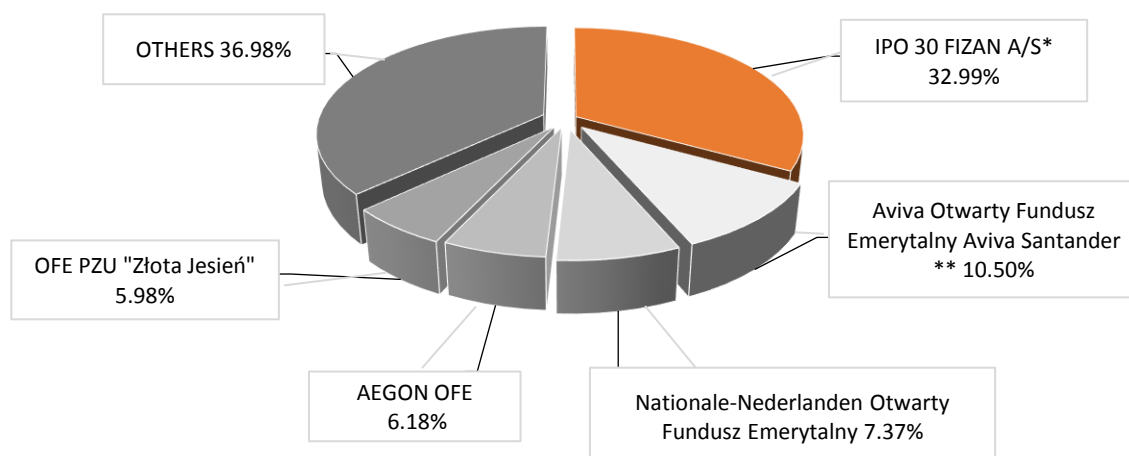
As at 31 December 2018, the Company had below information (in accordance with the notifications based on the Act of 29 July 2005 on public offering, terms and conditions of introducing financial instruments into organised system of trading and on public companies) ("Act on public offering") on the shareholders 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.

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				
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM
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
Total	15 479 493	100.00	15 479 493	100.00

*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

Shares in ALUMETAL S.A. held by members of Issuer's Management and Supervisory Boards as at 31 December 2018					
Shareholder	No. of shares	% of issued capital	No. of votes	% of votes at the AGM	Total nominal share value in PLN
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 Drzyżdżyk	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 r.	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
Total remuneration paid		148 782,61

**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
Marek Kacprowicz ¹	President of the Management Board, CEO	186 318.14
Szymon Adamczyk ²	President of the Management Board, CEO	1 519 525.38
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
Short-term employee benefits (payroll and surcharges), total		4 832 998,96

¹Mr Marek Kacprowicz was appointed as President of the Management Board as of 3.10.2018

² Mr Szymon Adamczyk fulfilled the role of the President of the Management Board to 30.09.2018

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 of this Report.

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

The Alumetal Group 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 Grupa* regarding purchase of advisory service, the Group received in that year invoices for the total amount of PLN 170 000.00.

7. Incentive Programs

A. *Incentive Program III for the years 2018-2020*

On 7 November 2017, the Extraordinary Annual General Meeting of the Company passed a resolution on a conditional increase in the issued capital of the Company and on subscription warrants issuance, excluding 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, shareholder dividend, paid or declared 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*.

Value of capital and cost of incentive programs	Year ended 31 December 2018	Year ended 31 December 2017
Capital under Incentive Program III	1 138 998.28	0.00
Cost of Incentive Program III	1 138 998.28	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 Alumetal Group 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 separated 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 2018 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 relates 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:

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

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

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

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

C. *Internal control system and risk management*

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

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

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

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

- operating a Group-wide, authorised and uniform (consistent) accounting policy;
- clear segregation of duties, and well-defined work organization and supervision in the financial reporting process, as provided in the procedures, instructions and regulations, and included in the following documents:
 - Warehouse instructions,
 - Instructions on hard close and financial statements close process (FSCP),
 - Instructions on registration of data in the integrated IT management system,
 - Physical count instructions,
 - Regulations on circularization of confidential information,
 - Procedures for preparation of periodic reports,
 - Internal ESPI regulations;

- application of integrated IT management system which considerably limits the risk of data inconsistency and irregularity (minimization of technical-type risk);
- results and control reports analysis by Group's internal specialists at individual stages of reports preparation (minimization of substantial-type risk);
- financial results and financial ratios analysis at each level of business by appropriate control units, at the level of a subsidiary and the parent;
- regular cooperation with financial-accounting, tax and legal advisors to ensure correct (consistent with binding accounting policies and legal regulations) recognition and disclosure of individual business operations and business events in periodic reports and annual accounts,
- audit of financial statements by a certified auditor.

The Supervisory Board 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

These „*Representations concerning non-financial reporting by the ALUMETAL S.A. Capital Group*” (hereinafter the „Representations”) cover the non-financial reporting on the ALUMETAL S.A. Capital Group for the period from 1 January 2018 to 31 December 2018 and were prepared based on own policies, among others, based on the contents of the Announcement of the European Commission of 5 July 2017 – *Guidelines of the European Commission on non-financial reporting* (methodology for non-financial reporting), 2017/C 215/01, and the provisions of the Act of 29 September 1994 on accounting (the „Accounting Act”).

The selection and description of policies, and of the presented in the Representations efficiency ratios, were made based on the materiality criterion, while considering the internal and external factors concerning Alumetal Group operations. The main factors considered for materiality assessment were: industry, in which the Group operates, its business profile, market environment, scope of impact on local community and natural environment, as well as expectations of identified stakeholders. Data presented in the Representations will be verified and updated in annual reporting periods and regularly published together with annual reports for the ensuing financial years.

1. Description of the Group and its business model and main non-financial parameters for Group operations

A. Group description

The Alumetal Group is one of the biggest in Europe modern and dynamically developing manufacturer of secondary aluminium casting alloys. Apart from production of secondary alloys, the Alumetal Group specializes in the production of master alloys, so called aluminium master alloys, aluminium for steel de-oxidation and also fluxes and salts, which are produced by T+S sp. z o.o. Over 90% of our customers come from the automotive market sector.

We cooperate with many automotive concerns both at home and abroad, and we comply with the highest quality requirements of that market segment. Close cooperation with our customers, primarily with those from the automotive industry, results in ongoing development, improvement of work standards and creation of long-term partnerships. People are the main asset of each company, therefore we offer to our customers services provided by our highly qualified and well-coordinated team composed of the employees with many-years' experience and the younger ones who demonstrate creative and fresh perspective, who jointly accomplish the goals and objectives of the Alumetal Group, but first of all – through being close to the customers – adjust to their needs.

The parent company of the Group is ALUMETAL S.A., which renders management, trading, development and investment, IT, controlling, HR & payroll and financial-bookkeeping services to other Group entities. Apart from ALUMETAL S.A., the Group is composed of the following manufacturing companies: ALUMETAL Poland sp. z o.o., T+S sp. z o.o. and ALUMETAL Group Hungary Kft.

The main source of sales revenue for the Group are casting alloys whose sales accounted for approx. 97% of sales revenue of the Group in 2018 and it is this particular segment that has the greatest impact on the Group's financial result.

B. Group business model and key non-financial performance indicators

Aluminium is the most popular non-ferrous metal as regards its use. Over the last 40 years, global production and consumption of aluminium has increased more than four times. Owing to its unique features (lightweight, durability, strength, resistance to corrosion, and thermal and electrical conductivity) as well as due to its re-cycling features, aluminium has been used in such industry sectors such as transport, construction, energy, packaging or machine industry. Due to aluminium lightweight, compared to other alternative raw materials, demand for aluminium has continued to grow also in the automotive industry. The necessity to reduce CO₂ emissions by motor vehicles has been realised, among others, by reducing vehicle weight.

The Alumetal Group has been engaged in the production of secondary aluminium casting alloys using obtained competences, acquired experience and competitive advantages. Secondary aluminium casting alloys are manufactured in the process of aluminium scrap recycling. The key advantage of aluminium recycling is the fact that in order to produce a fully-fledged raw material – the secondary aluminium – only 5% of the energy required for the production of primary aluminium is needed, which – in turn – reduces CO₂ emissions. Due to the falling production of primary aluminium in the European Union (as a result of high costs of energy and natural environment protection), the share of secondary aluminium in total aluminium production in the EU has continued to grow. Production of secondary aluminium is becoming the only alternative for reducing the EU's dependence on primary aluminium imports from non-EU partners.

Aluminium scrap used in the recycling process is mainly technological post-production scrap such as scobs and swarf, waste from sheets and profiles production, or fully depreciated scrap such as alloys, profiles from buildings demolition, alloy wheels, beverage cans, foils etc.

The recycling process to which aluminium scrap is subjected does not bear negative impact on the quality or chemical/ physical properties of aluminium produce and allows to manufacture proper aluminium products, and aluminium as a raw material can be recycled several times while retaining its original features and quality.

The process of secondary aluminium production is realized in the following stages:

- mechanical preparation of scrap, covering pollutants identification and separation,
- sorting of scrap metals,
- thermal removal of enamel coatings and organic pollutants,
- re-melting of scrap metals and their modification to achieve a target chemical structure,
- purification and casting.

One of the main customers of secondary aluminium in Europe is the automotive industry. The Alumetal Group delivers almost 90% of its production to this industry sector. The concrete customers are leading manufacturers of vehicles and vehicle components in Europe with considerable production capacity and high quality norms. Apart from the automotive customers, the Alumetal Group has delivered its products to the construction industry, white goods manufacturers, to the machine and steel industry.

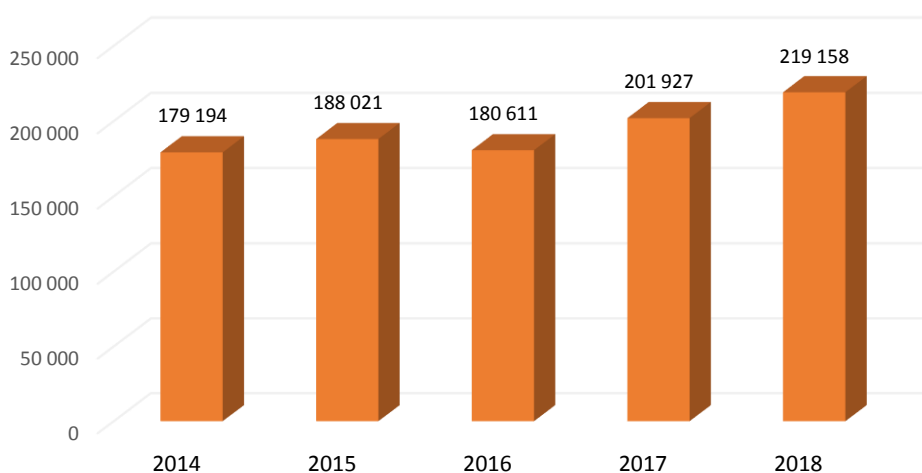
Another competitive advantage of the Alumetal Group is the fact that for many years now a trend has been observed in the automotive industry to transfer vehicle and vehicle components production to the CEE5 countries (Poland, Czech Republic, Slovakia, Hungary and Romania). The importance of this particular region on the map of European automotive industry has systematically grown. According to OICA, production of motor vehicles in the CEE5 countries increased to more than 20% of total EU vehicle production, and the process of automotive industry relocation still continues (e.g. the JLR factory in Slovakia or Daimler engine production plant in Poland). This phenomenon is sales- and development-friendly for the Alumetal Group.

Over the past several years, the scale of the process of professional recycling of aluminium scrap and production of aluminium casting alloys at the Group has increased several times. This dynamic development was possible owing to a systematic growth of Group's production capacity, achieved through the construction and development of other production plants in Poland (Kęty, Gorzyce, Nowa Sól) and in Hungary (Komárom). The main non-financial effects of these activities are:

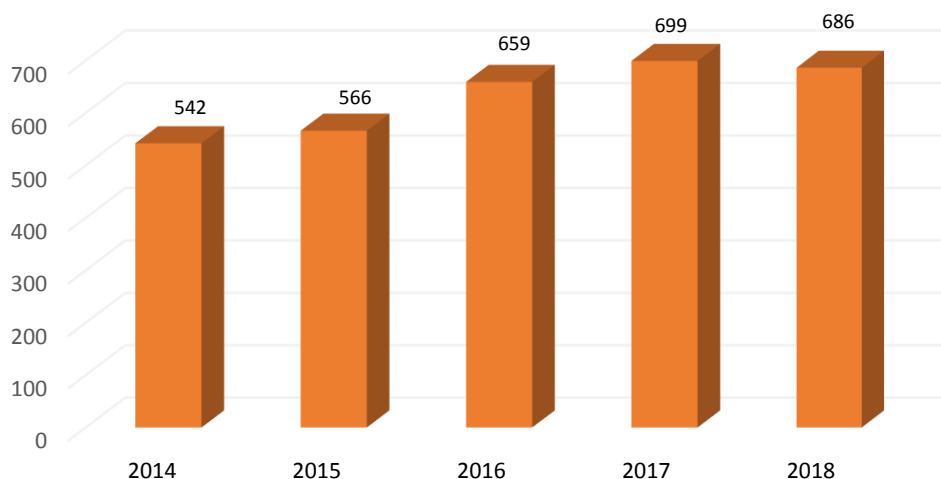
- a) systematic growth of the range of professional and ecological processing of aluminium scrap, and
- b) employment growth in the Alumetal Group.

The charts below show Group development in these areas over the last 5 years.

Amount of scrap metals processed in the years 2014-2018 (tons)



**No. of employees at the Alumetal Group
in the years 2014-2018* (persons)**



*at the end of the period

It should be emphasized that the Alumetal Group has processed scrap metals in accordance with binding regulations for environmental protection and in accordance with the Best Available Techniques or Best Available Technology (BAT). BAT Reference Documents (BREFs), as a tool supporting identification and promotion of best available techniques introduced by the European Union, serve as technical-economic assessment of raw materials or media pollution or usage in the given industry and the method for metals use limitation or pollution prevention. These are auxiliary documents used with a view to determining benchmark levels for a correct defining of BAT requirements for a given installation.

In recent years, the Group has realised numerous investment projects of development, modernization and environment-friendly character, and some of them were financed from the EU grants, inclusive of some pro-ecological programs.

2. Policies relating to the issues of social environment, employment, natural environment protection, respecting human rights and combating corruption, inclusive of related risk identification and risk management

A. Social environment

The Alumetal Group has actively supported local communities, among others, by engaging in social initiatives in such areas as education, culture and sporting activities. Cooperation with local communities as well as direct cooperation with self-governments are important elements of business operations of all plants within Alumetal Group. Good relations with the local community contribute to the development of mutual confidence between the company and the local community and help in working jointly over various projects. For many years now, the Alumetal Group has been engaged in many support/aid projects at the local level, mainly through the provision of financial aid. Providing financial assistance is a collective decision of the Management Board, after each application or request for such assistance has been considered individually.

In the years 2016-2018, aid in such form was granted, among others, to the following institutions and organizations:

- education institutions such as nursery schools, primary schools and grammar schools;
- cultural centres;
- sports clubs;
- social service centres;
- foundations, associations and parishes operating in the location of Group's individual production plants.

During the reporting period, the Group did not have any formalised policy regarding social matters.

As regards social issues, no significant risks have been identified that could have impact on the Alumetal Group's operations.

B. Staff-related issues

Employees with their experience and qualifications are Alumetal's greatest asset. The successes and current position of the Group wouldn't be possible without the engagement of all persons working with the company.

Here at Alumetal Group we greatly value a good atmosphere at work and the long-lasting relations with our employees. All our employees enjoy equity in training system, promotion opportunities and opportunities to pursue individual competences. Employees participate both in training on work safety and hygiene, in specialised training dedicated to concrete employees, as well as in training dedicated to a larger group of staff of a given division or plant.

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, as well as anti-corruption and anti-harassment policies.

As regards possibility of employees associating, as at 31 December 2018 two trade unions operated in Alumetal Poland Sp. z o.o. in the production plant in Kęty and in ALUMETAL S.A.: Niezależny

Samorządny Związek Zawodowy „Solidarność” of the Kęty Group with 93 members and Międzyzakładowy Związek Zawodowy Pracowników of the Kęty S.A. Group with 24 members. There were no company or inter-company collective bargaining agreements at the Group.

B.2 Recruitment policy

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

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

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

B.3 Structure of employment

As at 31 December 2018, the Group had 686 employees working based on an employment contract which account for 100% of posts (similar statistics for 2017).

Staff headcount at the Alumetal Group, by company

Company	31 December 2018	31 December 2017
Alumetal S.A.	59	61
Alumetal Poland sp. z o.o.	502	501
T+S sp. z o.o.	5	6
Alumetal Group Hungary Kft.	120	131
Total	686	699

Staff headcount at the Alumetal Group, by gender

Gender	31 December 2018	31 December 2017
Females	77	72
Males	609	627
Total	686	699

Staff headcount at the Alumetal Group, by type of work

Type of work	31 December 2018	31 December 2017
White-collar employees	136	136
Blue-collar employees	550	563
Total	686	699

White-collar posts at the Alumetal Group, by gender

White-collar posts, by gender	31 December 2018	31 December 2017
White-collar employees-females	71	66
White-collar employees - males	65	70
Total	136	136

Executive and management posts at the Alumetal Group, by gender

Executive and management posts, by gender	31 December 2018	31 December 2017
Females	9	10
Males	36	36
Total	45	46

As at 31 December 2018, 88.8% of all Group employee posts were occupied by males compared to 11.2% occupied by females, which is mainly due to the character of conducted business activities (relatively difficult working conditions of blue-collar posts typical for the casting industry). Managerial and executive posts accounted for 6.6% both in 2018 and in 2017 of all posts at the Group. 80.2% of all employees are the blue-collar employees.

B.4 Professional development and training

At the Alumetal Group, 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.

Group employees participate in:

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

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.

B.5 Labour hygiene and safety

Employee health and occupational hygiene and safety (OHS), and ensuring good working conditions are the main priorities at the Alumetal Group. This objective has been realised by the activities provided for in the law, but also by additional training and by the initiatives promoting employee awareness that each person is responsible for his own and fellow employee occupational safety, which are all to eliminate any potential OHS risks at workplace.

Steps are taken to ensure safety at work. To this end, not only the activities required directly by legal regulations are executed as a minimum, but additional training is provided to improve all employee awareness of the importance of occupational safety.

Risks are identified at particular workstations and occupational hazards are defined. The Group strongly emphasizes safety and hygiene at work not only of its own employees but also of the outside workers carrying out their works in the company facilities. Every effort is taken to provide healthy and safe work conditions in all Group plants. Actions are taken to prevent accidents at work and health hazards. The OHS area at the Group is managed with the use of the BS OHSAS 18001:2007 norm.

In October 2018, the Alumetal Group plants (Alumetal S.A., Alumetal Poland with business units in Kęty, Gorzyce and Nowa Sól) successfully passed recertification audit under BS OHSAS 18001:2007 norm for management system.

In 2018, 14 occupational accidents occurred at the Alumetal Group. The majority of them occurred at the Alumetal Group Hungary Kft. and resulted from employee little work experience and their high turnover. All these accidents were classified as non-serious.

Occupational accidents at the Alumetal Group

Type of accident	2018	2017
Non-serious accident	14	14
Serious accident	0	0
Total	14	14

In 2018, a total of several hundred employees of the Alumetal Group participated in the OHS (occupational health and safety) training (both obligatory i.e. preliminary and cyclical, and advanced training). In addition, training was provided to several dozen persons from other entities who performed repair work on the premises of Group production plants. The conducted OHS initiatives increased workplace safety and improved working conditions of Group employees.

Risks identified in the area of staff-related matters:

- the risk of lack of employee resources relating to current market situation i.e. low unemployment coupled with good economic conditions both in Poland and in the whole CEE area;

- the risk of leaving the company by qualified management with specialist knowledge and considerable professional experience;
- the risk of occupational accidents and hence the potential liability of the Alumetal Group arising from claims for compensation;
- the risk of occupational diseases due to operating work places featuring harmful and onerous factors/ conditions which may originate additional costs to the Alumetal Group.

Methods of identified risks management:

- organization of "open days" at individual production plants of the Group;
- cooperation with higher, intermediate and vocational schools with the curriculum of light metals industry;
- participation of the Group in work fairs;
- operating employee incentive programs;
- possibility of promotion for pre-eminent employees and care for good working conditions;
- systematic development and investments in new technologies;
- investments in and modernization of the area of occupational safety and health;
- systematic OHS training for all Alumetal Group employees that increase their awareness in this area;
- operating and developing the OSH management system based on the BS OHSAS 18001 norm;
- ensuring better and better solutions and tools in the area of employee personal safety;
- significant and pro-active role of OSH inspectors at individual production plants.

C. Respecting human rights and counteracting corruption

The Alumetal Group has conducted its business operations while respecting human rights and dignity, and especially observing employee civil rights, political rights, economic, social, religious and culture rights. To formalize the rules and customs binding at the Group in this area, on 1 March 2018 *The rules of ethics and professional conduct at the Alumetal Group (Zasady etyki i postępowania w Grupie Alumetal)* were adopted, under which all employees should be treated equally, irrespective of employee race, nationality, religion, gender, age, sexual orientation, biological fitness or political view. The integral part of *The rules of ethics and professional conduct at the Alumetal Group* are also *The anti-corruption and anti-mobbing policies (Polityki: antykorupcyjna i antymobbingowa)*.

As part of *The Anti-corruption policy*, a uniform code of conduct was defined to apply in the event of identification of incidents of corruption or fraud. The objective of this policy is to prevent and counteract corruptive behaviours or other acts of fraud undertaken to the detriment of the Group, and to ensure the approach of transparency of the Alumetal Group towards its business partners. Pursuant to the provisions of the *Anti-corruption policy*, employees are offered whistleblowing solutions to report incidents of corruption or fraud.

The anti-mobbing policy contains the rules that prevent acts of mobbing in the workplace, among others, by fostering activities that contribute to building positive relations between employees in the Group and by offering employees training on mobbing. The objective of this policy is to counteract mobbing, among others, by non-acceptance of any and all behaviours associated with mobbing. *The anti-mobbing policy* provides for the manner of reporting of mobbing incidents by employees, which are afterwards considered by the Anti-Mobbing Committee. The result of the work of the Anti-

Mobbing Committee is a protocol covering all factual findings gathered during the course of the work, inclusive of the assessment of incident reporting justification and possible recommendations to eliminate identified irregularities and to prevent occurrence of mobbing incidents in the future.

Risks identified in the area of respecting human rights and counteracting corruption:

- the risk of claims for compensation in the event of violating human rights, inclusive of mobbing incidents ascertained by appropriate state authorities;
- the risk of loss of reputation as a result of employee corruptive or fraudulent behaviour;
- the risk of property damage in the event of employee corruption or fraud activities.

Methods of identified risks management:

- implementation of *The anti-mobbing policy* with a view to effective counteracting incidents of infringing human rights;
- zero acceptance stance on the part of the executives and management board of the Group for the behaviour violating human rights;
- promoting the culture of observing human rights among all employees of the Group;
- implementation of *The Anti-corruption policy* with a view to effective counteracting corruptive or fraudulent behaviour;
- operating the system of control and authorization of realised transactions and processes at all organizational levels in the Group.

D. Environmental protection

Here, at the Alumetal Group we perceive the protection of natural environment and its resources, and the impact of operating our plants on natural environment as an important issue and this standpoint results not only from the necessary compliance with legal requirements. The environmental policy of the Group is directed to clean production understood as making effort to reduce resource consumption, to reduce harmful emissions and to efficiently prevent damage.

In October 2018, all three manufacturing plants of Alumetal Poland sp. z o.o. and Alumetal S.A., as a managing company, successfully passed monitoring audit under ISO14001:2015 norm.

Due to the nature of conducted business activities, the Alumetal Group production plants are subject to the *Environment Protection Law*, *Waste Management Law* and other laws and regulations on environment protection. Each our production plant operates in accordance with the obtained, separately for each location, Integrated Permit, which define rigorous requirements for conducting business in accordance with the BAT (Best Available Technology) and impose appropriate limits for production plants in the matter of their impact on natural environment. The Alumetal Group for many years has operated its environment protection management system in accordance with the ISO 14001 norm.

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

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

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

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

In the reporting period, the Company has not received any complaints for violating environmental norms, laws or regulations. No objections or complaints raised by local communities only proves that the environmental impact of our production plants is under control.

In the reporting period, the production plants of Alumetal Poland sp. z o.o. successfully passed the so-called recycler audit arising from the amendments to the Act on packaging management and packaging waste.

The new conclusions of Best Available Technology (BAT) for the non-ferrous metal industry forced changes to Integrated Permits in individual plants. The amended decisions which accounted for the requirements of said conclusions were obtained by the Nowa Sól and Gorzyce plants. Kęty plant's application for appropriate change in the Integrated Permit was filed with the Malopolskie Voivodship Marshall, and will shortly be supplemented due to the commenced plant's modernization.

The production plants of the Alumetal Group carry out proper waste management, in accordance with binding legal regulations and the obtained permits.

Gathered waste in the form of scrap metals and metal compounds are recycled using special installations and processes so that the raw material can be re-used while considerably reducing harmful impact on natural environment.

Risks identified in the area of environmental protection:

- the risk of change in binding legal regulations, including the risk of introducing more stringent requirements which may lead to the necessity of incurring adjusting costs or carrying out necessary investments;
- the risk of unexpected events as a result possible contamination or actual contamination of natural environment in connection with conducted business activities by Group plants (malfunctions, force majeure).

Methods of identified risks management:

- ongoing monitoring of environmental regulations at the early stage of change process to plan the adjustment process and to assess impact on Group's activities;

- operating the System of Environment Protection Management in accordance with the ISO 14001 norm;
- making investments in modern environment-friendly technologies;
- ongoing control of the level of impact of operations of individual production plants on natural environment.

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

1. ALUMETAL Group products

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

A. Casting alloys

The main output of the production process of the Group are aluminium casting alloys (master alloys and casting alloys) produced in the form of one-notch ingots (*aluminiowe stopy odlewnicze produkowane w postaci gąsek dwudzielnych*) (of 6–8 kg), two-notch ingots (of approx. 13 kg) and in the form of waffle plates (wafers) (of approx. 12 kg) in the Nowa Sól, Kęty and Gorzyce production plants. Apart from solid cast alloys, the Alumetal Group delivers to its customers alloys in the form of liquid metal. The total real production capacity of the three Group production plants in 2016 amounted to 165 thousand tons per year.

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

Given the systematic exceeding of real production capacity by the Gorzyce and Nowa Sól plants (above 100% of production capacity) observed in 2016 which related to a sustainable increase in the efficiency of certain production lines, the Management Board of ALUMETAL S.A. increased as of 2017 the assumptions regarding real production capacity of ALUMETAL Poland sp. z o.o. by 8 thousand tons per year, i.e. from 165 thousand tons per year to 173 thousand tons per year.

As a result, the production capacity of the entire Group increased from 225 thousand tons per year to 233 thousand tons per year. Annual real production capacity is understood to mean nominal production capacity reduced by the effect of standard stoppage of main production equipment during the year resulting from, among others, natural for the automotive industry periods of limited production (summer break in August and Christmas break in December), during which the Alumetal Group carries out necessary repair and maintenance work.

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

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

Following completion in 3Q 2018 of the project called *Development of Master Alloy Plant in Gorzyce (Rozbudowa Zakładu Stopów Wstępnych w Gorzycach)*, the Group obtained the possibility to sell master alloys in the form of wire (currently at the stage of production tests and customer validation) and increased its production capacity by further 12 thousand tons in the area of master alloys production. At the same time, the Group continued in 2018 with the operating activities to increase its productivity levels, which together with said development of master alloy plant in Gorzyce allowed to increase the production capacity of the Alumetal Group to 250 thousand tons per annum.

B. Fluxes and salts

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

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

C. Other

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

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

Detailed data are presented below:

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

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2017	Casting alloys	Fluxes and salts	Other	Unallocated items	Consolidation exclusions	Total
Total volume (tons), of which:	177 164	2 889	31 138	-	-11 316	199 876
- <i>inter-segment sales</i>	1 273	2 636	7 407	-	-11 316	-
Of which:						
Volume of goods (tons), of which:	177 164	2 737	4 591	-	-8 460	176 032
- <i>inter-segment sales</i>	1 273	2 597	4 591	-	-8 460	-
Volume of raw materials, scrap and services (tons), of which:	-	152	25 777	-	-2 855	23 074
- <i>inter-segment sales</i>	-	39	2 817	-	-2 855	-
Volume of goods for resale (tons), of which:	-	-	770	-	-	770
- <i>inter-segment sales</i>	-	-	-	-	-	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 419 472 775.41	6 256 837.02	93 801 318.63	-	-63 290 255.52	1 456 240 675.54
- <i>inter-segment sales</i>	10 481 456.90	5 556 214.58	47 252 584.04	-	-63 290 255.52	-
Cost of sales	-1 312 315 519.98	-4 201 947.99	-85 353 535.67	-	61 484 077.51	-1 340 386 926.13
Gross profit on sales	107 157 255.43	2 054 889.03	8 447 782.96	-	-1 806 178.01	115 853 749.41
Selling expenses	-25 366 930.10	-214 114.67	-147 015.37	-	19 750.10	-25 708 310.04
Operating profit (before administrative expenses)	81 790 325.33	1 840 774.36	8 300 767.59	-	-1 786 427.91	90 145 439.38
<i>% margin</i>	5.8%	29.4%	8.8%	-	-	6.2%
Administrative expenses				-26 103 135.18	1 832 159.00	-24 270 976.18
Other operating income/ other operating expenses				2 996 921.37	-3 255.03	2 993 666.34
Depreciation/ amortization				28 163 474.44	-58 958.86	28 104 515.58
EBITDA*				-	-	96 972 645.12
<i>% margin</i>				-	-	6.7%
Finance income/ finance costs				39 032 875.43	-40 384 468.84	-1 351 593.41
Profit before tax				-	-	67 516 536.13
Income tax expense				3 168 546.22	-	3 168 546.22
Net profit for the year				-	-	70 685 082.35

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

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

The consolidated financial statements for 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. In the case of ALUMETAL Group Hungary Kft., the entity authorised to audit separate financial statements is Ernst & Young Konyvvizsgalo Kft.

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 2016, 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 consolidated financial statements	100 000.00	105 000.00
Review of interim financial statements	50 000.00	50 000.00
Total	150 000.00	155 000.00

In addition, fee for the statutory audit of the financial statements of the ALUMETAL Group Hungary Kft. for 2018 performed by Ernst & Young Konyvvizsgalo Kft. was EUR 12 000.00 EUR (for 2017 – EUR 9 000.00).

2. Market situation

A. Sales market

In 2018 the production of motor vehicles in the European Union counted at 17.89 million pieces, and was 2.5% lower than in 2017 (source: OICA). The EU region stood the second, after China, biggest manufacturing centre of motor vehicles and accounted for 18.8% share in the global production.

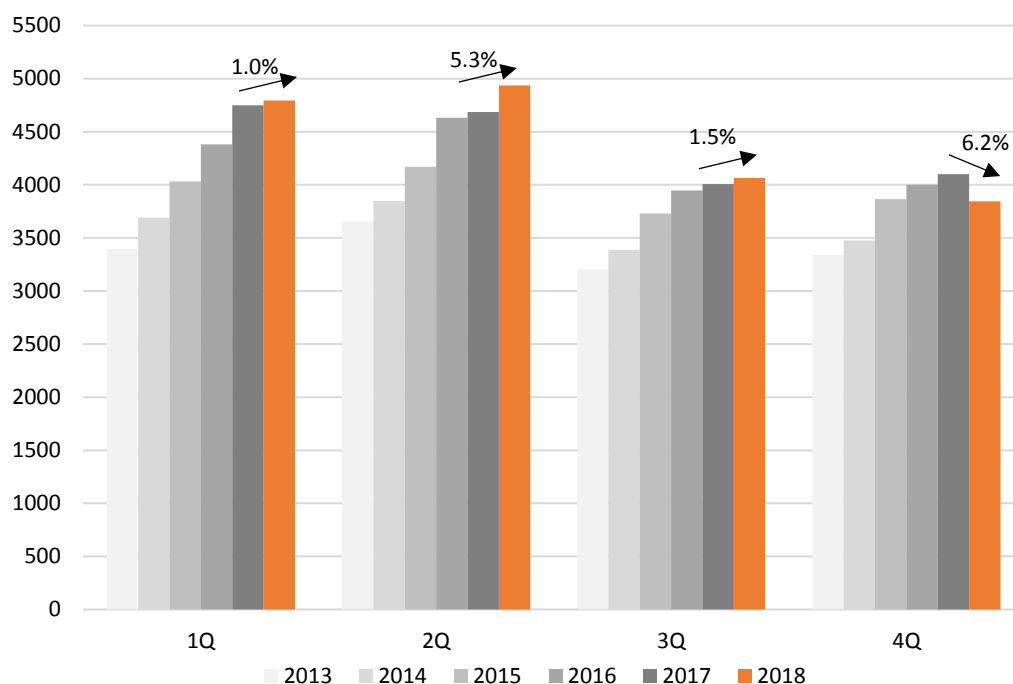
It should be noted that the role of the CEE5 region (Poland, Czechia, Slovakia, Hungary and Romania) in motor vehicle production has continued to grow. While the production of vehicles in the EU dropped

in 2018, in the CEE5 Region – increased from 3.8 million pieces in 2017 to 4 million pieces in 2018. Thus the share of this region in total UE motor vehicles production was 22.4% in 2018 and increased from 20.8% in 2017. More than half of motor vehicles in the EU has continued to be manufactured in Germany and in the CEE5 region and accounted for 51% of the entire EU motor vehicle production. Relocation process of motor vehicle production facilities (vehicles and engines) to the CEE5 countries has continued. The investment decisions of Daimler in Poland were extended to include the construction of engine production plant, and in October 2018 the production plant of Jaguar Land Rover in Slovakia was officially opened. Currently, the CEE5 Region is the home for as many as 40 motor vehicles and engines production plants, of which 16 are located in Poland. As regards registration of new motor vehicles (passenger cars and commercial vehicles), 2018 was the fifth successive year that marked raising trend in the European Union. It should be noted, however, that the situation in 1H 2018 was totally different to that in the 2H 2018. As of September 2018, the automotive market in Europe felt a strong change in the process of admitting new vehicle to production owing to a new procedure of verification of vehicle combustion parameters i.e. WLTP (*World harmonised Light duty vehicle Test Produce*). The then current NEDC system was changed to the WLTP so as to verify in a more comprehensive manner the use of fuel and CO₂ emissions, while considering at the same time such additional vehicle components as, for example, wheels or GPS. The very procedure became extended, while product range (different vehicle configurations) materially affected vehicle production levels in the EU in the period September – December 2018. This effect directly translated into registration levels in the last quarter of 2018 when the number of new vehicle registrations dropped by nearly 8%.

15.16 million passenger vehicles were registered in 2018, which marked a 0.1% increase compared to the prior year. In the same period, commercial vehicle market showed a 3.4% y/y increase and registrations of new vehicles in this segment exceeded 2.48 million pieces (source: ACEA). In analysing jointly the registration of new passenger cars (PC) and commercial vehicles (CV) in 2018, a 06% increase was recorded to the level of 17.64 million pieces. In 2018, the region that supported demand for new passenger vehicles was the CEE5 region, where registration levels grew by 8%. The results of largest European automotive markets greatly varied. Spain recorded a 7% increase in new vehicles registration, France – a 3% increase, while the biggest European market, Germany, recorded a 0.2% decrease, and another significant market, Italy – a 3.1% decrease, and Great Britain – a nearly 7% decrease (source: ACEA).

Presented below is the chart showing trends in the registration of passenger cars and commercial vehicles in the years 2013-2018.

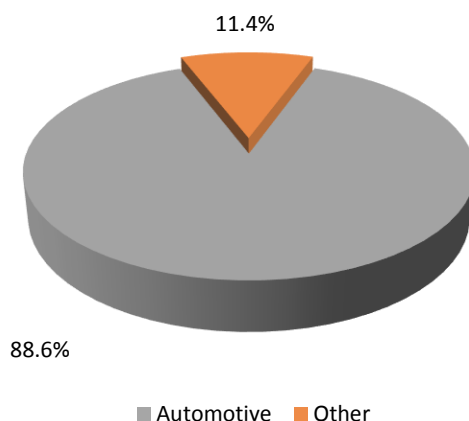
Changes in registrations of new vehicles in the years 2013-2018



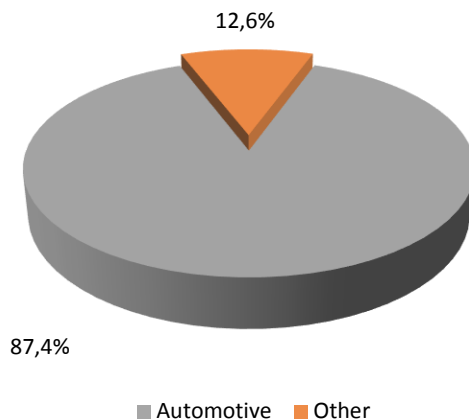
In 2018, the Alumetal Group reported a record high sales level. Supply volumes to contractors amounted to 198 thousand tons and were 12% y/y higher.

As regards 2018 sales structure by customer industry, the automotive industry continued to be in lead in the Alumetal Group, with 88.6% of revenue from contracts with customers dedicated to the *automotive* customers, which marked a 1.2p.p. increase compared to 2017.

Sales in 2018 of finished goods of the Alumetal Group , by industry

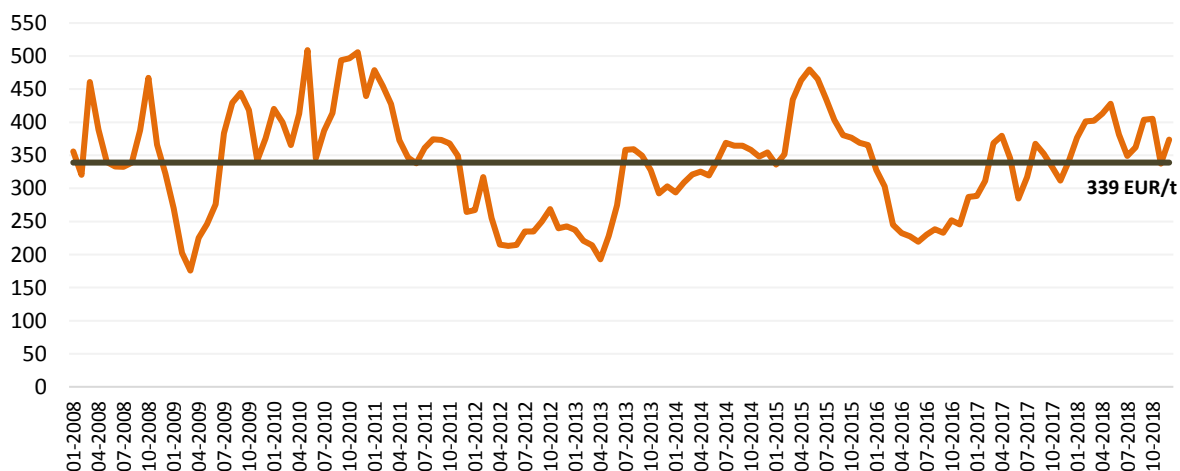


Sales in 2017 of finished goods of the Alumetal Group , by industry



The analysis of market price index (arm's length margin) i.e. of the spread between the price of standard aluminium alloy (alloy 226) and purchase price of appropriate metal scrap used to produce this alloy shows that 2018, just like 2017, was characterized by considerable volatility in short periods of time e.g. several weeks. On average, the margin analysed for that period was 386 EUR/ton and was higher than the average long-term margin (average margin from the beginning of the analysis i.e. from 2008 to the end of 2018 was 339 EUR/ton). The minimum margin for the analysed period of 12 months of 2018 was 337 EUR/ton (November), while the maximum margin stood at 428 EUR/ton (May). Such considerable differences in short periods did not facilitate sales margin optimization.

Benchmark margin (EUR/ton)



In 2018, the Alumetal Group reported revenue from contracts with customers in the amount of PLN 1 655.3 million. The achieved result was 13.7% higher compared to 2017.

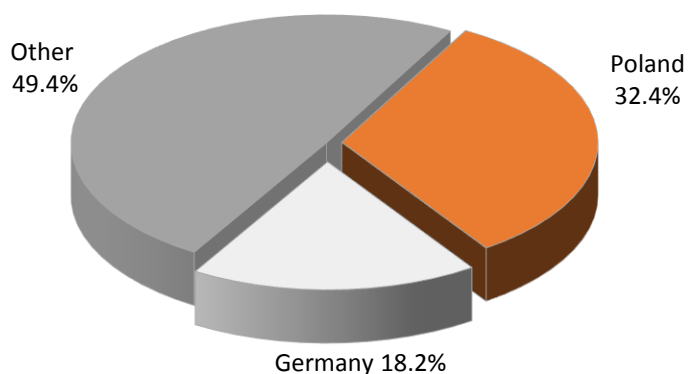
In the whole 2018, the share of exports in total sales was more than 67.6% compared to 63.3% in 2017 which was due to sales expansion from the Hungarian plant.

The Alumetal Group sales structure, by geographical area	2018	2017
Polish market	32.4%	36.7%
Other markets	67.6%	63.3%

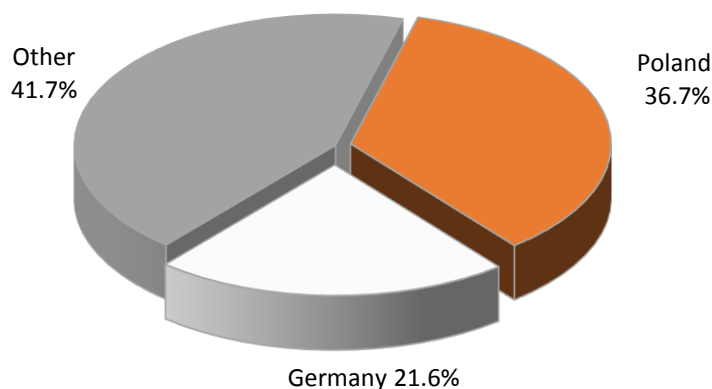
In 2018, the policy of sales diversification and sales portfolio development was continued by acting proactively in the area of obtaining new customers. In 2018, the Alumetal Group acquired 45 new customers, including the customers for both the Group's aluminium alloy products and for fluxes and salts.

The below charts show the geographical structure of Group sales for the years 2018 and 2017 (data as per delivery location of Group customers).

Geographical structure of sales in 2018



Geographical structure of sales in 2017



In 2018, sales to each of the following entities exceeded 10% of total annual sales of the Group:

- the Volkswagen Group
- the Federal-Mogul Group.

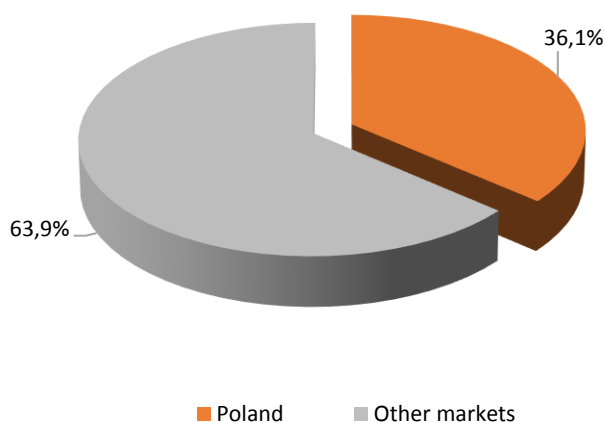
In 2018, the share of sales to the three largest customers of the Group (the Volkswagen Group, the Federal-Mogul Group and the Nemak Group) accounted for 32% of total sales, compared to 37% in the prior year, which effectively marked another phase of diversification and decrease in the share of those three customers in the sales structure of the Group. None of the above customers was related by capital or by organizational structure to the Alumetal Group.

B. Supply market

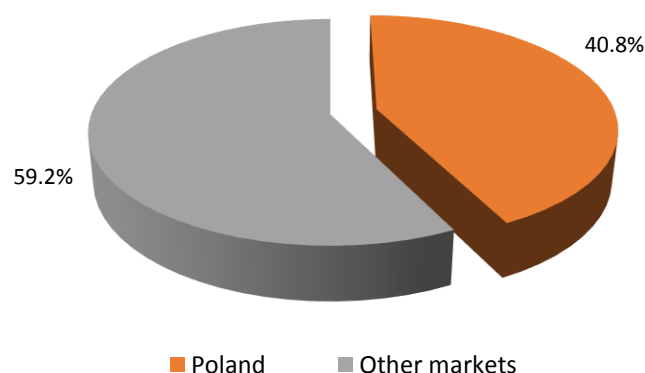
In 2018, the Alumetal Group acquired 219 158 thousand tons of aluminium scrap, which means a 8.7% increase compared to 2017. In this period, the Alumetal Group acquired 56 new suppliers of scrap. Higher volumes of aluminium scrap purchases were the result of higher production outputs, mainly by the Komarom and Nowa Sól production plants.

The share of scrap purchased on the domestic market in total scrap purchases decreased from 40.8% in 2017 to 36.1% in 2018.

Geographical structure of purchases in 2018



Geographical structure of purchases in 2017



In the period from December 2017 to November 2018, scrap exports from Poland increased by 6.3% from 236 thousand tons in the corresponding period of the prior year to 250 thousand tons. In the same period, scrap imports increased by 12.8% from 237 thousand tons to 267 thousand tons. As a result, Poland was the net importer of aluminium scrap at the level of 16 thousand tons against net imports of 1 thousand tons in the corresponding period of the prior year.

In the period from December 2017 to November 2018, aluminium imports to the EU increased by 9.1% from 426 thousand tons to 465 thousand tons. In the corresponding period, exports increased by 5.8% from 907 thousand tons in 2017 to 960 thousand tons. The share of exports to China and India fell from 59% to 54% mainly due to the new rules regarding scrap quality and import restrictions introduced by China as of the beginning of 2018 which consisted in prohibiting imports of mixed metal scrap (e.g. Zorba scrap with high non-ferrous aluminium content) and determining the maximum thresholds for allowable contaminants for non-ferrous scrap metals at 1%.

3. Financial results, ratios and financial position of the ALUMETAL Group

The table below shows summarized consolidated data of the Alumetal Group for 2018 and the comparative data for 2017.

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
Volume of sold goods – in tons	197 718	176 032	197 718	176 032
Revenue from contracts with customers	1 655 340	1 456 241	387 949	343 073
Operating profit	90 840	68 868	21 289	16 224
EBITDA	121 381	96 973	28 447	22 846
EBITDA – unit in PLN/ ton	614	551	144	130
Profit before tax	90 545	67 517	21 220	15 906
Net profit	74 346	70 685	17 424	16 653
Net cash flow from operating activities	96 007	40 207	22 500	9 472
Net cash flow from investing activities	-33 802	-45 132	-7 922	-10 633
Net cash flow from financing activities	-53 252	-36 306	-12 480	-8 553
Total net cash flow	8 953	-41 231	2 098	-9 714
Basic net earnings per share attributable to equity holders of the parent (in PLN / EUR)	4.80	4.57	1.13	1.08
Diluted net earnings per share attributable to equity holders of the parent (in PLN / EUR)	4.80	4.57	1.12	1.08

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ITEMS OF THE STATEMENT OF FINANCIAL POSITION	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Total assets	865 757	841 828	201 339	201 834
Non-current assets	372 137	382 034	86 543	91 595
Current assets	493 621	459 794	114 796	110 239
Shareholders' equity	533 745	503 811	124 127	120 792
Issued capital	1 548	1 548	360	371
Non-current liabilities	50 198	59 076	11 674	14 164
Current liabilities	281 815	278 940	65 538	66 878
Number of shares	15 479 493	15 479 493	15 479 493	15 479 493
Basic carrying amount per share (PLN/EUR)	34.48	32.55	8.02	7.80
Diluted carrying amount per share (PLN/EUR)	34.45	32.55	8.01	7.80
Declared or paid dividend per share (PLN/EUR)	4.08*	2.92**	0.95*	0.70**

* dividend declared

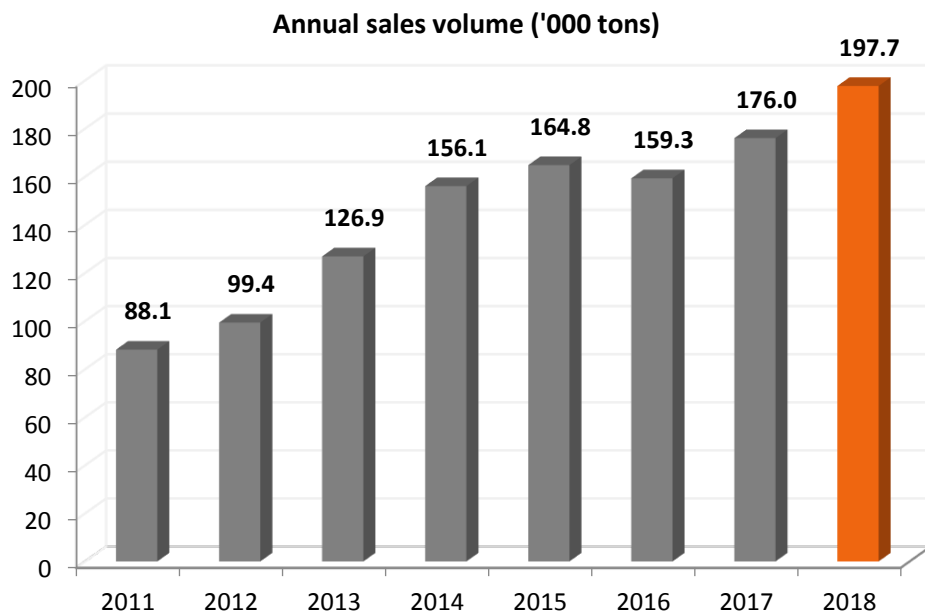
** dividend paid

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

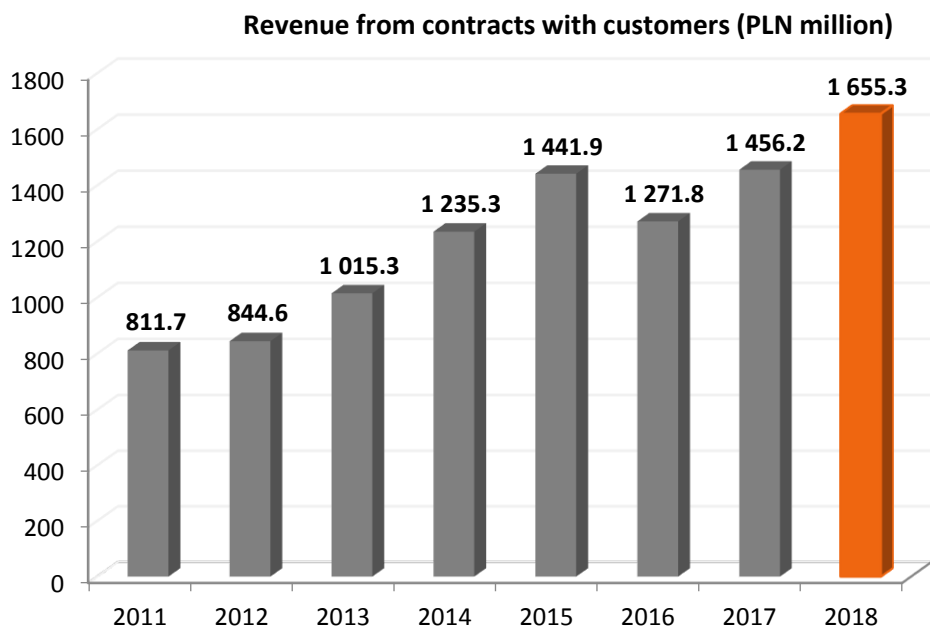
- components of assets and liabilities – at the average NBP exchange rate prevailing as at 31 December 2018 i.e. EUR/PLN 4.3000, and 31 December 2017 i.e. EUR/PLN 4.1709
- components of the statement of comprehensive income and the statement of cash flow – at the exchange rate being the mathematical 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.

Due to the fact that sales of the *Casting alloys* segment account for approx. 97% of total sales revenue of the Group in 2018, it is this particular segment that decides about the overall results of the Group. Nevertheless the results of other segments (*Fluxes and salts and Other*) are also positive, and detailed information on the profitability of each segment was included in point III.1 of this Directors' Report.

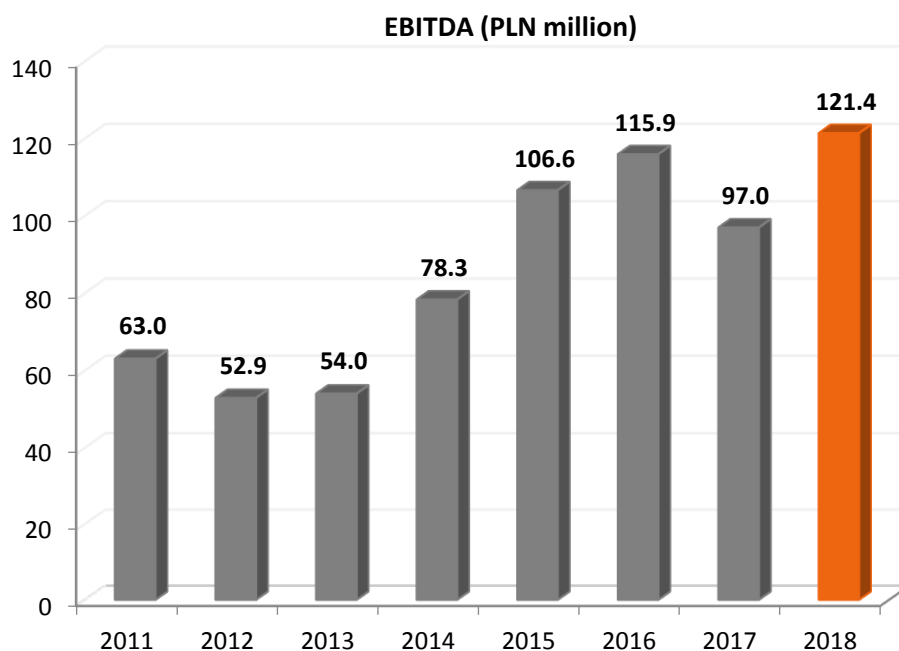
Owing to good situation in the automotive industry and availability of new production capacities in the Hungarian plant, sales volume of the Group amounted to 197.7 thousand tons and increased by 12% in 2018. Compared to 2011, sales volume increased by 124%.



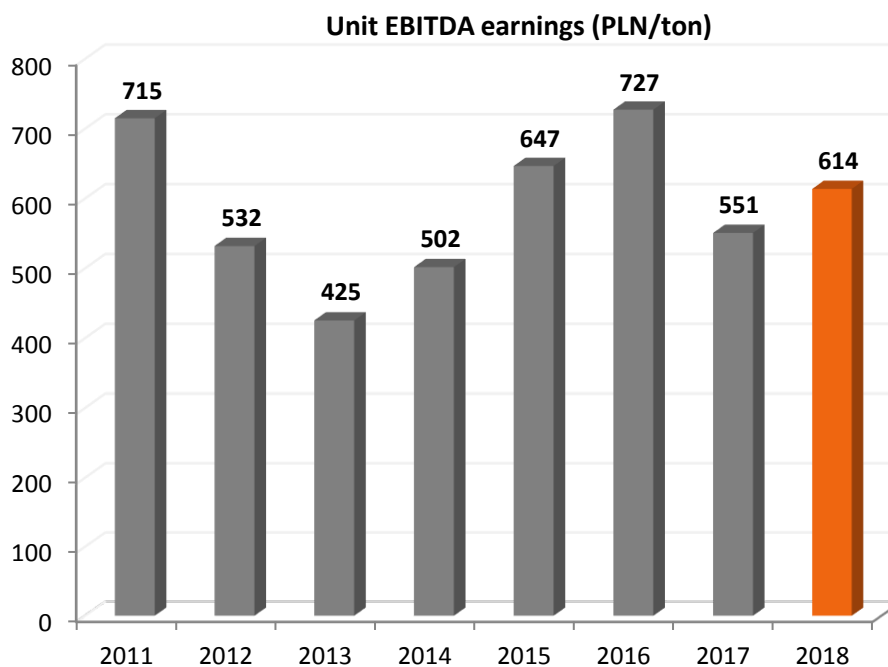
Revenue of the Alumetal Group from contracts with customers amounted to PLN 1 655.3 million and increased in 2018 by 14%, which was due to the increase in sales volume referred to above and to a 2% increase in average selling price of goods compared to the prior year. Revenue from contracts with customers for 2018 was the highest in the history of the Alumetal Group and compared to 2011, the increase was 104%.



The EBITDA earnings amounted in 2018 to PLN 121.4 million and were 25% higher compared to 2017. The main factors which had positive impact on the 2018 EBITDA result were higher sales volumes and increase in unit EBITDA (owing to better operational efficiency of the production plant in Hungary). The EBITDA earnings for 2018 were the highest in the history of the Alumetal Group



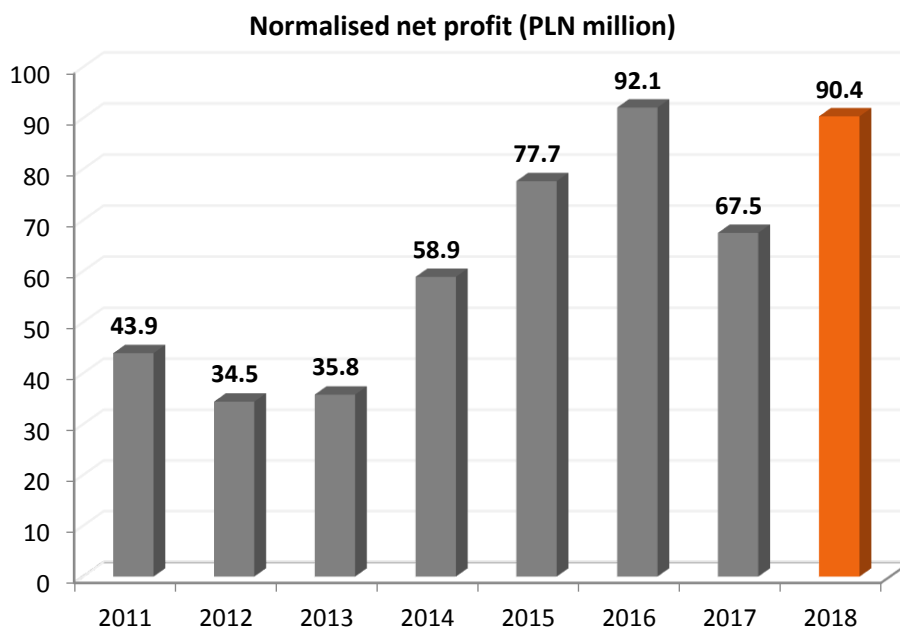
The unit EBITDA ratio in 2018 was PLN 614/ton, and was 11% higher compared to 2017, which means that in 2018 it was 4% higher than the 8-year average result of the Group.



The reported net profit for 2018 amounted to PLN 74.3 million, which means that it was 5% higher compared to 2017. Compared to 2011, net profit increased by 69%.

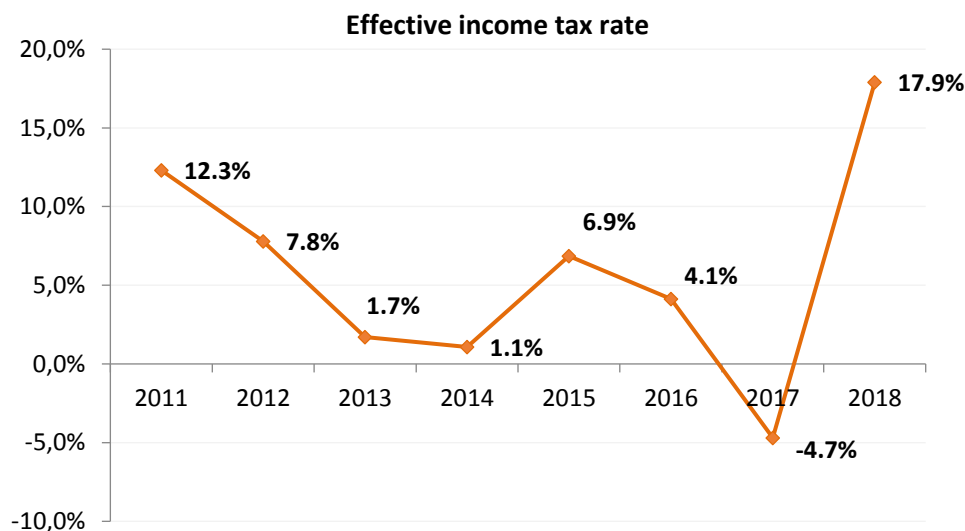
Following valuation of deferred tax asset originating from income tax exemption, the Alumetal Group reported normalised profit (i.e. the reported profit adjusted for the effect of valuation of deferred tax asset from income tax exemption), and - starting from 2017 profit appropriation - modified its dividend policy by modelling paid dividend level on normalised profit.

The chart below shows normalised net profit i.e. net profit, net of the effect of valuation of deferred tax asset relating to income tax exemption. Normalised consolidated net profit for 2018 amounted to PLN 90.4 million and was 34% higher than in 2017.

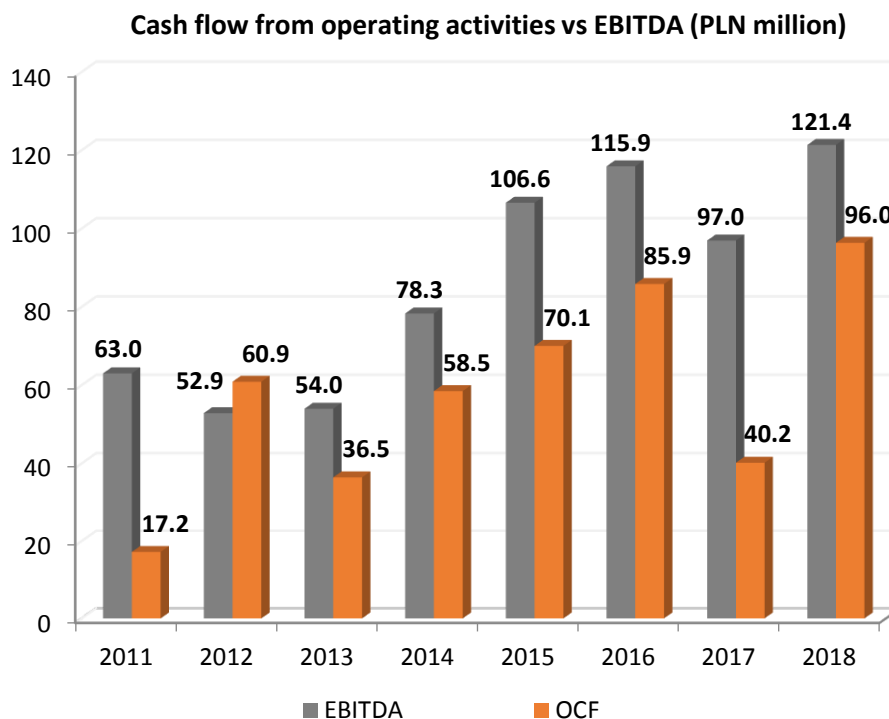


The effective CIT rate of the Alumetal Group for 2018 materially increased, mainly due to recognition of valuation allowance for the full amount of deferred tax assets relating to unused public aid in the form of income tax exemption (tax credit) in the Hungarian company of the ALUMETAL S.A. Capital Group. The Company informed the public about this fact in its current report No. 31/2018.

Had the effect of recognition of valuation allowance for deferred tax asset relating to CIT exemption in Hungary not been recognised, the effective CIT rate for 2018 would be (minus) - 2.1%.

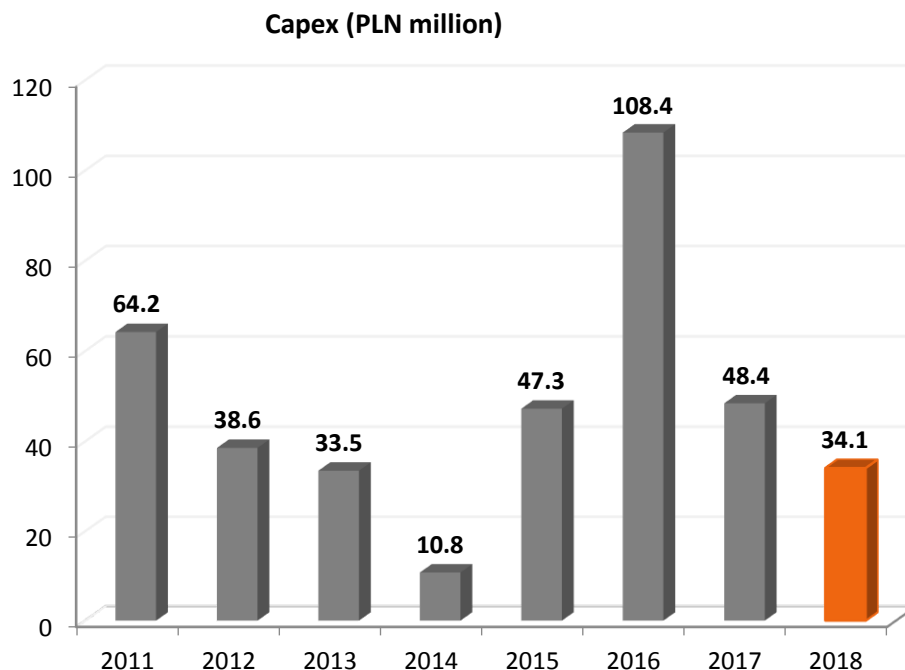


In the entire 2018, the difference between EBITDA earnings and operating cash flows amounted to PLN 25.4 million. The main factors that had impact on the level of conversion of EBITDA earnings into operating cash flow were higher production and sales and 7-days higher Working Capital Days ratio. The above factors resulted in a considerable employment of working capital.



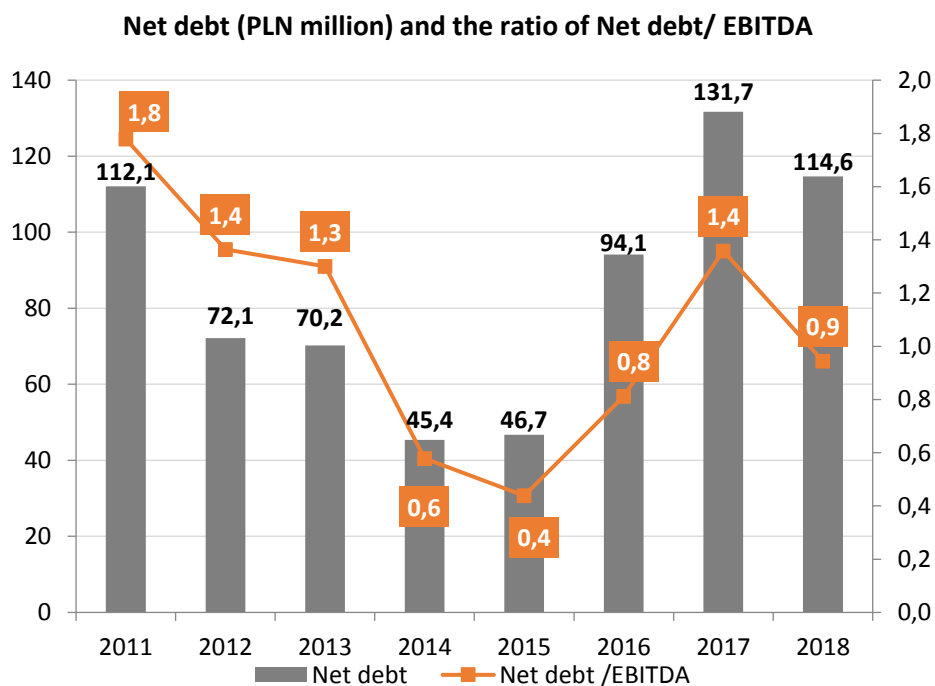
In 2018, capital expenditure amounted to PLN 34.1 million and was 30% lower compared to 2017. The structure of capital expenditure in 2018 was as follows:

- PLN 29.2 million for product mix and production capacity development
- PLN 4.9 million for replacement and retrofitting.



At the end of 2018, the net balance of interest due and payable was PLN 114.6 million i.e. was 13% lower than at the end of 2017. Lower balance of interest payable, despite continued incurring capital expenditure, dividend payment at the level of 67% of normalised consolidated net profit and higher need for net current assets was possible owing to record high EBITDA earnings for 2018.

The ratio of Net debt /EBITDA at the end of 2018 remained at a safe, significantly lower than at the end of 2017, level of 0.9.



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

These ratios demonstrate good or very good efficiency of the operations of the Group at the level of EBITDA margin and net profit margin in the long-term perspective. Apart from sales profitability, the ratios of return on assets (ROA) and return on equity (ROE) remained at a satisfactory level, while noticeable fluctuations in these parameters are of moderate value.

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

The structure of the Group's assets showed that over the last six years the ratio of capital immobility did not change (despite certain fluctuations arising from variable rhythm of investment processes) and remained relatively low, which means that the Alumetal Group retained the relatively high flexibility of its non-current assets despite dynamic growth in production capacity.

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

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

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Financial ratio	Ratio description	2018	2017	2016	2015	2014	2013	2012
EBITDA margin (%)	EBITDA/Revenue from contracts with customers	7.3%	6.7%	9.1%	7.4%	6.3%	5.3%	6.3%
Net profit margin (%)	Net profit/Revenue from contracts with customers	4.5%	4.9%	7.1%	5.2%	4.8%	3.5%	4.1%
Return on assets (ROA) (%)	Net profit/Total assets	8.6%	8.4%	12.4%	12.4%	11.0%	7.4%	8.0%
Return on equity (ROE) (%)	Net profit/Shareholders' equity at the beginning of the period	14.8%	14.7%	21.9%	20.5%	20.6%	14.4%	16.1%
Liquidity I (multiplicity)	Total current assets/Current liabilities	1.8	1.6	1.9	2.0	1.8	1.7	1.7
Working Capital Days (days)	Inventory days + Debtors days – Creditors days	77	70	65	51	60	66	74
Capital immobility ratio (multiplicity)	Total non-current assets /Total current assets	0.75	0.83	0.98	0.76	0.61	0.77	0.83
Stability of financing (%)	(Shareholders' equity + Non-current liabilities)/Total equity and liabilities	67.4%	66.9%	73.4%	72.0%	64.5%	65.9%	67.5%
Debt ratio (%)	(Total equity and liabilities – Shareholders equity)/Total assets	38.3%	40.2%	35.5%	31.0%	39.4%	40.9%	42.4%
Net debt/EBITDA (multiplicity)	(Bank loans and borrowings – cash)/EBITDA	0.9	1.4	0.8	0.4	0.6	1.3	1.4

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

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

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

The assessment of the Alumetal Group considered specificity of its business, development plans of the Group, and applied dividend policy, as well as potential threats arising from a relatively high market cyclicity and customer concentration, great volatility of working capital employment, planned increase in bank debt and possible temporary decrease in business profitability. All these factors and threats did not prevent the agency from assessing the perspective of ALUMETAL S.A.'s rating as "stable".

During 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.

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

A. Receipt of another instalment of overdue receivables from CIMOS d.d.

On 25 April 2018 and 30 October 2018, the Group recorded payment of another two instalments by Cimos d.d. in the amount of EUR 92 415.60 each. As a result, the Group reversed an impairment write-down against this receivable and recognized it, as appropriate, in the Q2 2018 and Q4 2018 result in the amount of the two funds transfer received.

B. Doubtful debts from JN Metal

On 5 June 2017, ALUMETAL Poland sp. z o.o. filed with the District Court in Cracow, 9th Economic Department, a lawsuit against JN Metal Jerzy Nykiel for payment for delivered goods in the amount of PLN 1 503 048.87. As at 31 December 2017, the balance of receivables from JN Metal Jerzy Nykiel covered by impairment write-down decreased as a result of set-offs to PLN 1 266 471.77. As at the date of the preparation of the consolidated financial statements, the amount of receivables from JN Metal Jerzy Nykiel covered by impairment loss allowance was PLN 1 266 471.77. On 7 March 2018, a hearing took place before the District Court in Cracow concerning action brought by Alumetal Poland Sp. z o.o. against JN Metal Jerzy Nykiel for payment. On 25 April 2018, the District Court in Cracow awarded to Alumetal Poland sp. z o.o. the amount of PLN 1 266 471.77 and court fees. On 15 June 2018, the defendant filed an appeal which was not paid for as the defendant applied for exemption from the appeal fee. On 25 July 2018, the District Court in Cracow rejected defendant's application for court fee exemption, in respect of which the defendant's complain was submitted. Based on its decision of 7 November 2018, the Appeal Court in Cracow repealed the contested decision and remanded the case for a new trial. On 21 November 2018, the defendant was ordered by the District Court in Cracow to address the shortcomings.

On 3 January 2019, the District Court in Cracow rejected the defendant's application for court fee exemption. On 4 February 2019, the defendant filed a complaint on rejection by the court of his application for court fee exemption. As a result, on 13 February 2019, the District Court in Cracow ordered the defendant to address the shortcomings of his letter.

C. Decision to continue modified policy of receivables insurance

Due to its further trade expansion and positive experience from the first two years of collaboration in the matter of receivables insurance, the Company decided to continue with this policy for another year. The verification will continue to cover the entire sales to non-related entities, except for the sales to the three largest customers of the Alumetal Group.

D. Successive tranches of cash subsidy pre-financing

ALUMETAL Group Hungary Kft. received in 2018 the following pre-financing of cash subsidy from the Hungarian Investment Promotion Agency in the total amount of HUF 147 361 379 (being the equivalent of PLN 1 973 758.31) at the following dates and in the following amounts:

- a) HUF 116 454 833 on 20 March,
- b) HUF 22 567 461 on 20 April,
- c) HUF 2 961 233 on 13 July,
- d) HUF 5 377 852 on 18 December.

The total amount of advance payments towards cash subsidy received in the years 2016-2018 amounted to 1 477 247 011 (being the equivalent of PLN 20 467 610.49).

E. Extending short-term loan agreement with ING Bank Śląski SA to include ALUMETAL Group Hungary Kft.

To make the financial policy of the Group more flexible and to secure the financial needs of the subsidiary company, ALUMETAL Group Hungary Kft., a decision was taken to include this company in the list of Alumetal Group companies having right to use the short-term facility at ING Bank Śląski S.A. The appropriate annex was signed with Bank ING on 5 February 2018.

The total limit of short-term credit facilities available to the Alumetal Group in all banks remained unchanged and amounted to the equivalent of PLN 138 million.

F. 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 Alumetal Group. 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 a limit of PLN 40 million, with Bank Handlowy w Warszawie S.A. with a value of PLN 54 million and with ING Bank Śląski S.A. with a limit of PLN 36 million. In addition, in August 2018 the ALUMETAL Group Hungary Kft. extended for another year its agreement for a short-term facility (two-currency overdraft facility in EUR and HUF with a value of EUR 1 875 000) with the maturity date of 16 August 2019.

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

G. 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 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's proposal regarding 2017 profit appropriation. 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.

H. Signing annex to the cash subsidy contract

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 Komarom as the new collateral/ security for the subsidy to AGH in exchange for the then current surety of ALUMETAL S.A.

I. 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.

J. 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 Incentive Program III for the years 2018-2020 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.

K. Continued implementation of IATF 16949- based quality system

In 1Q 2018, the Alumetal Group continued to implement the IATF 16949 – based quality system. In September 2017, ALUMETAL Group Hungary Kft. as the first Group's company was awarded this certificate. In 1Q 2018, ALUMETAL S.A. and the production plants in Kęty, Gorzyce and Nowa Sól were also awarded this certificate.

L. Improvement of operational efficiency of the Hungarian Plant

The Hungarian project has continued with the phase of commercial, operational and technological optimization. The systematic improvement that has been observed in operational efficiency, yield reach and financial results allows to expect the sustained positive contribution of this plant to the financial result of the Alumetal Group.

M. 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.

N. Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.

On 16 July 2018, the Supervisory Board of the Company authorised the investment plan called „Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.” submitted by the Management Board.

In accordance with the authorised plan, execution of the investment called „Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.” will comprise extension of the production hall and warehousing facility, partial conversion of the existing plant, infrastructure modernization, as well as purchase, installation and launch of technological and auxiliary equipment. This investment will facilitate the use of modern technologies for aluminium alloys production, increase in production output and significant enhancement of technological and operational processes. The Supervisory Board authorised execution of the investment plan „Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.” as a strategic plan within the meaning of § 20 paragraph 3 point 2 of the Company's Statutes and consented to incurring investment expenditure to the amount of PLN 55 600 000.00. The investment expenditure will be incurred mainly in the years 2019 - 2020. The whole investment will be financed solely from the own funds of the ALUMETAL S.A. Capital Group.

The investment project has been realised according to the adopted schedule i.e. currently, preparation of a technical-technological construct is in progress. The related investment expenditure amounted at the end of 2018 to PLN 233.6 thousand.

O. 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 Małyśka as Chairman of the Audit Committee,
- Mr Michał Wnorowski as Member of the Audit Committee,
- Mr Grzegorz Stulgis as Member of the Audit Committee.

P. Commencement of winding-up procedure of Alumetal Kęty sp. z o.o. by way of liquidation and company disposal

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. On 5 October 2018, 100% of shares in the liquidated company was sold by Alumetal S.A.

Q. Resignation of the President of Management Board

On 21 August 2018, the Supervisory Board and the Company received from Mr Szymon Adamczyk written resignation letter 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.

R. 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.

S. Appointment of the President of Management Board

On 3 October 2018, the Supervisory Board appointed Mr Marek Kacprowicz as President of the Management Board for the 3-year common term of office, about which the Company informed the public by publishing its current report No. 27/2018 of 3 October 2018.

T. 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.

U. 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.

V. Development of Master Alloy Plant in Gorzyce

In June 2018, production and sale commenced of master alloys in the form of salts-based wafers, while the production of master alloys in the form of wire has currently been tested. As part of the conducted investment works, quality lab has been fully modernized and equipped with appropriate control-measurement equipment. Finishing works of warehousing facilities and land management works were completed in September 2018. On 4 October 2018, symbolic opening ceremony of the new part of the plant took place with the participant representatives of local authorities and community, contractors and ALUMETAL's employees. On 25 October 2018, a decision was obtained regarding occupancy permit for the objects realised as part of said investment.

Following completion in 3Q 2018 of the investment project called *Development of Master Alloy Plant in Gorzyce* completed, the Group obtained the possibility to sell master alloys in the form of wire (currently at the stage of production testing) and increased its production capacity by further 12 thousand tons in the area of master alloys production.

W. Valuation allowance for deferred tax asset

On 5 December 2018, the Management Board of Alumetal Group Hungary Kft. in agreement with the Management Board and Audit Committee of Alumetal S.A. decided to recognize valuation allowance for the full amount of deferred tax asset relating to business activities of the ALUMETAL Group Hungary Kft. due to the probability of not meeting the requirement of the parameter of minimum yearly average headcount of 150 persons which is the requirement posed by the Hungarian law for every investor to obtain public aid in the form of income tax exemption.

Assessment change of realization probability of said parameter measured against original business plan assumptions for the investment project *Construction of a production plant in Hungary (Budowa Zakładu na Węgrzech)* from 2014 is due to the following reasons:

- a) permanent change in the supply structure of scrap raw materials at the Hungarian plant of the ALUMETAL S.A. Capital Group that induced lower consumption of scrap raw materials requiring laborious metal management processes, which – in turn – reduced employment headcount in this Subsidiary,
- b) implementation of several technological and organizational solutions that caused both production capacity improvement and the resultant sustainable lower demand for blue collar work force (production) against entity's original plans,
- c) difficult situation on the Hungarian labour market which is characterized by low employee availability, high employee turnover, and relatively high pressure on wages, which all had impact on said modification of the original business model of the Subsidiary company.

Given the above, the Subsidiary company while having lower workforce demand as a result of said changes, most probably will not meet the requirement of minimum yearly average headcount level of 150 persons in 2019 and, in consequence, will not be able to use the tax credit, about which the Company informed the public in its current report No. 17/2014 of 10 October 2014. In these circumstances, the Subsidiary company decided to recognise valuation allowance for the entire

amount of deferred tax asset relating to unused public aid in the form of income tax exemption of HUF 940 287 853 (being the equivalent of approx. PLN 12.5 million), which in 4Q 2018 reduced both the net result of the ALUMETAL Group Hungary Kft. and the reported consolidated net result of the ALUMETAL S.A. Capital Group.

Recognition of said valuation allowance for deferred tax asset will not have any impact on the amount of normalised consolidated net profit of the ALUMETAL S.A. Capital Group, which is the basis for dividend payment by ALUMETAL S.A.

Recognition of said valuation allowance for deferred tax asset *does not* involve cash outflow from the Subsidiary company, and the savings arising from the adoption of a new business model and, in consequence, lower employment levels, should compensate for the loss of any potential benefits from corporate profits tax exemption. The Company informed about this fact in its current report No. 31/2018 of 5 December 2018.

X. Agreements between Shareholders

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

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

A. Signing Annex No. 2 to cash subsidy contract

On 13 December 2018, an application was filed 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 change that was applied for related to reducing the obligation of the ALUMETAL Group Hungary Kft. to maintain the minimum headcount from 113 to 100 employees. This application was accepted and caused that annex No. 2 to cash subsidy contract was signed in February 2019.

VI. Realised investments and development work

1. Information on major research and development achievements

In 2018, the value of investment expenditure incurred for the purchase of property, plant and equipment and intangible assets in the Alumetal Group was as follows:

Total expenditure (PLN thousand)	01.01.2018 – 31.12.2018	01.01.2017 - 31.12.2017
	34 089.74	48 446.23

The investment projects carried out in 2018 related to the tasks in the following areas:

- product mix and production capacity development – PLN 29.2million,
- replacement - retrofitting type investment projects –PLN 4.9 million

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

The most significant events relating to the project called *Construction of a production plant in Hungary (Budowa Zakładu na Węgrzech)*, which were realised in 2017 are as follows:

- optimization was performed of the operational efficiency of two production lines by way of considerable increase in production output,
- On 13 December 2018, an application was filed 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 change that was applied for related to reducing the obligation of the ALUMETAL Group Hungary Kft. to maintain the minimum headcount from 113 to 100 employees. This application was accepted and caused that annex No. 2 to cash subsidy contract was signed in February 2019.

The cumulative amount of paid cash subsidy amounted as at 31 December 2018 to HUF 1 477 247 011.00.

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

In June 2018, production and sale commenced of master alloys in the form of salts-based wafers. In October 2018, machines and equipment for the production of master alloys in the form of wire became operational for testing purposes.

On 25 October 2018, occupancy permit was issued for the buildings included in the project.

4. Modernization of Kęty plant

On 16 July 2018, the Supervisory Board of the Company, based on Resolution No. 4, authorised the investment plan called *Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.* subject to the investment expenditure not exceeding the amount of PLN 55.6 million and subject to investment project completion by 31 December 2020.

On 8 August 2018, an agreement was signed concerning preparation of a complete project documentation for the conversion and redevelopment of the Alloy Plant in Kęty comprising: water-law permit (permit required by Water Law Act), technical – technological construct, construction project together with the required hygienic-sanitary, work safety and fire-protection arrangements that allow to obtain valid construction permits and working plans and specifications (final designs).

On 21 September 2018, an environmental impact report was commissioned with a view to obtaining an environmental decision and applying for amending the underlying Integrated Permit for this investment.

On 14 December 2018, contracts were signed for the delivery, assembly and launch of first production facilities.

In December 2018, land surveying (geodetic) and geological works commenced as well as disassembly of equipment in the area of planned investment.

5. Financing the development of ALUMETAL Group

The Alumetal Group companies concluded a number of contracts with a view to securing finance for the project called *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, the Alumetal Group extended its short-term loan agreements with ING Bank Śląski S.A., DBN Bank Polska S.A. and with Bank Handlowy w Warszawie S.A. for another year, while the ALUMETAL Group Hungary Kft. extended in 3Q 2018 for another year its agreement with Citibank Europe plc Hungarian Branch Office for a short-term bank loan of EUR 1.850 million, 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 Group decided to finance the project *Modernization of Kęty plant* from current financial surpluses.

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

In 2018, the Alumetal Group did not make any capital deposits or capital investments.

7. Strategy and development directions of the ALUMETAL Group

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” (the “Strategy”) 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%.

The adopted Strategy assumed, among others, execution of a material investment relating to the modernization of the Kęty plant. The Supervisory Board approved the investment plan "Modernization of Kęty plant at ALUMETAL Poland Sp. z o.o." submitted by the Management Board.

In accordance with the authorised plan, execution of the investment called „Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.” will comprise extension of the production hall and warehousing facility, partial conversion of the existing plant, infrastructure modernization, as well as purchase, installation and launch of technological and auxiliary equipment. This investment will facilitate the use of modern technologies for aluminium alloys production, increase in production output and significant enhancement of technological and operational processes. The Supervisory Board authorised execution of the investment plan „Modernization of Kęty plant at ALUMETAL Poland sp. z o.o.” as a strategic plan within the meaning of § 20 paragraph 3 point 2 of the Company's Statutes and consented to incurring investment expenditure to the amount of PLN 55 600 000.00 (in words: fifty five million six hundred thousand zloty zero groszy). The investment expenditure will be incurred mainly in the years 2019 – 2020, with the majority of expenditure incurred in 2020. The Management Board plans to complete the investment project by 31 December 2020. The whole investment will be financed solely from the own funds of the ALUMETAL S.A. Capital Group.

The Company does not expect incurring other expenditure for large investment projects in the years 2018 – 2022. As a consequence of budgeting moderate expenditure for the forthcoming years, the ALUMETAL S.A. Capital Group decided to modify its dividend policy from the current 50% to the minimum 70% of normalised consolidated net profit.

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

VII. Quality

All production plants of the Alumetal Group maintain the highest standards as regards continual and premium quality of products required by the automotive industry customers, to which the majority of alloys is delivered. The highest and reproducible quality of products and meeting customer requirements to the IATF 16949:2016 Standard were confirmed during the TUV Rheinland certifying audits carried out at ALUMETAL Poland sp. z o.o. and during supervisory audit at the ALUMETAL Group Hungary Kft. All production plants of the Alumetal Group successfully passed said audits. In 2018, 8 Customer audits were carried out at Alumetal and all ended with positive results.

Currently, tests phase is underway of the production of a new product at the Alumetal Group i.e. master alloys in the form of wire used, among others, for modification of aluminium ductile alloys, which – in turn – are used for the production of aluminium profiles (sections), sheets and foil. These goods must meet stringent quality norms. Keeping this quality will be achieved through the use of modern technology of moulding and the most up-to-date research methods. 2019 is set to be the year of technology perfecting and obtaining customer validation for this new product.

VIII. Loans and borrowings, and other financial agreements

1. Interest-bearing loans and borrowings

	Available limit	Currency*	Maturity date	Limit utilised in PLN as at 31 December 2018	Limit utilised in PLN as at 31 December 2017
Aggregate limit facility for several Group companies at ING Bank Śląski S.A. with an interest rate based on 1M LIBOR (USD) + margin, 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin	36 000 000.00**	PLN*	19.06.2019	32 464 326.79	7 002 037.60
Aggregate limit facility for several companies of the Group at DNB Bank Polska S.A. with an interest rate based on 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin, 1M BUBOR (HUF) + margin; 1M LIBOR (USD) + margin	40 000 000.00	PLN*	28.06.2019	29 018 054.81	36 392 901.56
Limit facility for several companies of the Group at Bank Handlowy w Warszawie S.A. with an interest rate based on 1M LIBOR (USD) + margin, 1M WIBOR (PLN) + margin, 1M LIBOR (EUR) + margin, 1M BUBOR (HUF) + margin	54 000 000.00	PLN*	17.05.2019	44 323 109.82	48 141 304.56
Limit facility for Alumetal Group Hungary Kft. at Citibank Europe Hungarian Branch Office with an interest rate based on O/N EURIBOR (EUR) + margin, O/N BUBOR (HUF) + margin	1 850 000.00	EUR*	16.08.2019	4 842 434.65	5 871 732.63
Short-term portion of the investment loan issued by ING Bank Śląski S.A. in the amount of EUR 10 million, with an interest rate based on 1M EURORIBOR + margin taken out to finance the construction of a production plant in Hungary***	10 000 000.00***	EUR	14.10.2022	8 617 200.00	9 055 023.90
Total short-term portion				119 265 126.07	106 463 000.25
Long-term portion of the investment loan issued to Alumetal S.A. by ING Bank Śląski S.A. in the amount of EUR 10 million, with an interest rate based on 1M EURIBOR + margin, taken out to finance the construction of a production plant in Hungary ***	10 000 000.00***	EUR	14.10.2022	24 329 400.00	31 957 435.80
Total				143 594 526.07	138 420 436.05

* the „currency” means solely the currency of the limit and thus may differ from loan currency

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

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

2. Loans granted

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

- 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;
- 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. Other financial agreements

- Factoring agreement of 15 September 2014 with Bank UniCredit Luxembourg S.A. on full factoring of Euro-based receivables from one of the customers of the Alumetal Group i.e. at the risk of this customer and with no recourse to the Alumetal Group, and with no limit (limited in practice by the scale of cooperation with the given customer);
- Agreement of 28 June 2011 (with subsequent amendments) between ALUMETAL Poland sp. z o.o. and Bank Handlowy w Warszawie S.A. on collaboration between the parties in the area of acquiring by the Bank, based on separate agreements, of trade liabilities of ALUMETAL Poland sp. o.o. towards its business partners, with a total limit of PLN 7 million (full factoring for suppliers executed at their cost).
- the Alumetal Group Hungary Kft. received from the Hungarian government a binding offer, and accepted it, concerning cash subsidy for this project, and the underlying support agreement became finally effective on 2 February 2016. As at the reporting date the amount of cash subsidy pre-financing amounted to HUF 1 329 885 632, while as at the date of the preparation of this Directors' Report – HUF 1 446 340 465 (being the equivalent of PLN 20 074 493.63).

IX. 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

Neither the Company nor any of its subsidiary companies was a party to 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 and ALUMETAL Poland sp. z o.o. issued guarantees and sureties in respect of trade liabilities of Alumetal Group Hungary Kft in favour of the suppliers of the Hungarian subsidiary. The total value of these guarantees and sureties amounted as at 31 December 2018 to the equivalent of PLN 2 038 023.66.

3. Contingent liabilities

Based on a contract with the National Fund for Environmental Protection and Water Management (*Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej*) on financial compensation under the operational program *Infrastructure and Environment 2007-2013* („Infrastruktura i Środowisko 2007-2013”) for the execution of the investment project called *Construction of a plant for the scrap and aluminium waste processing and production of casting alloys – Phase I* („Budowa zakładu przerobu złomów, odpadów aluminiowych i produkcji stopów odlewniczych – etap I”) with a value of PLN 20 000 000.00, ALUMETAL Poland sp. z o.o. was required to fulfil contractual obligations (covenants), including those relating to project durability over the entire term of the project defined in the contract. The security for the fulfilment of the obligations under project financial compensation contract (*umowa o dofinansowanie projektu*) was an *in blanco* promissory note. Due to discharging all obligations set forth in the financial compensation contract, said *in blanco* promissory note cancelled and returned to ALUMETAL Poland sp. z o.o. on 15 May 2018.

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

Apart from the above contingent liabilities, as at 31 December 2018, the Company and its subsidiary companies had no other contingent liabilities with a total or individual value of at least 10% of the Company's issued capital.

X. Financial risk management objectives and policies

The main type of business activity of the Company is conducting operations of a holding company. As part of these operations, the Company manages the financial risk of the companies of the ALUMETAL S.A. Capital Group. The main types of risk described in detail in the consolidated financial statements of the ALUMETAL S.A. Capital Group prepared for the year ended 31 December 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 Alumetal Group is exposed to interest rate risk arising from the financial instruments used to finance operating and investing activities i.e. short- and long-term loans, factoring services on own receivables and short-term deposits.

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

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

2. Foreign currency risk

The Group is exposed to foreign currency risk in connection with the transactions of current operations. Such exposure arises from the sale or purchase transactions made by Group companies in the currencies other than their measurement currency. The ALUMETAL 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 (the Federal Mogul Group, Nemak Group and the Volkswagen Group), and the insurance taken covered the period from 1 April 2016. In 2Qs of 2017 and

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, and, as a result, the credit risk of the Company became considerably limited (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 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 their factoring services. The above instruments and reported good financial results cause that despite the Group's intensive development (bringing high investment expenditure and higher demand for working capital financing), the risk of the loss of financial liquidity does not occur.

XI. Risk factors with possible impact on Group financial results

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

1. Geopolitical and macroeconomic situation in Europe

The activities of the Group are affected by macroeconomic conditions relating to Polish, German, Central European and European economy, economic policy of individual governments, tax systems, GDP, unemployment rate, interest rates, currency exchange rates, inflation rate, consumption levels, investment expenditure and the amount of budget deficit. Fluctuations in the market prices of secondary aluminium 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

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

During economic recession or during the periods of low economic growth, it is the automotive industry that usually suffers from shrinking business. In the period from 2005 to the mid of 2013, the EU saw a declining trend in motor vehicles production and sale. 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 CO₂ 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 pool of external suppliers of aluminium scrap, one may not completely exclude the possibility of the occurrence of a limited availability of this raw material in the near future. Al scrap availability and prices depend on the number of factors outside the control of the Alumetal Group, including on the amount of Al scrap available on the market, demand for the Al scrap by secondary aluminium producers, volume of exports of metals scrap from Europe to other continents, especially to Asia, differences in prices quoted in Europe and in other continents, or on unfavourable weather conditions hindering scrap collection. Lower availability of scrap metals on the European market, higher exports of scrap metals from Europe to other continents or higher regional demand may result in a limited availability or higher prices of aluminium scrap.

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

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

6. Higher competition on the market of secondary aluminium alloys

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

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

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

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

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

- fall in exports of aluminium semi-finished goods from the EU to US due to lower product competitiveness,
- 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,
- „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.

9. Other accidental, unfavourable one-off events

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

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

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

Marek Kacprowicz
President of the
Management Board

Krzysztof Błasiak
Vice-president of the
Management Board

Przemysław Grzybek
Board Member

Agnieszka Drzyżdżyk
Board Member