



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



Kęty, 22 March 2021

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## I. Issuer and Capital Group corporate data

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

As at 31 December 2020, the organisation of the ALUMETAL S.A. Capital Group (hereinafter referred to as the "Alumetal Group" or the "Group") is as follows:

#### ***Issuer corporate data***

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

ALUMETAL S.A. (hereinafter: the "Company", "Issuer") was incorporated in 1999 and entered in the Register of Entrepreneurs on 19 October 2001 as limited liability company (*spółka z ograniczoną odpowiedzialnością*) operating under the name „Alumetal” sp. z o.o. 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.

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

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

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

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

### ***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 steel deoxidizers for steel mills.

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

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

*Corporate information:*

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

**ALUMETAL Group Hungary Kft.**

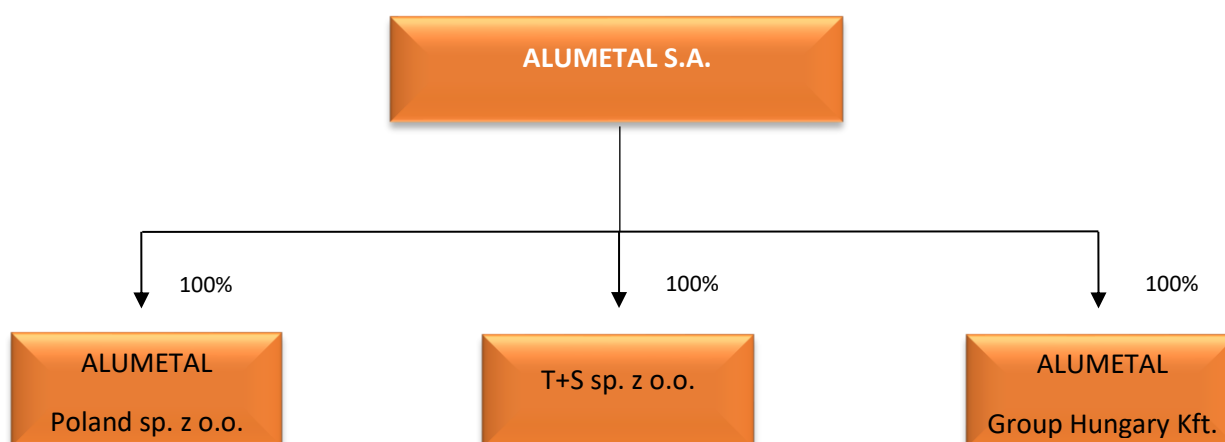
The Company holds 100% shares in the issued capital of ALUMETAL Group Hungary Kft., which give it the right to exercise 100% votes at the shareholders' meeting of this company.

*Corporate information:*

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

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

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



			% share held by ALUMETAL S.A. in the issued capital	
			31 Dec 2020	31 Dec 2019
ALUMETAL Poland sp. z o.o.	Nowa Sól, Poland	Production	100%	100%
T + S sp. z o.o.	Kęty, Poland	Production	100%	100%
ALUMETAL Group Hungary Kft.	Komarom, Hungary	Production	100%	100%

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



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

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

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

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

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

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

## **2. Changes in the organisational structure of ALUMETAL Group**

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

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

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

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

## **4. Intra-Group transactions**

In the reporting period, neither the Issuer, nor its subsidiary companies made any significant transactions with related entities on the terms and conditions other than those prevailing in 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 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 exercising the function of Group subsidiary companies' board members by persons who are members of the Management Board of ALUMETAL S.A., as well as possible appointment to the boards of subsidiary companies of additional persons, as required by business tasks of those subsidiary companies. As part of the compliance with this policy, until 4 January 2021 the mandate of a Management Board Member of ALUMETAL Poland sp. z o.o. and T+S sp. z o.o. was held by Mr Tomasz Kliś, and from the same day it has been held by Mr Rafał Karolczyk.

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

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

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

In the period from 31 December 2019 to 31 December 2020, and as at the date of the preparation of this Report 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 fall exclusively within the competence of the General Shareholders' Meeting. All issues related to the manner of amending the Statutes are governed exclusively and strictly by the provisions of the Code of Commercial Companies. The Company's Statutes do not contain any special provisions in this respect.

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

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

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

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

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

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

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

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

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

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

- authorizations of the Management Board of ALUMETAL S.A. to re-acquire own shares of ALUMETAL S.A. for redemption purposes.

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

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

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

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

## **B. Supervisory Board**

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

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

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

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

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

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

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

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

The powers of the Supervisory Board include, in particular:

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

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

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

### **C. Audit Committee**

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

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

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

The tasks of the Audit Committee comprise, in particular:

1. Monitoring of the following:
  - a. financial reporting process at the Company;

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

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

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

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

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

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

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

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

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

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

- Independence of an audit firm and certified auditor;
- Audit firm and certified auditor rotation rules in such a way that the maximum period of continuous statutory audit engagements conducted by the same audit firm or an audit firm related to that audit firm or any member of this audit firm network operating in EU member



states does not exceed 5 years, and the key certified auditor does not conduct statutory audits for the period longer than 5 years (in that case, the key certified auditor may again engage in the audit of Company's statutory financial statements after 3 years of the completion of his last statutory audit);

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

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

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

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

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

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

#### ***D. Management Board***

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

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

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

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

The powers of the Management Board comprise, in particular:

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

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

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

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

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

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

## **4. Shareholding structure**

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

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

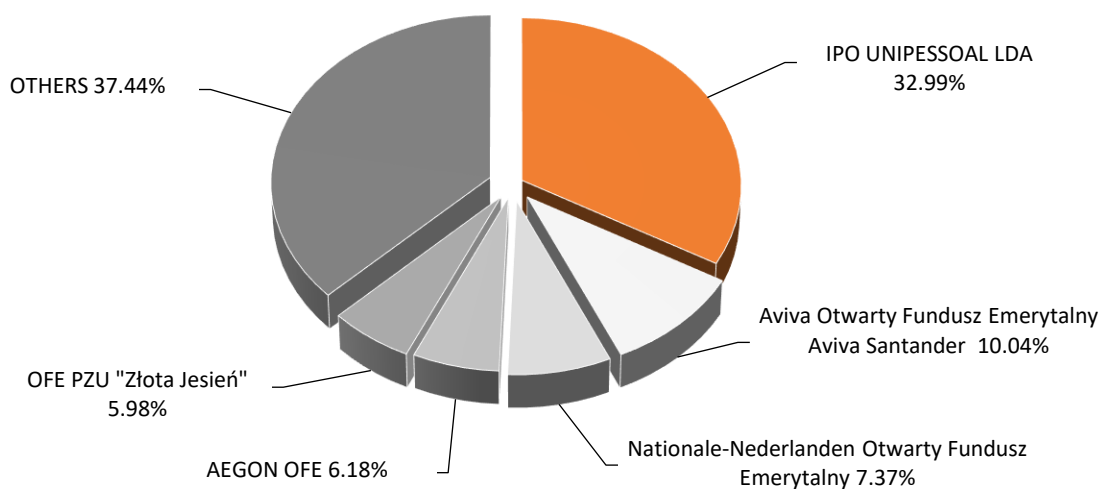
Then, on 6 November 2020, the Company received another notification from Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A. (PTE Aviva), acting on behalf of Aviva Open Pension Fund Aviva Santander (OFE Aviva), that in connection with the transactions of purchase of the Company's shares carried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

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

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

\*entity controlled by Mr Grzegorz Stulgis

**Shareholding structure as at 31 December 2020**



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

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

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

On 28 August 2020, the Ordinary Annual General Meeting adopted Resolution No. 22 on authorizing the Management Board of ALUMETAL S.A. to re-acquire own shares of ALUMETAL S.A. for their

redemption, which assumes re-acquisition of ALUMETAL S.A.'s shares under the following conditions defined in point 2 of this Resolution:

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

- g) the date of the commencement and completion of Shares re-acquisition will be made public by the Company's Management Board, pursuant to art. 56 of the Act of 29 July 2005 on public offering, terms and conditions of introducing financial instruments into organised system of trading and on public companies ("Act on public offering"), and the date for the re-acquisition of the Shares will be given prior to the commencement of re-acquisition,
- h) the Shares may be re-acquired under a public call for the Company's shares.

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

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

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

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

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

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

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

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

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

- taking up 7 955 series G shares by Ms Agnieszka Drzyżdżyk;
- taking up 15 178 series G shares by Mr Krzysztof Błasiak;
- taking up 12 599 series G shares by Mr Przemysław Grzybek;
- taking up 15 866 series G shares by Mr Szymon Adamczyk.

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



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

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

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

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

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

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

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

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

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

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

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

## **7. Incentive Programs**

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

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

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

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

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

In 2018, the Company fulfilled the conditions related to achieving the appropriate level of consolidated EBITDA and achieving the appropriate level of normalized consolidated net profit. However, the condition of achieving an appropriate return on the Company's shares in relation to the dynamics of changes in the WIG index was not met, which means that the Company has issued only 103 196 series D subscription warrants. All these warrants were taken up by the Eligible Persons in Q4 2019. The right to take up series G Incentive Shares resulting from the holding of series D subscription warrants was exercised on 19 February 2021 by taking-up 97 180 G-series shares. The remaining 6 016 G-series shares may be acquired by the Eligible Persons on the next date set for their acquisition, which will be announced in accordance with the rules of the Incentive Scheme III by the Management Board of the Company no later than by 31 December 2022.

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

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

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

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

Value of capital and cost of incentive programs	Year ended 31 December 2020 (in PLN thousand)	Year ended 31 December 2019 (in PLN thousand)
Capital under Incentive Program III	1 838	1 946
Cost of Incentive Program III	- 108	807

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

### ***B. Incentive Program IV for the years 2021-2023***

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

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

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

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

- for each J-series share, the Issue Price will be reduced by the gross dividend paid (per one share of the Company) for the financial year 2020, 2021 and by the paid or approved dividend for the financial year 2022;

- for each K-series share, its Issue Price will be reduced by the gross dividend paid (per one Company share) for the financial year 2020, 2021 and 2022 and by the paid or approved dividend for the financial year 2023;
- for each L-series share, its Issue Price will be reduced by the gross dividend paid (per one Company share) for the financial year 2020, 2021, 2022, 2023 and by paid or approved dividend for the financial year 2024.

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

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

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

## **8. Diversity policy**

The 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 seeks to apply the principles of diversity as demonstrated by the diversity of persons fulfilling the functions in the Management and Supervisory Boards of the 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**

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

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

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

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

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

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

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

The 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 for 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 event of natural disasters or other unforeseeable circumstances, the Alumetal Group organizes material support and assistance 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.

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

### ***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 defined by procedures, instructions and regulations, and included in the following documents:
  - Warehouse instructions,
  - Instructions on hard close and financial statements close process (FSCP),
  - Instructions on registration of data in the integrated IT management system,
  - Physical count instructions,
  - Organizational rules,
  - Procedure for describing and confirming purchase invoices in the Capital Group,
  - Procedure for accepting, registering, scanning and archiving purchase invoices,
  - Regulations on circularization of confidential information,
  - Procedures for preparation of periodic reports,
  - Internal ESPI regulations;
- application of integrated IT management system which considerably limits the risk of data inconsistency and irregularity (minimization of technical-type risk);
- results and control reports analysis by Group's internal specialists at individual stages of reports preparation and arriving at financial results (minimization of substantial-type risk);
- financial results and financial ratios analysis at each level of business by appropriate control units, at the level of a subsidiary and the parent;
- regular cooperation with financial-accounting, tax and legal advisors to ensure correct (consistent with binding accounting policies and legal regulations) recognition and disclosure of individual business operations and business events in periodic reports and annual accounts,
- audit of financial statements by an audit firm.

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

## **D. Implementation of the compliance system at ALUMETAL Group**

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

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

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 2020 to 31 December 2020 and were prepared based on own policies, and, 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 primary and secondary aluminium casting alloys. Apart from production of casting alloys, the Alumetal Group specializes in the production of 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 building of long-term partnerships. People are the main asset of any 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 above all – by being close to the customers – offer customized services.



The parent company of the Group is ALUMETAL S.A., which renders management services (including development and investment services, operational support and controlling services), commercial, financial, IT, HR and payroll services as well as accounting services to other 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 aluminium alloys whose sales accounted for approx. 98% of sales revenue of the Group in 2020 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 good thermal and electrical conductivity) as well as due to its possibility of multiple recycling without losing these properties, aluminium has been used in such industry sectors as transport, construction, energy, packaging or machine industry. Owing to its lightweight, especially when compared to steel, the demand for aluminium has continued to grow also in the automotive industry. The necessity to reduce CO<sub>2</sub> 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 CO<sub>2</sub> 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.

Secondary raw materials used in the recycling process is mainly technological post-production aluminium 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, used beverage cans, foils etc.

The recycling process to which aluminium scrap raw materials are subjected does not bear negative impact on the quality or chemical/ physical properties of aluminium produce, allows to manufacture full-value 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, depending on the type of raw materials, is realized in the following stages:

- scrap preparation including identification of impurities, separation of impurities (contaminants) with possible further preparation of the raw material,
- melting of raw materials with the possible addition to the chemical composition, followed by casting.

One of the main customers of secondary aluminium in Europe is the automotive industry. The Alumetal Group delivers approx. 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 also to the construction industry, white goods manufacturers, to the machine and steel industry. A growing group of customers are the recipients of master alloys, who represent a wide range of manufacturers of aluminium semi-finished products from the construction industry (e.g. profiles) through the automotive industry (e.g. car body sheets) to the food industry (e.g. tin cans or cling films).

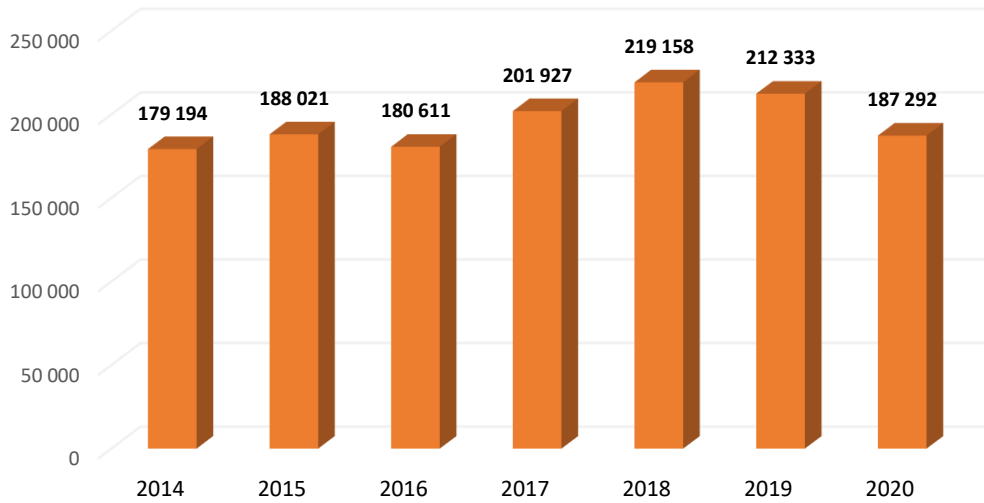
An additional competitive advantage of the Alumetal Group is the progressive relocation of the production of motor vehicles and their components from Western Europe to the CEE5 countries (Poland, Czechia, Slovakia, Hungary and Romania). The importance of this particular region on the map of European automotive industry has systematically grown. According to OICA data, the production of motor vehicles in the CEE5 countries increased to 25% in the LTM (last 12 months) period by the end of Q3 2020 (an increase of 1 pp. compared to the entire year 2019) 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 supports sales volume increase and development of 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, development and modernization of further production facilities in Poland (Kęty, Gorzyce, Nowa Sól) and in Hungary (Komárom). The main non-financial effects of these activities are:

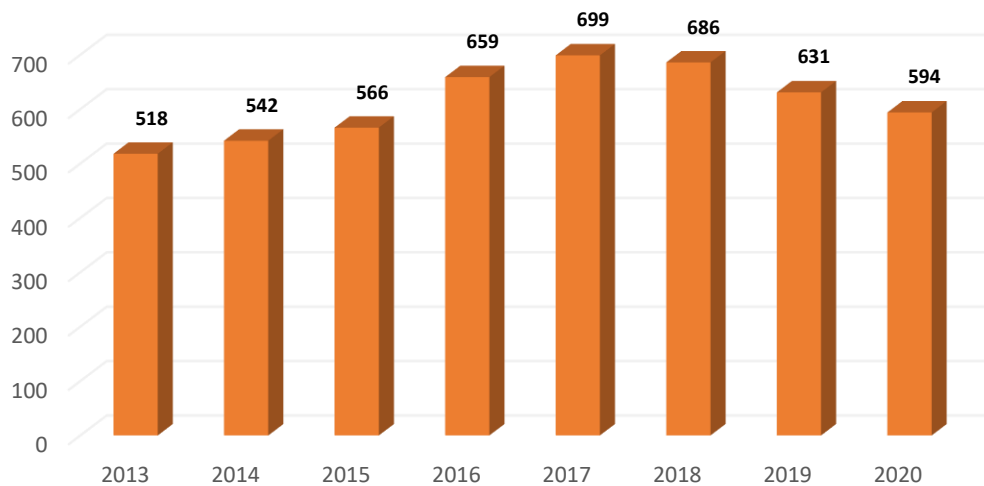
- a) systematic growth of the range of professional and ecological processing of aluminium scrap, and
- b) stable jobs in the Alumetal Group.

Changes in these areas in the last 7 years have been illustrated in the charts below. The decrease in both parameters in 2020 was mainly due to the downturn in the automotive industry and, consequently, the decrease in production and sales, and the continuation of the operational optimization process at the Alumetal Group. In 2020, an additional negative factor was the coronavirus pandemic, which caused mass production stoppages in the automotive industry, which had an impact on the scale of the Group's operations and its employment needs in 2020.

**Amount of scrap metals processed in the years 2014-2020 (tons)**



**No. of employees at the Alumetal Group in the years 2014-2020\*  
(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).

In recent years, the Group has realised many development, modernization and pro-ecological investment projects, and some of them were financed under public aid, including the EU subsidies (some of them under 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 undertaking social initiatives in such areas as education, culture and sporting activities. Cooperation with the local community and directly with local self-governments is an important element of business operations of all plants within Alumetal Group. Good relations with the local community contribute to building mutual trust in relations between the company and the local community and to undertaking joint initiatives. For many years now, the Alumetal Group has been engaged in numerous 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 2016-2020, this form of aid was granted, among others, to the following institutions and organizations:

- education institutions such as nursery schools, primary and junior high schools;
- cultural community centres;
- sports clubs;
- social welfare 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***

#### **B.1 Personnel Policy - mutual respect, trust and good relations**

The aim of the Alumetal Group's personnel policy is to ensure a good and safe place of work, in which each employee has access to all the tools needed for the best performance of his duties. The Alumetal Group focuses on creating good mutual relations, appreciating employees, encouraging them to gain knowledge and development, and contribute to continuous improvement - the Group's operations.

The Alumetal Group believes that appropriate behaviour in contacts between employees, showing mutual respect and trust as well as openness, not only ensures adequate communication, a good atmosphere, but also has a significant impact on the image of the entire Alumetal Group.

The personnel policy in the Alumetal Group is based on the following principles:

- treating employees fairly, equally and respectfully, based on mutual trust,
- strengthening good relations between employees and equal treatment, while treating this element as the foundation of the company's development,

- making all decisions concerning employees in an objective manner, after considering their achievements, competences and attitudes,
- appreciating initiative and creativity,
- organization's openness to changes,
- taking care of the employee's development.

## B.2 Recruitment policy

The Alumetal Group places emphasis on long-term employment and treats employees as a strategic asset of the organization that should be invested in.

Where appropriate, the Group seeks persons who are cooperative, demonstrate consistency in action, are development-oriented and pursue high-quality objectives.

Since the Alumetal Group invests in long-term employees, it values their experience and commitment, and each time the new recruitment is being launched, internal career progression is promoted. External recruitment is carried out at the time when there are no persons meeting the required position among the staff.

The purpose of recruitment activities is to fill individual jobs in such a way as to ensure that the tasks assigned to them are effectively implemented, as well as to attract staff with competences that will help develop the organization.

The recruitment policy is conducted in a transparent and non-discriminatory manner. The process ensures equal opportunities for participants and objectivity of candidate assessment with the use of appropriate selection tools tailored to the position.

## B.3 Structure of employment

As at 31 December 2020, the Group had 594 employees working based on an employment contract which account for 100% of all posts (similar statistics for 2019). In 2020, due to the pandemic, the employment level in the Group was reduced by 5%.

### Staff headcount at the Alumetal Group, by company (persons)

Company	31 December 2020	31 December 2019
Alumetal S.A.	54	55
Alumetal Poland sp. z o.o.	427	463
T+S sp. z o.o.	15**	11*
Alumetal Group Hungary Kft.	105	106
<b>Total</b>	<b>594</b>	<b>631</b>

\* including 4 persons employed simultaneously part-time at Alumetal S.A. or in Alumetal Poland sp.z o.o.

\*\* of which 7 persons employed simultaneously part-time at Alumetal S.A. or at Alumetal Poland sp.z o.o.

**Staff headcount at the Alumetal Group, by gender**

Company	31 December 2020	31 December 2019
Females	69	73
Males	525	558
<b>Total</b>	<b>594</b>	<b>631</b>

**Staff headcount at the Alumetal Group, by type of work**

Type of work	31 December 2020	31 December 2019
White-collar employees	133	134
Blue-collar employees	461	497
<b>Total</b>	<b>594</b>	<b>631</b>

**White-collar posts at the Alumetal Group, by gender**

White-collar posts, by gender	31 December 2020	31 December 2019
White-collar employees-females	63	66
White-collar employees - males	70	68
<b>Total</b>	<b>133</b>	<b>134</b>

**Executive and management posts at the Alumetal Group, by gender**

Executive and management posts, by gender	31 December 2020	31 December 2019
Females	9	9
Males	38	36
<b>Total</b>	<b>47</b>	<b>45</b>

As at 31 December 2020, 88% of all Group employee posts were occupied by males compared to 12% 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).

#### **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 and development needs.

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 management, finance or issues resulting from labour law requirements,
- computer training – in the form of training on the applications required to perform work in certain departments,
- language training,
- training enhancing qualifications and permissions of blue-collar employees.

#### **B.5 Labour hygiene and safety**

Employee health and occupational hygiene and safety (OHS) and ensuring good working conditions are one of the main priorities at the Alumetal Group. The implementation of this goal is based on the actions arising from legal regulations, 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.

One-off and long-term 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 places great emphasis on safety and hygiene at work of its own employees and of the external companies performing work on its premises. Every effort is taken to provide healthy and safe working conditions in all Group plants and preventive measures are taken in this regard. The OHS area at the Group is managed with the use of the BS OHSAS 18001:2007 norm.

In October 2020, Alumetal S.A. and Alumetal Poland sp. z o.o., together with the production facilities in Kęty, Gorzyce and Nowa Sól, successfully passed recertification audits supporting management systems according to BS OHSAS 18001: 2007 norm.

In 2020, 6 occupational accidents occurred at the Alumetal Group. All accidents that took place on the premises of the Alumetal Group were classified as minor.

### Occupational accidents at the Alumetal Group

Type of accident	2020	2019	2018
Minor accident	6	19	14
Serious accident	0	1	0

In 2020, 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 the external 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 the departure of qualified management personnel with specialist knowledge and extensive 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 workplaces exposed to harmful and strenuous factors, 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;
- promotion opportunities for outstanding employees and care for good working conditions;
- systematic development and investments in new technologies;
- investments in and modernization of the field of occupational safety and health;
- systematic OHS training for all Alumetal Group employees to raise awareness in this regard;
- implementation of initiatives aimed at building the culture of safety at the Alumetal Group;
- preparation of the Alumetal Poland sp. z o.o. plants to the new occupational safety management system according to ISO 45001 norm;
- providing more and better solutions and tools for employee personal protective equipment;
- significant and pro-active role of OSH inspectors at individual Group 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 in the Group in this area, *The Code of Ethics of the ALUMETAL Group (Kodeks Etyki Grupy ALUMETAL)* was introduced, under which all employees should be treated equally, irrespective of employee race, nationality, religion, gender, age, sexual orientation, biological fitness or political view. Additionally, with regard to respecting human rights and counteracting corruption, the Alumetal Group operates an *Anti-corruption Policy and Anti-mobbing policy (Polityka antykorupcyjna i Polityka 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 psychological harassment. 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 incidents of psychological harassment by employees, which are afterwards considered by the anti-mobbing committees. 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 validity and possible recommendations to eliminate identified irregularities and to prevent occurrence of mobbing incidents in the future. In addition, in order to provide employees with anonymous reporting channels, the Group operates *The procedure for anonymous reporting of [ethics and professional conduct] violations in the ALUMETAL Group (Procedura anonimowego zgłaszania naruszeń w Grupie ALUMETAL)*.

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/image as a result of employee corruptive or fraudulent behaviour;
- the risk of damage to property in the event that employees are found to be corrupt.

Methods of identified risks management:

- implementation of *The anti-mobbing Policy* with a view to effective counteracting incidents of violation of human rights;
- zero acceptance stance on the part of Group's executives and management board for the behaviour violating human rights;
- promoting the culture of respect for 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 focused on clean production, understood as an endeavour to reduce resource consumption, reduce harmful emissions and to efficiently prevent disasters. In October 2020, all three manufacturing plants of Alumetal Poland sp. z o.o. and Alumetal S.A., as a managing company, successfully passed an audit under the ISO 14001:2015 norm.

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

Reduction of natural resource consumption is executed through the use of aluminium scrap obtained from the market. Over 90% of raw materials used in production are scrap raw materials that undergo a technologically advanced recycling process. The ongoing production 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. They also carried out the required measurements and environment quality analyses. The results of said measurements, analyses and tests performed by accredited testing lab confirmed that the Group companies complied with binding requirements of law, including with the requirements of Integrated Permits.

The controls conducted by government bodies (WIOŚ (*Voivodship Inspectorate for Environmental Protection*) and the Hungarian Institute of Catastrophe) did not identify any significant 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. Waste is collected and selectively managed. Quantitative and qualitative waste records are kept using a new dedicated BDO waste database. Waste not managed by the Group is transferred over to the entities which hold appropriate waste neutralisation permits and licenses. The Group operates within the limits allowed in the Integrated Permits.

In the reporting period, the Company did not receive any complaints from an interested party regarding the excessive use of the environment.

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 Act of 20 July 2018 on the amendment to the Waste Act and some other acts (Journal of Laws 2018, item 1592) and the Act of 19 July 2019 amending the Act on maintaining cleanliness and order in municipalities and certain other acts (Journal of Laws of 2019, item 1579) forced changes to the integrated permits at individual plants in Poland.

The production plants of the Alumetal Group carry out proper waste management, in accordance with binding legal regulations and the relevant permits obtained. Production plants in Poland in accordance with the Waste Act have complied with the requirement to keep records and manage waste using the BDO system.

Metal waste and metal compounds obtained are recycled using special equipment and installations 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 tightening environmental protection requirements, which may involve incurring necessary adjusting costs or carrying out necessary investments in this area;
- 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 evolving environmental regulations, including legislative processes, at an early stage to plan the process of adaptation and impact on the Group's operations;
- operating the System of Environment Protection Management in accordance with the ISO 14001 norm;
- making investments in modern environment-friendly technologies;
- continued 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 (primary and secondary alloys, master alloys and the AlTiB grain refiners in the form of rod) produced in the form of one-notch ingots (*aluminiowe stopy odlewnicze produkowane w postaci gąsek dwudzielnych*) (of 6–8 kg) and in the form of waffle plates (wafers) (of approx. 12 kg) in three Polish production plant in Nowa Sól, Kęty and Gorzyce and in the Komarom plant in Hungary, where master alloys and grain refiners in the form of rod are produced exclusively in Gorzyce.

The Alumetal Group also supplies alloys to customers in the form of liquid metal.

The total real production capacity of the Group's four plants in 2020 was at the level of 250 thousand tons per year (as in 2019). 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.

Due to the finalization of works related to the modernization of Kęty plant, the production capacity of the Alumetal Group from the beginning of 2021 amounts to 270 thousand tons per year.

Chemical composition of aluminium casting alloys is adjusted to individual customer needs and complies with the currently valid global, European and Polish standards. Casting alloys are delivered primarily to customers from the automotive industry (83.7% of the volume sold in 2020 compared to 87.7% in 2019) and to other sectors such as construction, metallurgy, machine industry, steel industry and others.

## **B. 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 (including production services). This segment also includes revenues from the sale of products and materials of T + S sp. z o.o. (fluxes and salts).

The transaction prices between operating segments are determined based on the arm's length basis using the transfer pricing procedures.

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2020	Casting alloys	Other	Consolidation exclusions	Total
Total volume (tons), of which:	154 207	44 803	-23 365	175 645
- <i>inter-segment sales</i>	1 385	21 980	-23 365	-
Of which:				
Volume of goods (tons), of which:	154 207	12 644	-14 009	152 842
- <i>inter-segment sales</i>	1 385	12 624	-14 009	-
Volume of raw materials, scrap and services (tons), of which:	-	32 159	-9 356	22 803
- <i>inter-segment sales</i>	-	9 356	-9 356	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 047 228	94 543	-80 169	1 061 602
- <i>inter-segment sales</i>	11 469	68 700	-80 169	-
Cost of sales	-943 155	-85 686	79 499	-949 342
<b>Gross profit on sales</b>	<b>104 073</b>	<b>8 857</b>	<b>-670</b>	<b>112 260</b>
Selling expenses	-26 038	-188	-	-26 226
<b>Operating profit (before administrative expenses and before other operating income and other operating expenses)</b>	<b>78 035</b>	<b>8 669</b>	<b>-670</b>	<b>86 034</b>
<i>% margin</i>	7.5%	9.2%	-	8.1%
Administrative expenses				-24 228
Other operating income/ other operating expenses				4 977
Depreciation				31 207
<b>EBITDA*</b>				<b>97 990</b>
<i>% margin</i>				9.2%
Finance income/ finance costs				-1 092
<b>Profit before tax</b>				<b>65 691</b>
Income tax expense				-10 645
<b>Net profit for the year</b>				<b>55 046</b>

\* EBITDA was calculated by adjusting gross profit for finance income, finance costs and depreciation.

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2019	Casting alloys	Other	Consolidation exclusions	Total
Total volume (tons), of which:	194 849	43 991	-16 419	222 421
- <i>inter-segment sales</i>	1 774	14 645	-16 419	-
Of which:				
Volume of goods (tons), of which:	194 849	7 163	-8 869	193 143
- <i>inter-segment sales</i>	1 774	7 095	-8 869	-
Volume of raw materials, scrap and services (tons), of which:	-	36 828	-7 550	29 278
- <i>inter-segment sales</i>	-	7 550	-7 550	-
Sales of finished goods, raw materials, goods for resale and services, of which:	1 363 562	85 303	-65 057	1 383 808
- <i>inter-segment sales</i>	15 500	49 557	-65 057	-
Cost of sales	-1 256 035	-75 177	63 768	-1 267 444
<b>Gross profit on sales</b>	<b>107 527</b>	<b>10 126</b>	<b>-1 289</b>	<b>116 364</b>
Selling expenses	-30 892	-342	-	-31 234
<b>Operating profit (before administrative expenses and before other operating income and other operating expenses)</b>	<b>76 635</b>	<b>9 784</b>	<b>-1 289</b>	<b>85 130</b>
<i>% margin</i>	5.6%	11.5%	-	6.2%
Administrative expenses				-24 315
Other operating income/ other operating expenses				2 554
Depreciation				32 078
<b>EBITDA*</b>				<b>95 447</b>
<i>% margin</i>				6.9%
Finance income/ finance costs				-1 256
<b>Profit before tax</b>				<b>62 113</b>
Income tax expense				-11 663
<b>Net profit for the year</b>				<b>50 450</b>

\* EBITDA was calculated by adjusting gross profit for finance income, finance costs and depreciation.

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

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

On 13 December 2019, the Supervisory Board of the Company appointed PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. with its registered office at ul. Polna 11 in Warsaw to audit the financial statements of the Company and the Group for the years 2020 and 2021. In the case of ALUMETAL Group Hungary Kft., the entity authorised to audit separate financial statements is PricewaterhouseCoopers Könyvvizsgáló Kft.

The table below shows the remuneration of the entity authorised to audit financial statements, paid or payable for the year ended 31 December 2020 and 31 December 2019, by type of services:

Type of service	Year ended 31 December 2020 (in PLN thousand)*	Year ended 31 December 2019 (in PLN thousand)**
Statutory audit of consolidated and separate financial statements	165	100
Review of interim financial statements	60	50
<b>Total</b>	<b>225</b>	<b>150</b>

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

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

In addition, fee for the statutory 2020 audit of separate financial statements of the Alumetal Group Hungary Kft. carried out by PricewaterhouseCoopers Könyvvizsgáló Kft. was EUR 11.000,00 (for 2019 - EUR 12.000,00 – related to Ernst & Young Konyvvizsgalo Kft.).

## 2. Market situation

### A. Sales market

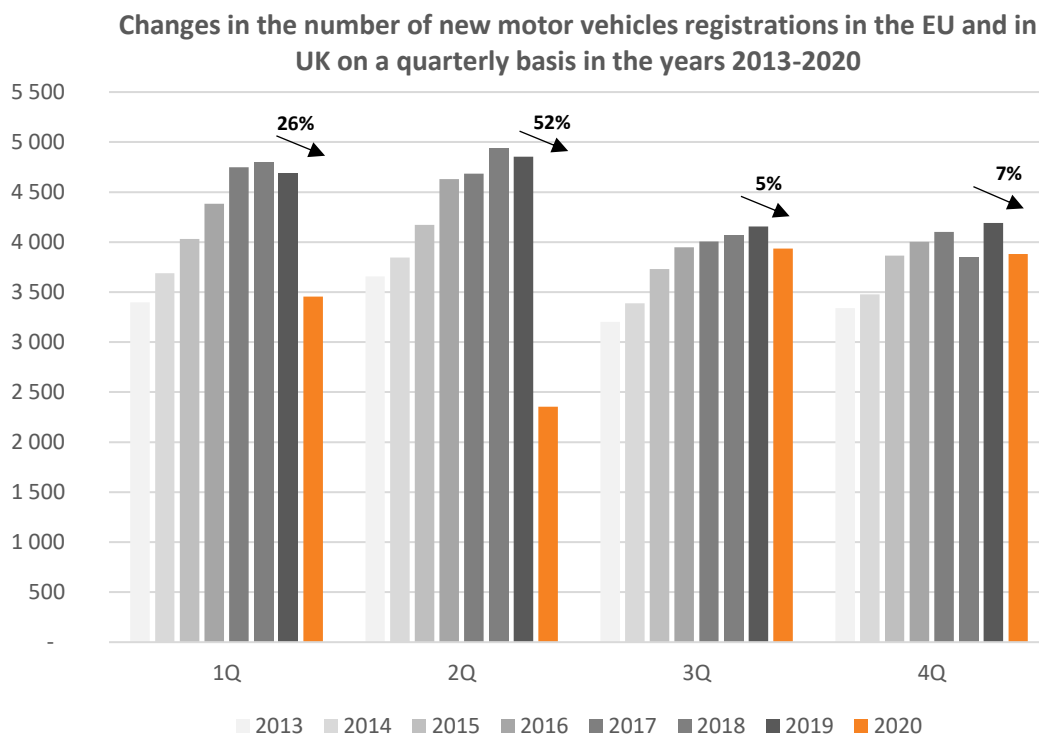
After six years of growth in sales of new motor vehicles (passenger cars and commercial vehicles) in the European Union and in Great Britain, year 2020 saw a sharp decrease in sales. This situation was undoubtedly influenced by the outbreak of the coronavirus pandemic and the full lockdown of the European economy in Q2 2020.

In 2020, sales of new passenger cars in the European Union and in Great Britain reached 11.57 million units, recording a 24.6% decrease compared to the prior year. In Q4 2020, the decrease was 8.4%

compared to the corresponding period in the prior year. Commercial vehicle registrations in 2020 reached the level of 2.05 million units, which means a decrease by 19.4% year-on-year (YoY). In Q4 2020 alone, the situation looked much better - a 1.3% decrease was recorded, compared to the corresponding period of 2019. When analyzing the total number of registrations of new passenger cars (PC) and commercial vehicles (CV), a decrease of 23.8% was recorded in 2020, reaching the level of 13.63 million units, and in Q4 2020, a decrease of 7.3% compared to Q4 2019.

All European markets in this pandemic year were characterized by two-digit declines compared to 2019, including the largest ones: in Germany, new passenger vehicle registrations fell by 19.1%, in France by 25.5%, in Italy by 27.9%, and in Spain by 32.3%. 1.6 million units were registered in Great Britain, which is 29.4% less than in the previous year. A similar situation occurred in the case of registrations of new commercial vehicles, with decreases in the largest markets ranging from 15% to 17% (Germany, France, Italy), while Great Britain recorded a 22% decrease, and Spain 26.1% YoY.

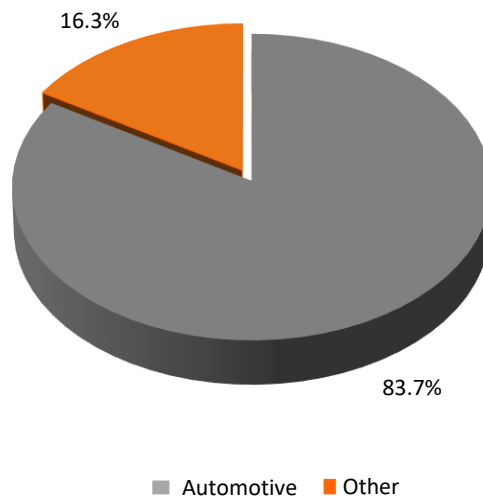
Presented below is the chart showing quarterly trends in the registration of passenger cars and commercial vehicles in the years 2013-2020.



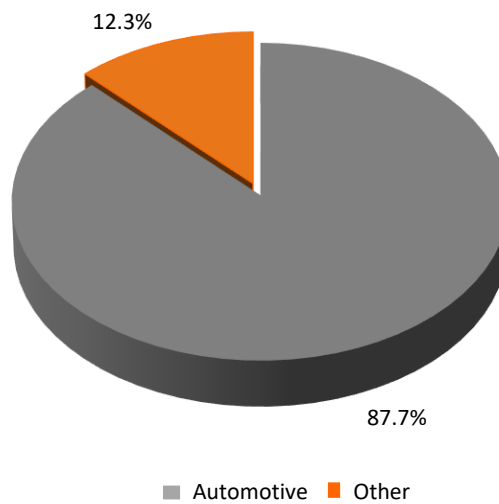
In 2020, the sales volume of the Alumetal Group amounted to 153 thousand tons and was lower by 20.8% YoY. The automotive industry continued to dominate in the structure of sales to individual industries, accounting for 83.7% of total sales. This share dropped by 4 percentage points compared to the previous year.



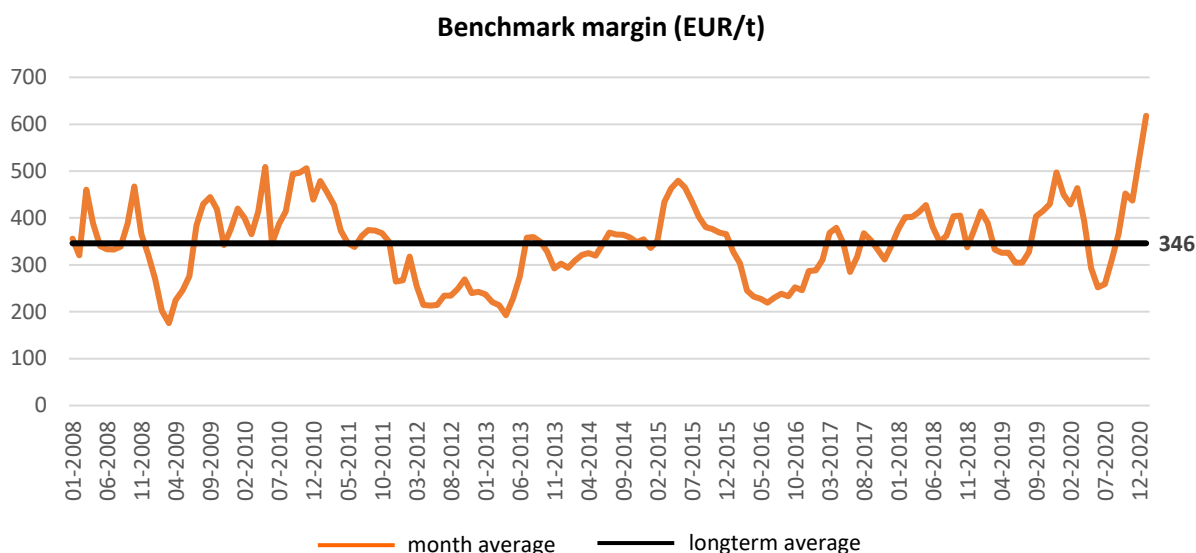
**Sales in 2020 of finished goods of the Alumetal Group, by industry**



**Sales in 2019 of finished goods of the Alumetal Group, by industry**



The chart below shows market margins in the form of a difference (spread) between the price of the standard aluminium casting alloy (alloy 226) and the purchase price of an adequate scrap material used in the production of this alloy. The average market margin was EUR 387/t in 2020 and was higher by 4% compared to 2019 and by nearly 12% than the long-term average (the average margin from 2008 to 2020 was EUR 346/t). The lowest margin value in 2020 was EUR 252/t (June), and its highest level was EUR 530/t (December).



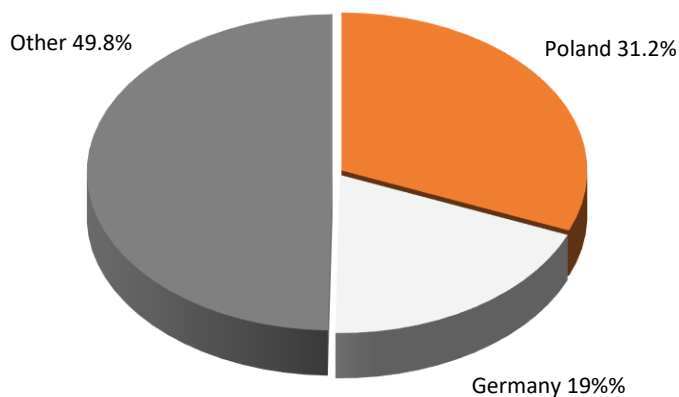
Throughout 2020, the share of revenues from sales to customers outside Poland was 68.8%, i.e. 1.2 percentage points more than in the previous year.

The Alumetal Group sales structure, by geographical area	2020	2019
Polish market	31.2%	32.4%
Other markets	68.8%	67.6%

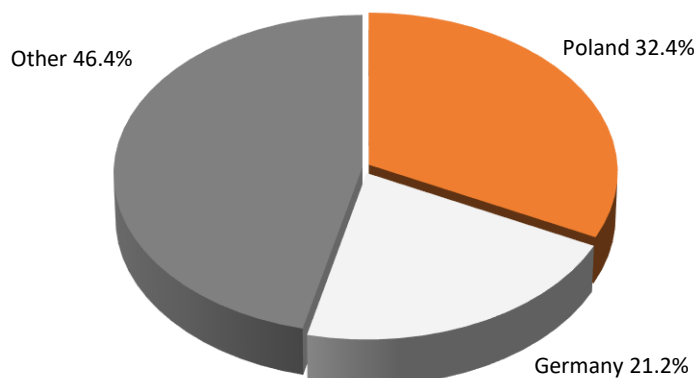
In 2020, the policy of diversifying and expanding the sales portfolio was continued, by actively working in the area of acquiring new customers. In the analysed period, the Alumetal Group acquired 25 new customers, including customers of both casting alloys and master alloys, including the AlTiB grain refiners in the form of rod.

The charts below show the geographical structure of the Group's sales in 2020 and 2019 (data by place of delivery).

**Sales geographical structure in 2020**



**Sales geographical structure in 2019**



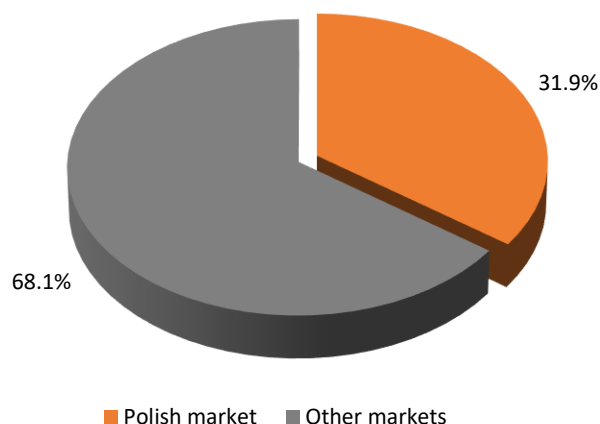
In 2020, the Alumetal Group achieved revenues above 10% of total annual revenues with the Volkswagen Group and the Nematik Group.

### ***B. Supply market***

In 2020, the Alumetal Group bought 187 thousand tons of aluminium scrap, which is a decrease of 11.8% compared to 2019. During this period, 41 new suppliers of scrap material were acquired. The decrease in the amount of purchased scrap is the consequence of lockdown in the automotive industry in Q2 2020 and, consequently, a reduction in the supply and production of alloys.

The share of scrap materials obtained from the Polish market in total purchases decreased from 34.1% in 2019 to 31.9% in 2020.

### Geographical structure of purchases in 2020



### Geographical structure of purchases in 2019



In the period from December 2019 to November 2020, scrap exports from Poland increased by 2.2% to 260 thousand tons. In the same period, imports fell by 17% to 184 thousand tons. Poland maintained the status of a net exporter at the level of 76 thousand tons, against 31 thousand tons in 2019.

In the period from December 2019 to November 2020, exports of scrap from the EU (for EU 27) decreased by 16.9% to the level of 902 thousand tons (the share of exports to China and India fell from 55.7% to 37.4%).

In the same period, the import of scrap to the EU increased by 19.2% to 614 thousand tons. Consequently, net exports of aluminium scrap from the EU (for EU 27) decreased from 571 thousand tons in 2019 to 288 thousand tons in 2020.

### 3. Financial results, ratios, balance sheet structure and financial position of the ALUMETAL Group

The table below shows summarized consolidated data of the Alumetal Group for 2020 and the comparative data for 2019.

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ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME & STATEMENT OF CASH FLOWS	In PLN thousand		In EUR thousand	
	12 -month period of 2020	12 -month period of 2019	12 -month period of 2020	12 -month period of 2019
Volume of sold goods – in tons	152 842	193 143	152 842	193 143
Revenue from contracts with customers	1 061 602	1 383 808	237 272	321 681
Operating profit	66 783	63 369	14 926	14 731
EBITDA	97 990	95 448	21 901	22 188
EBITDA – unit in PLN/ ton	641	494	143	115
Profit before tax	65 691	62 113	14 682	14 439
Net profit	55 046	50 450	12 303	11 728
Net cash flow from operating activities	15 220	179 185	3 402	41 653
Net cash flow from investing activities	-58 843	-34 015	-13 152	-7 907
Net cash flow from financing activities	-9 328	-72 314	-2 085	-16 810
Total net cash flow	-52 951	72 856	-11 835	16 936
Basic net earnings per share attributable to equity holders of the parent (in PLN / EUR)	3.56	3.26	0.79	0.76
Diluted net earnings per share attributable to equity holders of the parent (in PLN / EUR)	3.56	3.26	0.79	0.76

ITEMS OF THE STATEMENT OF FINANCIAL POSITION	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Total assets	878 183	765 943	190 297	179 862
Non-current assets	388 185	368 210	84 117	86 465
Current assets	489 998	397 733	106 180	93 397
Shareholders' equity	573 836	519 792	124 347	122 060
Issued capital	1 548	1 548	335	363
Non-current liabilities	25 793	42 058	5 589	9 876
Current liabilities	278 554	204 093	60 361	47 926
Number of shares	15 479 493	15 479 493	15 479 493	15 479 493
Basic carrying amount per share (PLN/EUR)	37.07	33.58	8.03	7.89
Diluted carrying amount per share (PLN/EUR)	37.07	33.58	8.03	7.89
Planned/ paid dividend per share (PLN/EUR)	2.92*	0.00	0.63*	0.00

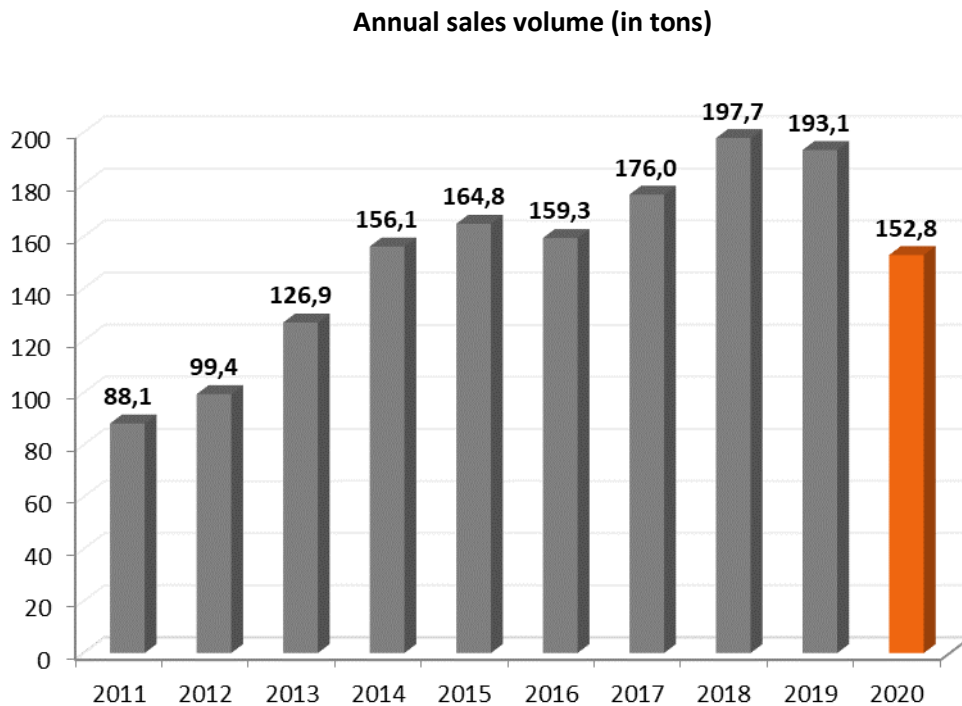
\* dividend planned

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

- components of assets and liabilities – at the average NBP exchange rate prevailing as at 31 December 2020 i.e. EUR/PLN 4.6148, and 31 December 2019 i.e. EUR/PLN 4.2585
- components of the statement of comprehensive income and the statement of cash flow – at the exchange rate being the mathematical average of the NBP exchange rates prevailing at the last days of the month: for 12 months of 2020 - EUR/PLN 4.4742 and for 12 months of 2019 - EUR/PLN 4.3018.

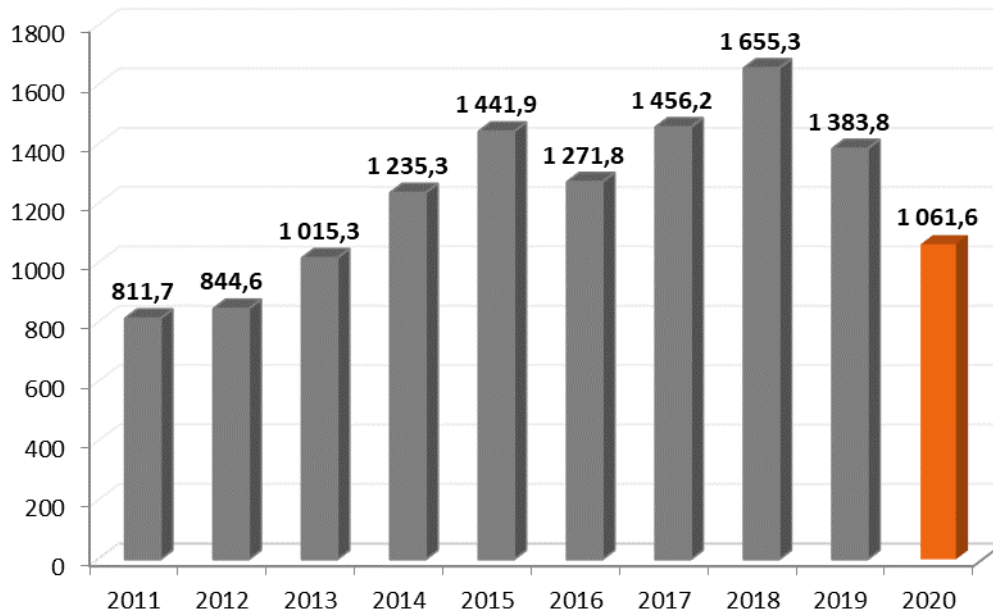
Due to the fact that sales of the *Castings alloys* segment account for approx. 98% of total sales revenue of the Group in 2020, it is this particular segment that decides about the overall results of the Group. Nevertheless, in the segment *Other*, results are also positive, and detailed information on the profitability of each segment was included in point IV.1 of this Directors' Report.

Due to the outbreak of the COVID-19 pandemic and, consequently, downturn in the world economy, including the automotive industry, the Group's sales volume amounted to 152.8 thousand tons and decreased by 21% in 2020.



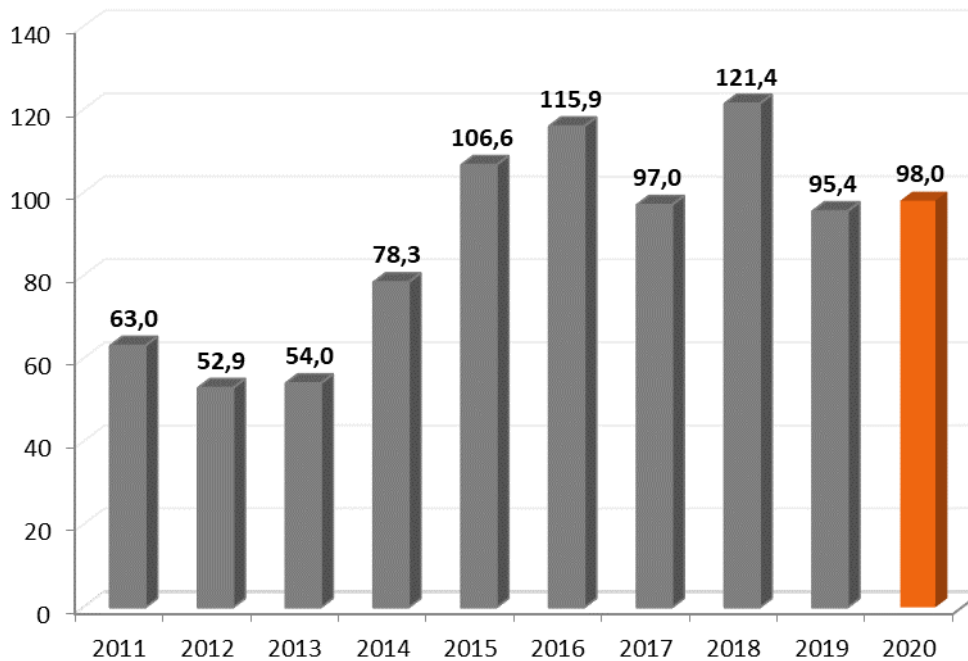
Sales revenues of the Alumetal Group in 2020 decreased by 23% year-on-year and amounted to PLN 1 061.6 million, which resulted from the above-mentioned decrease in the sales volume and a 3% decrease in the average sales price of products compared to the previous year.

**Sales revenues (in PLN milion)**



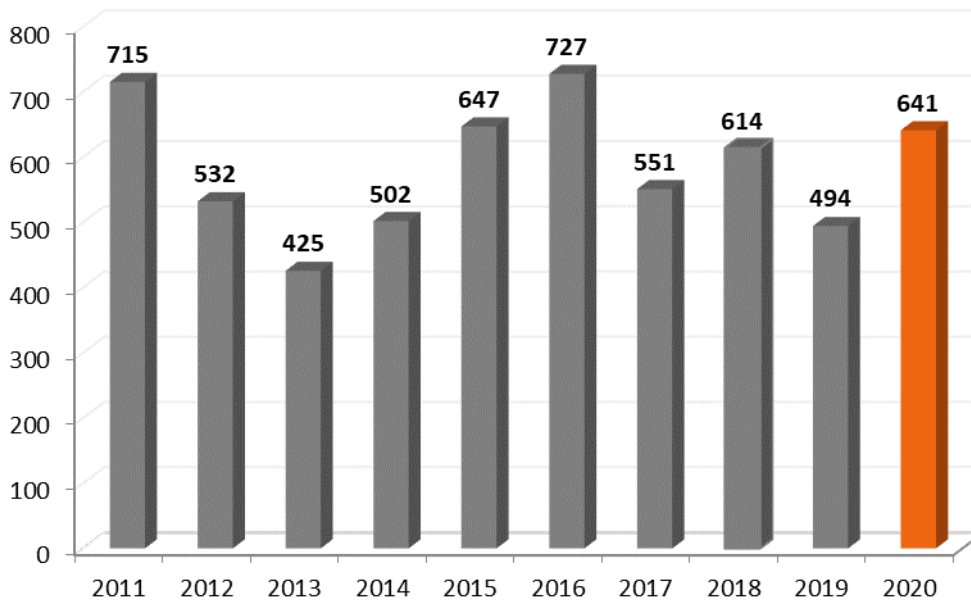
The EBITDA earnings amounted to PLN 98.0 million, which means a 3% increase compared to 2019. A negative factor that influenced this parameter in 2020 was a sharp fall in demand for the Group's products, mainly in Q2 2020, caused by the outbreak of the coronavirus pandemic and the resulting lower volume of sales resulting in an increase in the unit cost of production. The positive factor, in turn, was a clear improvement, especially in H2 2020, of the relationship between the selling prices of aluminium alloys and the purchase prices of aluminium scrap raw materials, which translated into a favourable unit level of EBITDA for the whole of 2020.

**EBITDA (in PLN milion)**



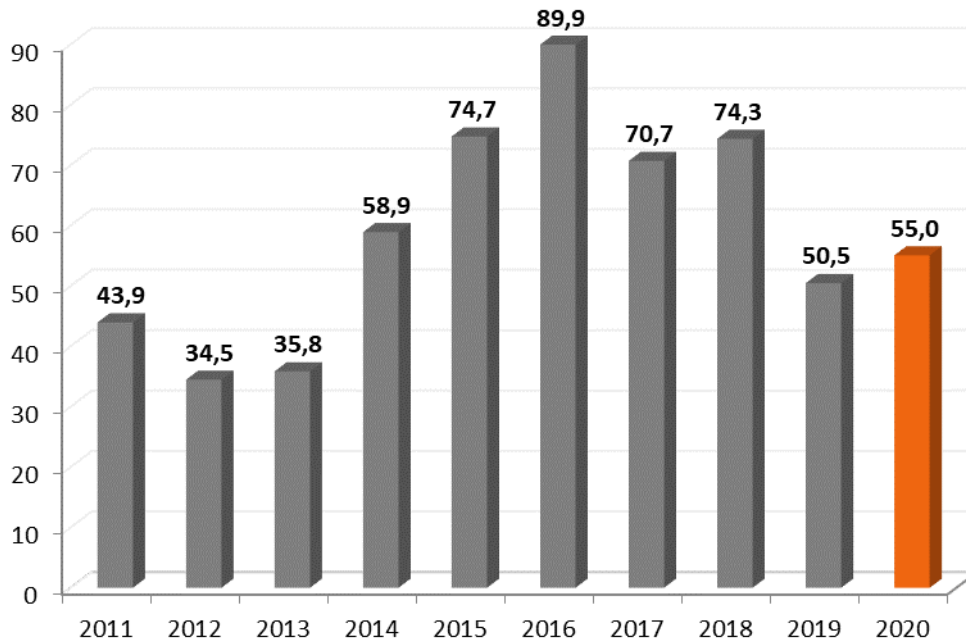
The unit EBITDA earnings in 2020 amounted to PLN 641/ton i.e. 30% more than in 2019, which means that in 2020 it was 10% higher than the 10-year average of the Group's results in this area.

### Unit EBITDA earnings (PLN/ton)



The reported net profit in 2020 amounted to PLN 55.0 million, which means a 9% increase compared to the prior year.

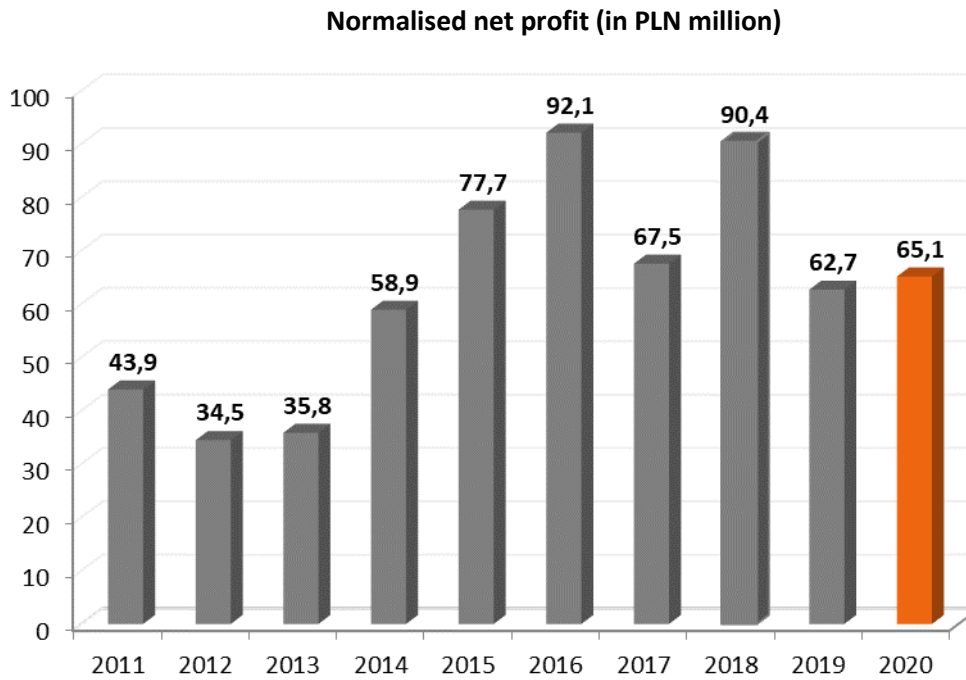
### Net profit (in PLN million)



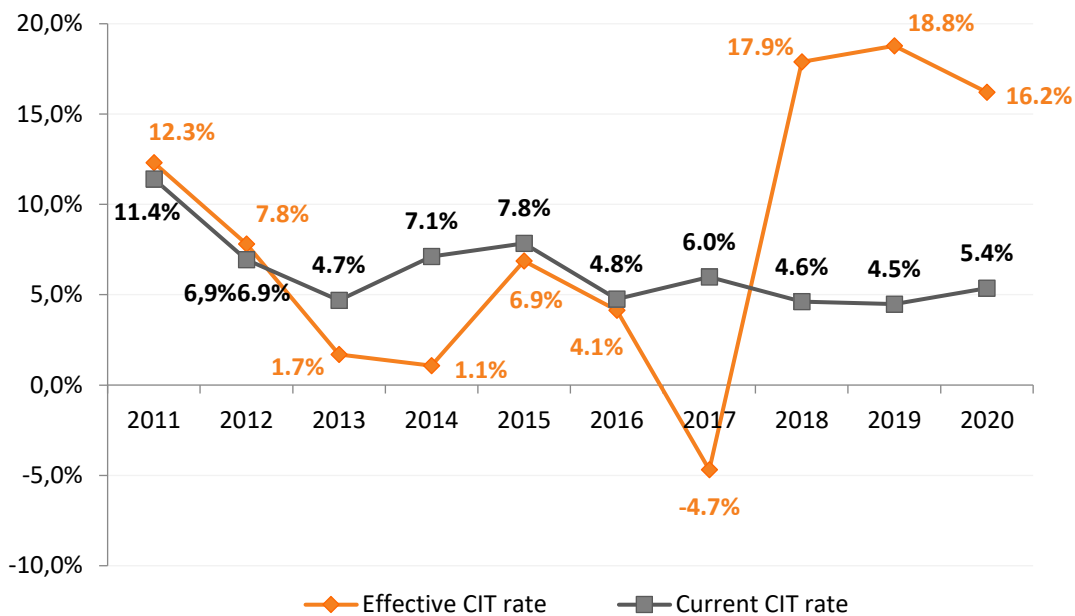


To illustrate the effects of asset valuation in the form of CIT exemption, the Alumetal Group also provides normalized profit (reported profit adjusted for the effect asset valuation due to income tax exemption) and, starting from 2017 profit appropriation, modified its dividend policy by modelling paid dividend level on normalized profit.

The chart below shows normalised net profit for 2020 which amounted to PLN 65.1 million and was 4% higher than in 2019.

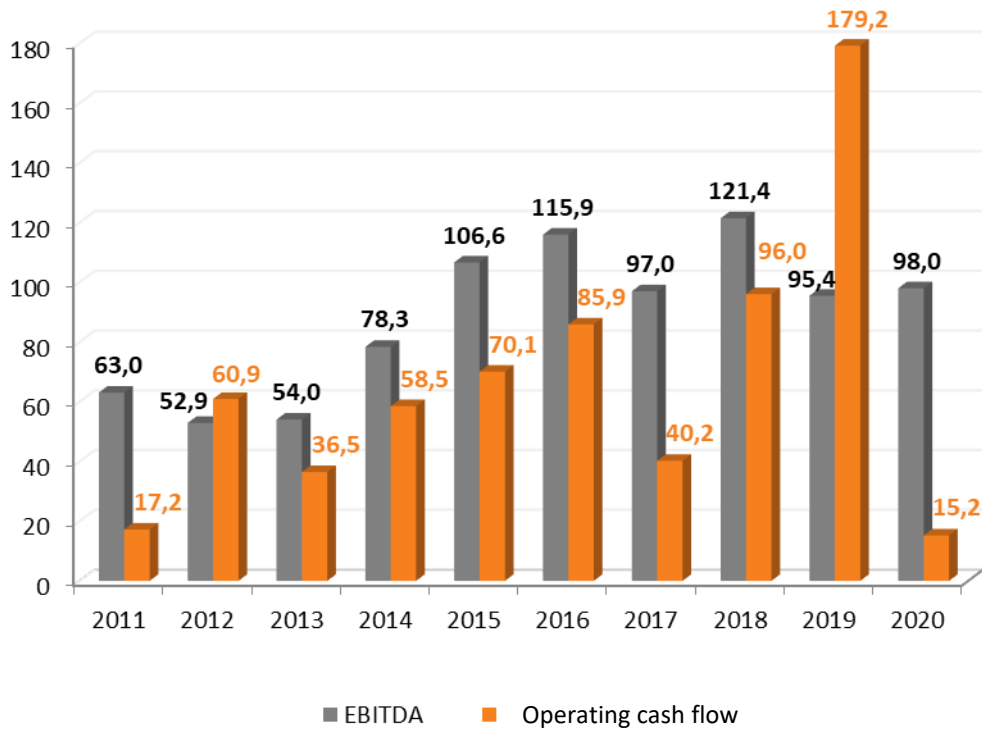


The effective CIT rate (being the ratio of CIT reported in the Consolidated Financial Statements on comprehensive income to gross profit) in 2020 was 16.2%, while the current CIT rate (the ratio of CIT payable to tax authorities for a given period to gross profit) was 5.4%.



Over the course of 2020, operating cash flow was lower by PLN 82.8 million than the EBITDA earnings. The main factors affecting the low level of operating cash flow were a significant increase in the level of production and sales in Q4 2020, accompanied by a several dozen percent increase in the prices of products and raw materials. The additional factor reducing the operating cash flow in 2020 was the fact that the Alumetal Group started the previous year with a relatively low level of stocks, whereas due to the very high demand for the Group's products in Q4 2020 and very good prospects for Q1 2021, it was necessary to build a relatively high level of stocks at the end of 2020.

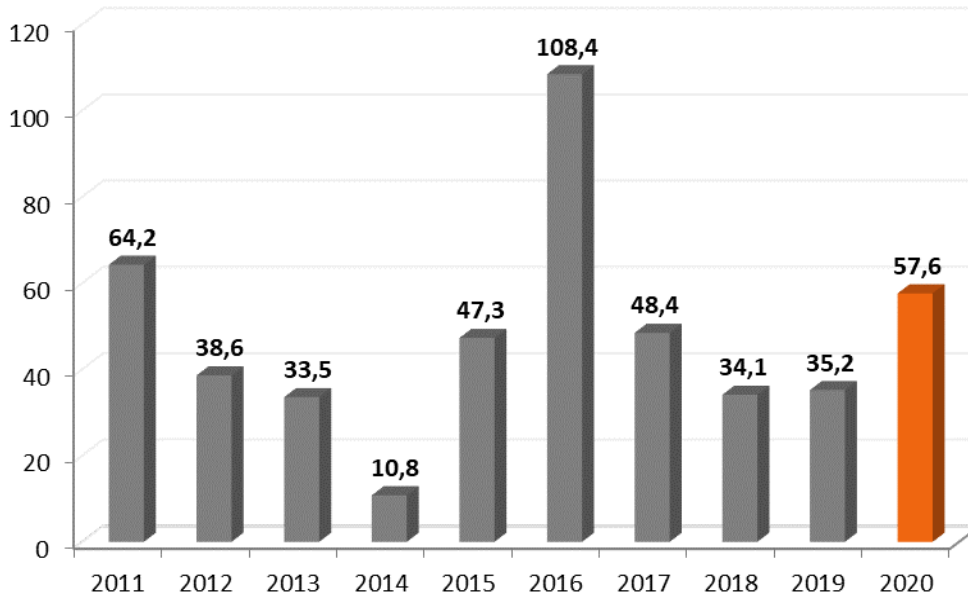
**Cash flow from operating activities vs EBITDA (in PLN million)**



In 2020, capital expenditure amounted to PLN 57.6 million and was 67% higher compared to 2019. The structure of capital expenditure in 2020 was as follows:

- PLN 49.7 million - development expenditure (mainly modernization of the Kęty plant)
- PLN 7.9 million - replacement expenditure.

**CAPEX (in PLN million)**

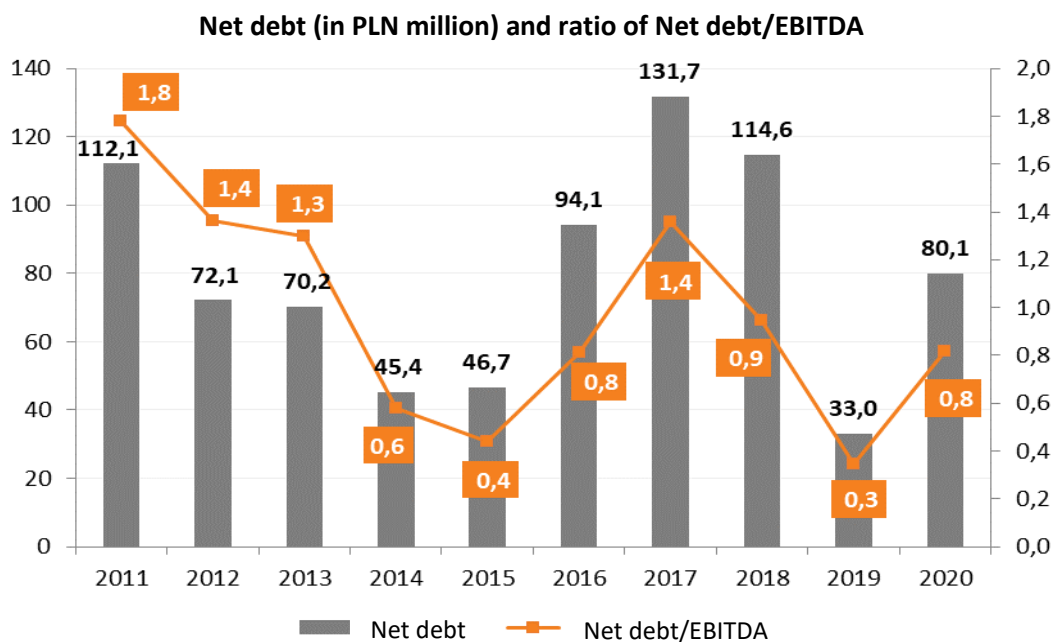


At the end of 2020 the net balance of interest due and payable amounted to PLN 80.1 million, i.e. increased by 142% compared to the end of 2019. The increase in said debt, despite the absence of dividend payment, is mainly due to an increase in the value of stocks over 2020 by PLN 86.2 million resulting from the four main elements:

- a) relatively low level of stocks at the beginning of 2020,
- b) soaring prices in Q4 2020,
- c) high demand for the Group's products at the turn of 2020 and 2021 and, consequently, the need to ensure supplies of scrap materials at a sufficiently high level,
- d) higher Inventory days ratio.

The relatively high level of investment expenditure in the analysed period is also of significant importance for the level of debt at the end of 2020.

The Net debt / EBITDA ratio at the end of 2020 was higher than in 2019 and amounted to 0.8.



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 the degree of 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 and temporary nature.

Liquidity I ratio remained at a stable satisfactory level, while Working Capital Days ratio, despite some fluctuations in the successive years, also did not change materially in the longer term (its noticeable increase in 2020 is partly due to the situation of deregulation of supplies and collections as a result of the pandemic).

The structure of the Group's assets showed that over the last six years the ratio of asset immobilization did not change (despite some fluctuations arising from the changing rhythm of investment processes) and remained relatively low, which means that the Alumetal Group maintained the relatively high flexibility of assets despite the dynamic growth in production capacity.

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

The debt ratios reflect its low level and show the significant potential of the Group to finance its further development and to maintain the dividend capacity.

THE ALUMETAL S.A. CAPITAL GROUP  
Directors' Report on activities of the ALUMETAL S.A. Capital Group for the year 2020

Financial ratio	Ratio description	2020	2019	2018	2017	2016	2015	2014	2013	2012
EBITDA margin (%)	EBITDA/Revenue from contracts with customers	9.2%	6.9%	7.3%	6.7%	9.1%	7.4%	6.3%	5.3%	6.3%
Net profit margin (%)	Net profit/Revenue from contracts with customers	5.2%	3.6%	4.5%	4.9%	7.1%	5.2%	4.8%	3.5%	4.1%
Return on assets (ROA) (%)	Net profit/Total assets	6.3%	6.6%	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	10.6%	9.5%	14.8%	14.7%	21.9%	20.5%	20.6%	14.4%	16.1%
Liquidity I (multiplicity)	Total current assets/Current liabilities	1.8	1.9	1.8	1.6	1.9	2.0	1.8	1.7	1.7
Working Capital Days (days)	Inventory days + Debtors days – Creditors days	84	67	77	70	65	51	60	66	74
Capital immobility ratio (multiplicity)	Total non-current assets/Total current assets	0.79	0.93	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	68.3%	73.4%	67.4%	66.9%	73.4%	72.0%	64.5%	65.9%	67.5%
Debt ratio (%)	(Total equity and liabilities – Shareholders equity)/Total assets	34.7%	32.1%	38.3%	40.2%	35.5%	31.0%	39.4%	40.9%	42.4%
Net debt/EBITDA (multiplicity)	(Bank loans and borrowings – cash)/EBITDA	0.8	0.3	0.9	1.4	0.8	0.4	0.6	1.3	1.4

The margins realised by the Group show considerable stability, interest due and payable is very low, working capital ratio is high and the financial liquidity - very good, which all cause that the prospect of discharging liabilities by ALUMETAL S.A. and subsidiary companies on time is completely secure.

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

##### ***A. Subsidy from the EU funds for the subsidiary company, T+S Sp. z o.o.***

On 23 January 2020, the Management Board of Alumetal S.A. received information on the outcome of the competition called "Intelligent Operational Project 2014-2020" (*Projekt Operacyjny Inteligentny Rozwój 2014-2020*), R&D projects of enterprises, sub-activity: Industrial research and development work conducted by enterprises, held by the National Center for Research and Development ("NCBiR"), under which T + S Sp. z o. o. filed an application for EU subsidy. The project of T+S sp. z o.o was included in the list of projects selected for funding. The aim of the project, which is to be implemented in the years 2020-2022, is to develop a technology for the processing of post-production waste from the production of aluminium casting alloys. Under this project, T+S sp. z o.o. has the right to receive funding of up to PLN 25 746 078.19. Due to the research and development nature of the project and the fact that it is realised in phases, the investment expenditure incurred and the related co-financing from the European Union funds may be realised partially, depending on the degree of investment realization.

On 23 January 2020, the Company's Supervisory Board approved the implementation of the first and the second phase of the investment project with a total limit of eligible phase-related expenditure in the amount of PLN 5 873 232.04, which will be incurred in the years 2020-2021. Depending on the research results, the Company's authorities will make further decisions regarding possible implementation of the next phases of the project.

To that effect, the Company published current report no. 2/2020 on 23 January 2020.

##### ***B. Joining the scheme of Employee Capital Plans (PPK)***

Polish companies of the Alumetal Group have completed the process of selecting a managing company that will support the Group in the participation in the scheme of Employee Capital Plans (*PPK - Pracowniczy Plan Kapitałowy*). The Group's plants joined the ECP scheme by signing an ECP management contract and an ECP scheme operating contract on 18 March 2020. The first contributions were paid in November 2020.

##### ***C. Outbreak and progression of the COVID-19 pandemic in Poland and in Europe***

The results of the Alumetal Group as well as the entire economy, including the automotive industry in Europe and in the world, were significantly adversely affected by the global development of the coronavirus pandemic and the COVID-19 disease. The scale and magnitude of impacts of this phenomenon was large, and the potential long-term effects were difficult to quantify. At the time of the publication of this Directors' report, in the opinion of the Management Board, the pandemic had a major impact on the financial performance in 2020, in particular on the results of Q2 and Q3 of 2020. However, it does not currently have a very strong impact on the current operations of the Issuer, as the demand for the Group's products is very high. Nevertheless, it should be kept in mind that the current extremely dynamically changing situation, including possible changes in the legal and

regulatory environment, means that despite the utmost diligence and taking preventive measures, the Management Board is not able to predict the further development of events and, consequently, the impact of the pandemic on the Company's consolidated financial results for 2021 and its development prospects.

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

In view of the situation, the ALUMETAL Group has taken a number of measures regarding:

- a) safety - implementation of anti-pandemic procedures and solutions (hygiene and protection measures, team rotation, limitation of external and internal contacts, remote work) in order to protect employees from infection and ensure continuity of processes,
- b) social – support for the intervention fund of the Great Orchestra of Christmas Charity (*WOŚP*) with the amount of PLN 250 thousand,
- c) operational (in terms of savings and work organization):
  - reduction of operating costs,
  - renegotiation of a large part of fixed contracts,
  - withdrawal of part of budgeted costs,
  - adjustment of employment levels,
- d) financial liquidity:
  - 23 March 2020 - recommendation of the Management Board, 15 April 2020 - positive opinion of the Supervisory Board regarding 2019 profit appropriation and the decision of the Ordinary Annual General Meeting of Alumetal S.A. of 28 August 2020 to allocate 70% of normalized consolidated net profit to other reserves for the payment of dividends in the future or for permanent retention of these funds in the Company,
  - implementation of additional solutions related to net current assets management,
  - transfer of a small part of planned investment expenditure from 2020 to 2021,
  - renewal of loan agreements for the following year with existing banks,
  - application to the Voivodship Labour Office for financial compensation for (subsidizing) salaries of employees not covered by the stoppage/reduced working time (as discussed in more detail below in sections VI.4. G and H).

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

Despite the fact that the Alumetal Group has taken a number of measures to limit the effects of the pandemic on its operations, the possibility of influencing certain phenomena and risks in this area is very limited. Shutdowns in the automotive industry, fall in demand and sales of cars undoubtedly had a negative impact on the Group's results in 2020 and may also have similar unfavourable impact on its results in subsequent periods. Recent months saw, however, an improvement in the situation in the

automotive industry and a significant increase in customers' interest in purchasing Alumetal Group products. The Management Board informed about the impact of the pandemic on sales volume and financial results in the published current reports: No. 4/2020 of 18 March 2020, No. 6/2020 of 9 April 2020 and No. 8/2020 of 15 May 2020.

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

#### ***D. Suspension of dividend policy***

The Management Board of ALUMETAL S.A. on 16 March 2020, after considering the growing epidemiological threat of the COVID-19 disease, which had a negative impact on the economic situation of the country and Europe, has decided to submit to the Supervisory Board and the Ordinary Annual General Assembly of Alumetal S.A. a decision of the Management Board on appropriation of net profit of Alumetal S.A. with a recommendation *not* to pay dividends for 2019, but to set up other reserves of 70% of the normalized consolidated net profit of the Alumetal Group earned in 2019 for the payment of future dividends, including advance dividends. At the same time, the Management Board planned to recommend that these funds be retained in the Company in the event of a continuation of unfavourable developments in the coming months, which in this case would mean a one-off departure from the dividend policy. The above solution was intended to safeguard the financial situation of the Group related to possible adverse effects of the further spread of the epidemiological threat. The Company informed the public about this Management Board's intention in the current report No. 3/2020 of 16 March 2020.

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

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

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

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

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



On 28 August 2020, the Ordinary Annual General Meeting adopted a resolution on the distribution of the Company's profit for the financial year from 1 January to 31 December 2019, allocating, inter alia, the amount of PLN 43 807 thousand to other reserves for dividend payment, including an advance dividend, in the future, about which the Issuer informed the public in the current report No. 16/2020 of 28 August 2020.

***E. Decision to continue the policy of receivables insurance***

In Q2 2020, 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.

***F. Extension of short-term loan agreements with banks for another year***

As a result of the negotiations carried out in Q2 2020, a decision was made to extend for another year the agreements for the short-term bank loans for the Alumetal Group companies in an unchanged amount of PLN 40 million with DNB Bank Polska S.A. (the agreement was extended for another year) and in the amount of PLN 36 million with ING Bank Śląski S.A. (originally the agreement was extended in an anti-pandemic mode for 3 months, the ultimate renewal took place in September 2020). In the case of Bank Handlowy in Warszawie S.A. it was decided to reduce the limit amount from the equivalent of PLN 54 million to PLN 40 million (due to technical reasons, the original agreement was extended until 7 August 2020, and then renewed for a smaller amount for another year). In Q2 2020, a decision was also made to extend the short-term loan agreement of Alumetal Group Hungary Kft with Citibank Europe Hungarian Branch Office with the equivalent of EUR 1.85 million, which took place in August 2020.

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

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

***H. Subsidizing salaries at ALUMETAL Poland sp. z o.o. from the funds of the Guaranteed Employee Benefits Fund (Wage Guarantee Fund)***

In Q3 2020, the subsidiary company, Alumetal Poland sp. z o.o., submitted several applications to the Voivodship Labor Office for subsidizing salaries of employees not covered by stoppage/reduced working time (Article 15gg of the Act of 19 June 2020 on subsidizing interest on bank loans granted to businesses affected by COVID-19 and the simplified procedure for approval of an arrangement in connection with COVID-19 occurrence). Successful applications resulted in revenue of PLN 1 717 thousand in Q3 2020 and in Q4 2020 in the amount of PLN 885 thousand. i.e. in 2020, on that basis, Alumetal Poland sp. o.o. received the financial support in the total amount of PLN 2 601 thousand.

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

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

### ***J. Increase in the issued capital of subsidiary company***

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

### ***K. Obtaining the consent of the Ministry of Economic Development, Labour and Technology to change the Permit to operate in the Kostrzyńsko-Słubicka Special Economic Zone***

On 4 August 2020, the subsidiary company, Alumetal Poland sp.z o.o., received information on the consent of the Ministry of Economic Development, Labour and Technology to amend License No. 343 to conduct business operations in the Kostrzyńsko-Słubicka Special Economic Zone consisting in extending the maximum deadline for the implementation of investment expenditure from 31 December 2021 to 31 December 2023 and consenting to reduce the level of minimum and maximum range of committed investment expenditure from PLN 20.0 million and PLN 26.0 million to PLN 13.5 million and PLN 17.55 million, respectively.

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

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

### ***M. Obtaining the decision of the Ministry of Economic Development, Labour and Technology to change the Permit to operate in the EURO-PARK WISŁOSAN Tarnobrzaska Special Economic Zone***

On 27 October 2020, the subsidiary Alumetal Poland sp. z o.o. received from the Ministry of Economic Development, Labour and Technology a decision on the amendment of Permit No. 319/ ARP SA/ 2016 to conduct business operations in the Tarnobrzaska Special Economic Zone, which concerned adjusting the time limits for the recruitment of new employees in the Gorlice production plant by 31 March 2017 instead of 31 December 2020, and to maintaining a yearly average headcount of at least 134

employees by 31 March 2020 instead of 31 December 2023. Thereby, the Company's obligation to create and maintain jobs was fulfilled.

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

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

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

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

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

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

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

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

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

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

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

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

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

***B. Decision to implement the project called "Expansion of the department for automatic processing of scrap materials" and information on obtaining public aid***

On 19 January 2021, the Supervisory Board of the Company approved the implementation of the project called *Expansion of the department for automatic processing of scrap materials in Nowa Sól* and consented to incurring by the subsidiary company, Alumetal Poland sp. z o.o. (hereinafter: the subsidiary), capital expenditure in the amount of PLN 78 million on the terms and conditions agreed by the Management Board of Alumetal Poland sp. z o.o.

The project involves the expansion of the production capacity of the Nowa Sól plant in the field of automatic preparation of scrap materials, and its aim is to increase the operational efficiency of the Alumetal Group. The main phase of the investment is to be carried out in the years 2021-2022 and will be financed from the subsidiary's own funds

In addition, on 19 January 2021, the subsidiary received a decision from the Kostrzyńsko-Słubicka Special Economic Zone on obtaining support for the implementation of said project in the form of corporate income tax exemption in the amount of up to 35% of qualified investment expenditure under the Polish Investment Zone program.

In the light of the decision on support, the minimum required level of investment expenditure is PLN 78 million, and the maximum level of expenditure eligible for support is PLN 101.4 million. This expenditure may be realized in the years 2021-2025, and as a result of their incurring, the subsidiary has the right to benefit from income tax relief within 15 years from the completion of the investment in the amount from PLN 27.3 million, if the expenditure is at the minimum level, to PLN 35.49 million in the event of incurring expenditure at the maximum level.

Information on the implementation of the above-mentioned project was published by the Company in the current report No. 2/2021 on 19 January 2021.

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

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

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

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

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

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

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

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

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

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

On 16 March 2021, a Statement was issued by the Central Securities Depository of Poland No. 449/2021, whereby it was decided to register 97 180 (in words: ninety seven thousand one hundred eighty) G-series ordinary bearer shares of ALUMETAL S.A. with the Central Securities Depository of Poland with a nominal value of PLN 0.10 (in words: ten groszy) each (the "Incentive Shares"), issued as part of the conditional increase of the issued capital based on the Resolution No. 3 of the Extraordinary Annual General Meeting of the Company of 27 November 2017, then amended by Resolution No. 5 of the Extraordinary Annual General Meeting of the Company of 3 October 2018, and mark them with the code PLALMTL00023, subject to the company's operating the regulated market i.e. WSE taking a decision to introduce these shares to trading on the same regulated market,

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

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

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

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

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

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

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

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

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

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

In 2020 and 2019, the value of investment expenditure incurred for the purchase of property, plant and equipment, development work and intangible assets in the Alumetal Group was as follows:

<b>Total expenditure (PLN thousand)</b>	<b>01.01.2020 – 31.12.2020</b>	<b>01.01.2019 - 31.12.2019</b>
	57 594	35 181

The investment projects carried out in 2020 related to the tasks in the following areas:

- PLN 49.7 million - development expenditure (mainly modernization of the Kęty plant)
- PLN 7.9 million - replacement expenditure.

## **2. 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.*, which was modified by the resolution of the Supervisory Board of 13 November 2019.

As regards execution of the construction part of the project in 2020, among others, the following were achieved:

- necessary permits and supporting documentation were obtained,
- most of the building and construction works were carried out in accordance with the project schedule.

In the area of the supply of machinery and equipment in 2020, among others, the following were realized:

- decision has been received regarding change the integrated permit,
- production and auxiliary equipment were installed and put into operation as planned and scheduled.

The investment was practically completed in 2020 in accordance with the original schedule, and the production start-up and the first sale of products from the new production line took place in Q4 2020. Most of the expenditure was incurred in 2020, but some of them fell for 2019, and final payments will be made in the first months of 2021. All expenditure incurred in 2019 and 2020 in the total amount of PLN 60.9 million and planned to be incurred in the amount of approximately PLN 7 million in 2021 were and will be financed from the Alumetal Group's own funds.

The realised investment increased the production capacity of the Alumetal Group to 270 thousand tons per year from 2021 onwards.

## **3. Project of processing post-production waste generated in the production of aluminium casting alloys**

The most important events related to this project include:

- on 28 August 2020, annex No. 2 was signed, extending the contract with the National Centre for Research and Development (NCBiR) and the period of eligibility of project costs until 30 April 2023 (extension of the project implementation by 5 months);
- research work to be performed in stage I, which was carried out in cooperation with scientific institutions and research laboratories, has been completed;
- total costs of research work from the start of the project amounted to PLN 1.121 million until 31 December 2020.

#### **4. 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 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;
- contract of 21 October 2015 for cash subsidy between ALUMETAL Group Hungary Kft. and the Hungarian Ministry of Foreign Affairs and Trade;
- a long-term loan agreement of 26 October 2015 between ALUMETAL S.A. and the subsidiary company, ALUMETAL Group Hungary Kft., to partially finance the construction of the production plant in Hungary, in the amount of EUR 10 million with the maturity date set at 14 October 2022; at the end of 2017, repayment of this loan commenced in the form of 60 monthly instalments;
- in Q2 2020 and Q3 2020, the Alumetal Group extended its short-term loan agreements with ING Bank Śląski S.A., DBN Bank Polska S.A. and with Bank Handlowy w Warszawie S.A. for another year, while the ALUMETAL Group Hungary Kft. extended in Q3 2020 for another year its agreement with Citibank Europe plc Hungarian Branch Office for a short-term bank loan of EUR 1.85 million, which caused that the total short-term loan limit of the Alumetal Group slightly decreased to the equivalent of PLN 124 million (in the agreement with Bank Handlowy w Warszawie S.A., the credit limit was reduced from PLN 54 million to PLN 40 million in 2020).

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

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

In 2020, the Alumetal Group did not make any capital deposits or capital investments.

#### **6. 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 the market position of the ALUMETAL S.A. Capital Group as a leading European manufacturer of secondary 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 effectiveness;
- 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.” was to 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 was to 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 on 16 July 2018 and on 13 November 2019 consented to plan modification incurring investment expenditure to the amount of PLN 67 800 000.00. The decision to incur higher expenditure was at the same time an investment in extension of production capacity, which caused after the completion of the modernization of Kęty plant, an increase in the Alumetal Group production capacity to 270 thousand starting from 2021. The investment expenditure was to be incurred mainly in the years 2019 – 2020, with the majority of expenditure incurred in 2020. The Management Board planned to complete the investment project by 31 December 2020. The whole investment was to be financed solely from the own funds of the ALUMETAL S.A. Capital Group.

With the approval of the strategy, the ALUMETAL S.A. Capital Group decided to modify its dividend policy by raising the declared dividend level from the current 50% to a minimum of 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 automotive customers, to which casting alloys are mainly delivered. The highest and reproducible quality of products and meeting customer requirements to the IATF 16949:2016 Standard were confirmed during the TÜV Rheinland supervisory audits carried out in 2020 at all production plants of ALUMETAL Poland sp. z o.o., at the ALUMETAL Group Hungary Kft. and at ALUMETAL S.A. as the managing company. All production plants of the Alumetal Group successfully passed said audits.

Due to the situation related to the COVID-19 pandemic and the introduced restrictions, the audit at Alumetal Group Hungary Kft. was carried remotely. For same reason, no customer audit was held in the Group's production facilities. The last quarter of 2020 is the start-up of a new equipment within the investment process at the Kęty plant. The alloys produced from the new line were authorized by all the customers to whom they were delivered.

## 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 2020	Limit utilised in PLN as at 31 December 2019
Aggregate limit facility for several Group companies at <b>ING Bank Śląski S.A.</b> with an interest rate based on 1M LIBOR (USD) + margin, 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin	36 000**	PLN*	19.09.2021	24 715	18 166
Aggregate limit facility for several companies of the Group at <b>DNB Bank Polska S.A.</b> with an interest rate based on 1M WIBOR (PLN) + margin, 1M EURIBOR (EUR) + margin, 1M BUBOR (HUF) + margin; 1M LIBOR (USD) + margin	40 000	PLN*	30.06.2021	22 589	13 914
Limit facility for several companies of the Group at <b>Bank Handlowy w Warszawie S.A.</b> with an interest rate based on 1M LIBOR (USD) + margin, 1M WIBOR (PLN) + margin, 1M LIBOR (EUR) + margin, 1M BUBOR (HUF) + margin	40 000	PLN*	06.08.2021	30 991	29 814
Limit facility for Alumetal Group Hungary Kft. at <b>Citibank Europe Hungarian Branch Office</b> with an interest rate based on O/N EURIBOR (EUR) + margin, O/N BUBOR (HUF) + margin	1 850	EUR*	13.08.2021	4 113	5 527
Short-term portion of the investment loan issued by <b>ING Bank Śląski S.A.</b> in the amount of EUR 10 million, with an interest rate based on 1M EURORIBOR + margin taken out to finance the construction of a production plant in Hungary***	10 000***	EUR	14.10.2022	9 248	8 534
<b>Total short-term portion</b>				<b>91 656</b>	<b>75 955</b>
Long-term portion of the investment loan issued to Alumetal S.A. by <b>ING Bank Śląski S.A.</b> in the amount of EUR 10 million, with an interest rate based on 1M EURIBOR + margin, taken out to finance the construction of a production plant in Hungary ***	10 000***	EUR	14.10.2022	7 614	15 561
<b>Total</b>				<b>99 270</b>	<b>91 516</b>

\* 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 EUR 10 million (loan repaid in monthly instalments in the amount of EUR 167 thousand)

\*\*\*\* Within the available limits, the Alumetal Group companies have the right to use the letters of credit and guarantees in favour of suppliers and other beneficiaries, which automatically reduces the balance of overdraft facilities available by same amounts; guarantees issued by banks within the available credit limits in favour of contractors and other non-financial institutions in the amount of PLN 13.8 million (31 December 2020) and PLN 4.3 million (31 December 2019) as part of the operational activities of the companies of the Alumetal SA Capital Group

## **2. Loans granted**

In 2020, ALUMETAL S.A. or its subsidiary company issued the following loans and borrowings:

- 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 2020, the value of the loan disbursed was EUR 3 654 000.

## **3. Other financial agreements**

- Non-recourse factoring agreement of 15 September 2014 with Bank UniCredit Luxembourg S.A. with respect to 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 (non-recourse 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 effective on 2 February 2016. The last instalment was paid on 16 April 2019 in the amount of HUF 2 961 233.00 (equivalent of PLN 39 573.92 according to the exchange rate as at the date of funds receipt), and the sum total of all subsidy instalments paid in the years 2016-2019 under this agreement was HUF 1 480 211 000 (equivalent of PLN 20 506 557.31).

## **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**

On 5 June 2017, ALUMETAL Poland Sp. z o.o. filed a lawsuit with the District Court in Cracow, 9<sup>th</sup> Economic Department in an action against JN Metal Jerzy Nykiel for the payment for supplies with a value of PLN 1 503 048.87 and this amount was included in the write-down in the results of 1Q 2017. As at 31 March 2018, the balance of receivables as a result of performed set-off was PLN 1 266 471.77. 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 appealed against the above decision and applied for an exemption from the costs of court proceedings. The Courts (District and Court Appeal) dismissed the above-mentioned applications, but as a result of subsequent complaints the judgment could not become final, which prevented the initiation of enforcement proceedings.

In July 2020, information was obtained from the District Court in Cracow that the judgment was final and an application for a declaration of enforceability was submitted on 30 July 2020. On 3 August 2020, the Court delivered a judgment of *res judicata* (with a validity clause), which is the basis for the initiation of enforcement. However, it is difficult to estimate to what extent enforcement can be effective.

On 4 February 2020, the subsidiary of Alumetal Group Hungary Kft. filed a suit to order the defendant, the Hungarian company, EON, to pay damages in the amount of HUF 133 038 324 (equivalent of approximately PLN 1.66 million) with interest. The court proceedings concern non-reimbursement of the connection fee by NKM (formerly Egaz-Degaz). On 1 September 2020, a hearing was held to hear the parties. Further hearings were held on 27 October 2020 to hear the witnesses of the parties and on 7 January 2021 to summarize the case and the evidence collected during the course of the proceedings. However, at that hearing, the Court decided to question additional witnesses at the next hearing held on 18 February 2021. The next hearing, at which the judgment is expected, is scheduled to be held on 20 April 2021.

Apart from the foregoing court proceedings, the Company or its subsidiaries did not participate in any significant proceedings pending before a court, body competent for arbitration or a public administration body as at 31 December 2020. There were also no significant settlements in this respect.

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

In 2020, 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 2020 to the equivalent of PLN 2 569 thousand.

## **3. Contingent liabilities**

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

In connection with the signing on 14 February 2020 of the project co-financing agreement with the National Centre for Research and Development, referred to in detail in point V.5.A., T + S sp. z o.o. issued on 21 February 2020 to the National Centre for Research and Development a blank promissory note together with declaration.

Apart from the above contingent liabilities, as at 31 December 2020, 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 2020 are the following:

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

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

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

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

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

The 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 a limited 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 interest rate risk hedging instruments are largely based on 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 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 Group has widely used the so-called natural hedge mechanism, as sale transactions in foreign currencies have been largely balanced by purchase transactions. Nevertheless, as a result of the lack of balance between these two types of business transactions, some exposure to foreign currency risk is generated.

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

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

The core principle of the Group on the use of derivatives is not to make speculative transactions. The concluded derivative transactions serve solely to limit the risk resulting from operating activities and to stabilize the financial performance.

### **3. Commodity price risk**

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

### **4. Credit risk**

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

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

Given its further trade expansion, the Company decided to change its approach to trade risk management, and in H1 of 2016 signed an agreement for receivables insurance. Verification of trade receivables covered the entire balance of sales to non-related entities, except for the sales to the three largest customers of the Alumetal Group, and the insurance taken covered the period from 1 April 2016. In Q2 of 2017, 2018, 2019 and 2020, a decision was taken to continue with the insurance policy, which additionally improved the Group's need for the coverage of same risks as regards awarded insurance limits, and, as a result, the credit risk of the Company became materially limited (the Group plans to continue to insure its receivables in the ensuing years). However, one should note that pursuant to the policies operating in the contracts of this type, part of receivables of each customer is not insured due to the so-called "own share" of the policy holder; in addition, the Company's Management Board, given the wording of the insurance contract, has the right to take a sale decision that may originate receivables from customers in the amount higher than the coverage limit granted by the insurer, even if the insurance limit is zero.

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

## **5. Liquidity risk**

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

However, for years now, the Group has used multi-currency overdraft facility lines which fully cover its financial liquidity requirements. To this end, the Group has used services of several banks by taking out short- and long-term loans and borrowings, and by using their factoring services. The above instruments and reported good financial results cause that despite the Group's intensive development (bringing high investment expenditure and the most growing demand for financing working capital) 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 rate, inflation rate, consumption levels, investment expenditure and the amount of budget deficit. Fluctuations in the market prices of secondary aluminium have direct impact on the prices of Group products and, to a limited extent, on the margins earned. Market prices of secondary aluminium depend on the supply and demand as well as on other factors, on which the Group has little or no influence, such as general macroeconomic conditions, situation in the industry sectors that are the key consumers of secondary aluminium alloys, prices of primary aluminium and prices of aluminium scrap. Deterioration of general economic conditions in Europe, and especially in Poland, Germany, Hungary or in the Central and Eastern Europe may have adverse impact on the activities, financial position, financial performance or business perspectives of the Alumetal Group by the end of 2021. Geopolitical situation may also have indirect impact on the results of the Alumetal Group.

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

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

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

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

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

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

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

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

### **4. Limited availability of raw materials scrap in Europe**

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



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

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

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

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

## **6. Higher competition on the market of secondary aluminium alloys**

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

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

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

Should it transpire in the future that these companies do not meet their obligations arising from the obtained public aid, they may be required to return the received public aid in whole or in part, and this – in turn – may be a significant burden and a threat to the Group's performance and liquidity. However, the long-standing experience of the Alumetal Group in the use of public aid greatly reduces this risk.

## **8. The risk of the Covid-19 pandemic continuing**

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

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

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

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

## **9. Other accidental, unfavourable one-off events**

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

## **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 decided not to publish forecasts of the results of the Company and of the Group as a whole.

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**Agnieszka Drzyżdzyk**  
President of the  
Management Board

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

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**Przemysław Grzybek**  
Board Member