vimetco alum

Report of the directors
and
their discharge from liabilities

- 2017 -

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Report of the directors for 2017 and their discharge from liabilities

1.1 Company orientation

The main goal of ALUM SA ("ALUM"/ "Company") is to continue its efforts to capitalize its human and material resources in order to be among the profitable and competitive companies on the alumina market. The Company aims to become a model of private plant, which will continue to bring important economical and social benefits both to Tulcea town and to the national economy

For this purpose the Company established the following main objectives:

- Ongoing implementation of co-financed with UE funds investment project according with agreed schedule with ANCSI, investment project which will lead to an increasing of ALUM's efficiency and competitiveness;
- Beginning the implementation of one new co-financed with UE funds investment project designed to assure operational continuity by increasing red mud pod life period and increasing the possibilities of red mud revaluation;
- Conformation with provisions of Action Plan agreed with ANRE in order to fulfill the conditions imposed by the provisions of GD no. 495/2014 and installation of modern burning system at the boiler no. 4 to decrease the NOx emissions level under 100 mg/Nmc.
- Continuation to ensure safe red mud pond functioning and extension the life time period;
- Continuation of the modernization process in order to meet the new demands regarding the economical efficiency, environmental protection and social responsibility;
- Ensuring raw materials and energy resources on long term basis;
- Increasing the energetical efficiency for the entire production process;
- Active management of contractual and market risks (financial), taking into account the evolution of the domestic and international market;
- Continuous compliance with environmental rules;
- Developping new products and activities.

1.1.1. The main development directions of ALUM

The future development projects which ALUM intends to implement these are the continuation of projects of previous years, in particular energy efficiency projects and environment projects presented briefly below:

1. Projects to ensure plant operational continuity and to increase red mud pond lifetime, consisting of :
   - Increasing the storage capacity of the red mud pond by elevating the dikes throughout the perimeter;
   - Purchasing press filters for disposal bauxite residue moisture decreasing;
   - Red mud pipe, length 4,5 km (refinery to red mud pond).
2. Projects for efficient and safe operation of industrial facilities:
   - Reducing emissions and increasing energy efficiency by installing a low NOx combustion system at boiler no. 4;
   - Burned gases fan for Steam Boiler no. 2;
   - Consolidation foundations of Precipitation tanks;
   - Filtering process control efficiency enhancing by acquiring and installing vertical filters;
   - Thermal energy recovery system from combustion gases of steam boilers;
   - Increasing energy efficiency by thermal isolation of vessels and technological paths;
   - Acquisition and installation a disc filter for coarse seed;
   - Investments for maintenance and improvement of equipment parameters - Alum (PPE);
   - Plant economic lightning;
   - Replacing the obsolete equipments, Endowments.
3. Projects to support ANRE proposals :
   - New natural gas burners at Steam Bolier no. 1 (low Nox);

- Optimization of steam lines and installing steam traps in 2 Digestion batteries;
- Maintenance Capex (Digestion modernization - autoclaves registers and agitators for 2 Digestion and Evaporation batteries);
- Modernization 6 kV electrical installations (capacitors, electric cells, electric circuits);
- Increasing energy efficiency by installing frequency converters.

4. Projects for new ALUM products :
   - Increasing competitiveness by installing equipment to obtain wet and dry hydrate;
   - Site arrangement and installation of hydrate drying, grinding and classification equipments.

1.1.2. Branch offices of ALUM

We mention that ALUM does not have fiscally registered branch offices.

1.2 Management and organizational culture

The management team promotes the values that define the Company's organizational culture and mainly:

- **Performance**
  In Alum continues the implementation of an efficient performance management system based on establishing department goals, derived from Company's goals, quantifiable and agreed between the managers and their subordinates
- **Competence**
  Main performance competences will be identified in close relation with Company's strategic objectives, by means of real, financial, operational and behaviour indicators. The existing strong points that facilitate the implementation of this system consist in the good experience gathered in the field and in the human, financial and technical potential of the Company.
- **Rentability**, meaning the concern, on all decisional levels, for the increase of the profitability through measures that ensure the continuous improvement on technological, commercial ad financial level
- **Ecological and social responsibility**, that presumes, among other things, the protection of the environment (compliance with the requirements from the Integrated Environmental Licence), the contribution to the local society development and for the general economic progress.

Alum's main goals regarding the environment are the following:

- Compliance with the environmental law adopted under the requierements of the European Directives and strictly respect all legal regulations applicable to the company;
- Continuous improvement of activities, processes, products and environmental performance;
- Preparation for emergencies situations and the ability to respond, organizing and conducting simulation exercises for incidents involving dangerous substances;
- Pollution prevention and combat the environmental factors through investments, organizational measures, maintenance and repairs and technological changes;
- Continuous monitoring of environmental aspects of production activity through weekly environmental programs.

Through its environmental policy, the Company creates the premises for the activity in the most demanding environmental standards set by the athorities.

In this respect, in 2017, due to improvement works on the installations for heat recovery and optimal selection of the production parameters of the plant considering the row materials quality, it was continued the reduction of the CO2 emissions per ton of alumina produced.
In 2017 was put in operation a new forced circulation cooling tower in the White Filtration section that reduced the consumption of industrial water with approx.150 cm/h.
Also, in 2018 will be finalized a project for the modernization of the steam boiler C2AP no. 1 in order to reduce the Nox emissions.

1.3 Corporate social responsibility

The concept of corporate social responsibility (CSR) refers to the involvement of the companies in solving some of the problems of the communities where it operates.
The advantages of implementing the social responsibility management system are:

- Demonstrated commitment to business ethics, socially responsible;
- Protecting the brand;
- Enhanced reputation as a responsible corporate citizen;
- Consumers confidence and a positive perception of investors;
- A better employee morale;
- A properly working environment, safe and fair;
- Improved working conditions;
- Commercial risk management;
- Differentiation from global competitors.

In order to implement CSR in Alum were made the following steps:

- The Company developed procedures for the relations with the media and organized an audience program; in this way the Company expresses its openness to listening and solving the community problems (employees, citizens, local authorities, companies collaborating, etc) and involvement in education and other activities of social utility.
- Were developed and distributed questionnaires about how the Company is perceived in various community organizations with which it comes into contact (public administration, financial and banking institutions, cultural organizations and sports, religious, educational, environment protection, etc). In the feed-back received from collaborating organizations showed that Alum is actively involved in the local community life, with a positive and important influence.

In this respect, in 2017 Alum, as an active partner of the local community, activated on social plan on multiple directions, by:

- Ensuring, through the offered work conditions, the compliance with the human rights, the equality and the welfare of its employees. In this regard, the recruitment, the selection and the hiring of the work force are made, mainly, from Tulcea county. Also, the percentage of women employees increased from 10% in 2010 to 16.50% in the present.
- Sponsorship to support events and actions in areas such as health, socio-humanitarian, socio-cultural, education and sport; (such as "The Light Festival 2017", "Interfun 2017");
- Involvement in the project initiated by the Red Cross "With grandparents to the dentist" having as main objective the provision of free dental services for the elderly assisted in the "Saint Nectarie" Hospice in Tulcea.
- Collecting funds for providing food and clothes on Christmas or Easter holidays for families with low incomes and many children and for the people from the Nursing Home for Elderly in Tulcea;
- Financial support for the non-profit organization "From the heart to the smile" for the purchase of 20 pieces of glycemic sensors for children with diabetes;
- Financial support for Tulcea County Emergency Hospital for the purchase of a multidisciplinary ultrasound device;
- Promoting various actions taken by local community by displaying on visible spots, free of charge, posters which invites peoples to participate to events (such as: "Zilele Tulcei" – Tulcea's Days; "Raliul Deltei"-Danube Delta Rally; "Sărbătoarea Borșului pescăresc" – Fish Borsh Fest etc.);
- Continuing the partnership with a local instructor to offer free swimming lessons for Alum's employees children and supporting their participation in sports competitions (swimming, triathlon, etc).

.1.4 Internal control

Company's internal control aimes at ensuring:

- Compliance with the existing law;
- Implementation of decisions taken by the Company's management;
- Proper functioning of the internal affairs of the Company;
- Reliability of financial information;
- The effectiveness of its operations;

- Efficient use of resources;
- Prevention and control of risks of not achieving the objectives set.

As a result, the main objectives of the internal control procedures:
- on one hand, the Company's business registration and tracking behavior of staff within the framework defined by applicable laws, values, rules and internal rules of society;
- on the other hand, checking whether the accounting, financial and business management information communicated accurately reflect the situation of society.

Control activities are an integral part of the process by which the entity seeks to achieve management objectives. Control concerns the application of rules and internal control procedures at all levels: approval, authorization, verification, assessment of operational performance, asset security, separation of functions.

1.5 Financial risk management policies

a) Currency risk

The Company is exposed to foreign exchange risk because the predominant part of its sales of alumina is denominated in or linked to the USD while the vast majority of its operating costs (such as power costs, wages, etc.) are denominated in or linked to the RON. The currency exposure is related to the fact that most of the Company's receivables are linked to USD of EUR while the liabilities are denominated in RON. The Company is therefore exposed to the risk that movements in the RON/USD exchange rates will affect both its net income and financial position, as expressed in RON.

b) Interest rate risk on cash flow and fair value

Interest rate risk on cash flow is a risk that future cash flows will fluctuate because of changes in market interest rates.
The interest rate risk is the risk that the value of a financial instrument would fluctuate as a result of the variation of the interest rates on market. Financial instruments are bearing interest at market rate, therefore it is considered that their fair values do not differ significantly from book values.

In January 2016 the Company concluded a loan with Raiffeisen Bank for working capital financing in amount of RON 41,770,000. The loan has been repaid in eight quarterly equal installments starting with February 2016, the last installment being paid in November 2017.
The related interest rate for this borrowing was ROBOR 3M+3.5%. In 2017, the interest rates ranged between 4.4% and 4.5% (2016: between 4.35% and 4.49%).

Also, in 2017, the Company has two ongoing finance lease agreements for backhoes for a period of three years. The net book value of leased assets at Company level as of December 31, 2017 was of RON 1,151,637 (31 December 2016: RON 799,859).

In 2016 the Company entered into a operating lease contract for vehicles, with lease terms of up to 5 years. The operating lease expense amounted in 2017 to RON 94,531 RON (in 2016: 32,487 RON).

c) Credit risk

The credit risk represents the risk that one of the parties participating in the financial instrument will fail to fulfill an obligation, thus causing a financial loss to the other party.
Financial assets that expose the Company to the potential credit risk concentrations comprise mainly receivables from the main activity. The Company has policies to ensure that sales are to customers with appropriate references on their creditworthiness. Date of maturity of debt is carefully monitored and the overdue amounts are promptly pursued. These are presented at the net adjusting value for uncertain receivables.

d) Liquidity risk

The liquidity risk, also named financing risk, is the risk that a plant has difficulties in accumulating funds in order to fulfill the obligations related to the financial instruments. The liquidity risk can arise from the inability to sell quickly a financial asset at a value close to its actual value.
Prudent liquidity risk management implies maintaining sufficient cash and available credit lines, through continuous monitoring of estimated and real cash flows and matching the estimated maturities of financial assets and liabilities. Due to the nature of the business, the Company seeks to maintain flexibility in funding opportunities, including majority shareholder support.

1.6 Market

In 2017 Alum had a turnover in amount of 636,080 th RON structured as follows:

✓ Sales of alumina	578,185	th RON
✓ Sales of hydrate	56,504	th RON
✓ Revenues from sales of scrap iron and wastes	410	th RON
✓ Revenues from sales of utilities	542	th RON
✓ Other revenues	437	th RON

1.7 Competition

The competition on the alumina market is given by the sale price and quality of products. In order to get an as big as possible market share, each producer supports the marketing strategy with investments in technology and continuous modernization of the production process.

Under the circumstances of a more and more competitive global market, ALUM must continue the strategy for reducing the production cost by means of reducing consumptions (development of new ecological technologies), investing in human capital and development of new, competitive and high added value products.

In this respect, under the financing contract signed on 8 September 2016, Alum SA launched a project (SMIS 2014+) co-financed under the European Regional Development through Operational Program of Competitiveness 2014-2020 " Investing in Sustainable Development ".

The project is to be developed in 24 month (August 2016-August 2018) for a total value of RON 20.1 million, out of which RON 12.6 million eligible subsidies (RON 6.3 million are non-reimbursable) and main object is the acquisition of various research and development equipment (hydrate drying equipment, grinding and ranking wet hydrate, etc.).

In 2017 there were signed the contracts for all three equipments, for a total value of EUR 3,638 thousand, were paid the advances for all contracts in amount of EUR 844 thousand and were opened letters of credit in amount of 1.391 th. EUR. In 2017 the Company received as non-refundable funds the amount of RON 1,598 thousand.

1.8 Shareholding structure and share capital

SHAREHOLDERS	Number of shares	Owned percentage (%)
ALRO SA SLATINA	81,595,860	99.4026
Other shareholders – natural persons	488,354	0.5949
Other shareholders – legal persons	1,989	0.0024
TOTAL	**82,086,203**	**100**

On 31.12.2017, the share capital is of 488,412,908 RON and the number of issued shares 82,086,203.

2.1 Status of synthetic indicators defining company's activity as compared to the income and expenditure budget

SYNTHETIC INDICATORS	Actual 2016	Budget 2017	Actual 2017	Difference as compared to Budget	%	Difference as compared to 2016	%
	RON	RON	RON	RON		RON	
TURNOVER	**556,144,083**	**623,190,110**	**636,079,551**	**12,889,442**	**102**	**79,935,468**	**114**
TOTAL OPERATING REVENUES	**573,861,606**	**623,190,110**	**636,549,992**	**13,359,883**	**102**	**62,688,386**	**111**
TOTAL OPERATING EXPENSES	**597,176,267**	**602,720,449**	**614,964,996**	**12,244,547**	**102**	**17,788,729**	**103**
of which:- raw material and material expenses	368,826,839	376,872,473	381,336,712	4,464,239	101	12,509,873	103
- other expenses (inventory objects)	1,333,344	287,837	1,857,024	1,569,188	645	523,681	139
- energy, gas and water expenses	155,083,110	146,331,753	148,817,556	2,485,803	102	(6,265,554)	96
- staff expenses	37,974,506	39,139,270	44,349,013	5,209,743	113	6,374,507	117
- depreciation expenses	21,275,532	16,204,454	17,573,308	1,368,853	108	(3,702,225)	83
- third parties services	19,700,306	23,884,662	21,210,512	(2,674,150)	89	1,510,206	108
- merchandise expenses	423,016	-	129,972	129,972		(293,044)	31
- other expenses (penalties, disposal of fixed assets)	6,029,559	-	4,359,171	4,359,171		(1,670,387)	72
- value adjustments	(13,469,947)		(4,668,273)	(4,668,273)		8,801,674	35
Operating result	**(23,314,660)**	**20,469,661**	**21,584,997**	**1,115,336**	**105**	44,899,657	**(93)**
FINANCIAL REVENUES	65,926,659	-	25,713,470	25,713,470		(40,213,189)	39
FINANCIAL EXPENSES	59,244,599	1,810,600	33,869,351	32,058,752	1,871	(25,375,248)	57
Financial result	**6,682,060**	**(1,810,600)**	**(8,155,881)**	**(6,345,282)**	**450**	**(14,837,941)**	**(122)**
TOTAL REVENUES	639,788,265	623,190,110	662,263,462	39,073,353	106	22,475,197	104
TOTAL EXPENSES	656,420,866	604,531,048	648,834,347	44,303,299	107	(7,586,519)	99
GROSS PROFIT	**(16,632,600)**	**18,659,061**	**13,429,115**	**(5,229,946)**	**72**	**30,061,715**	**(81)**
PROFIT TAX	-	-	-	-		-	
NET PROFIT	**(16,632,600)**	**18,659,061**	**13,429,115**	**(5,229,946)**	**72**	**30,061,715**	**(81)**

The turnover has been higher than the budgeted value mainly due to the increase of the sales of calcined alumina and hydrate, the main variations being as follows:

			Value:
- turnover	+	12,889	th RON
The difference from forecasts was mainly determined by:			
- alumina sales	+	2,554	th RON
- hydrate sales	+	8,945	th RON
- revenues from scrap sales	+	410	th RON
- revenues from utilities sales	+	542	th RON
- other operating revenues	+	437	th RON

Operational expenses have been higher than the budget by RON 12,245 thousand due, mainly, to the increase of the alumina production with 15,606 mt compared to the budget, the main variations being as follows:

		Value:	
- raw materials and materials expenses	-	4,464	th RON
- raw materials expenses	-	7,974	th RON
- other material expenses (fuel, spare parts, auxiliary materials)	-	3,510	th RON
- energy and water expenses	-	2,730	th RON
- natural gas expenses	-	5,216	th RON
- goods expenses	+	130	th RON
- staff expenses	+	5,210	th RON
- value adjustments (provisions)	-	4,668	th RON
- depreciation expenses	+	1,369	th RON
- other operating expenses (sponsorships, taxes, social aids, work protection)	-	7	th RON
- other expenses (penalties, ceased assets, other operating expenses)	+	4,359	th RON
- third parties services (commissions, insurrances, transport, processing, advertising, import – export services, etc.)	-	2,668	th RON

There were no impairment indications identified for the company, therefore no impairment test of the property, plant and equipment was performed as at 31 December 2017.
According to the impairment test performed by CMF Consulting, an independent valuation company, as of December 31, 2017 there is a potential loss from receivables from SMHL in amount of RON 51,278 thousand (USD 13,177 thousand) lower than the provision recorded by the Company as of December 31, 2016 in amount of RON 56,211 thousand (USD 13,062 thousand).

- As for the financial revenues, they were excedeed by 25,713 th RON, being due to:

	Value:	
✓ revenues from exchange rate differences	+ 23,602	th RON
✓ revenues from interests	+ 2,111	th RON

- Financial expenses were exceded by 32,059 th RON and factorially, they were due to:

	Value:	
✓ expenses with exchange rate differences	+ 31,865	th RON
✓ expenses with interests	+ 194	th RON

Concluding, at the end of 2017 ALUM registered a profit of 13,429 th RON compared to the budgeted profit of 18,659 th ron.

❖ **Fiscally non-deductible expenses**

The fiscally non-deductible expenses amount to 5.12 million RON of which the most important are the following:

- expenses with fiscally non-deductible value adjustments in the amount of 1.06 million RON out of which:
  - 0.01 million RON value adjustment for potential loss in receivables
  - 1.00 million RON value adjustment for pensions and similar obligations
  - 0.04 million RON value adjustment for tangible assets depreciation
- depreciation expenses for fixed assets revalued in 2009 in amount of 0.43 million RON
- depreciation expenses for fixed assets revalued in 2012 in amount of 0.38 million RON
- depreciation expenses for spare parts treated as fixed assets 0.21 million RON
- depreciation for the value adjustment for the estimated expenses to close the red mud lake 1.49 million RON
- other fiscally non-deductible expenses (compensations, amortization of fixed assets written off, interest for the value adjustment for the estimated expenses to close the red mud lake, fines, penalties, fuel) in the amount of 1.55 million RON.

❖ **Investments**

ALUM had forecasted and approved for 2017 an investment program in amount of 9,156 th USD.

The status of 2017 investments achievements is as follows:

No.	Investment project	Budget (th. USD)	Actual (th. USD)	Difference (th. USD)
1	Reinforcing the perimetral dykes for the red mud pond - left bank embankment and improve the sprinkle system for preventing the dust formation	500	760	260
2	Purchasing press filters for disposal bauxite residue moisture decreasing	100	0	(100)
3	Red mud pipe, length 4,5 km (refinery to red mud pond)	600	16	(584)
4	Particle emissions monitoring system for bag filters	150	150	(0)
5	Burned gases fan for Steam Boiler no 2	100	0	(100)
6	Consolidation foundations Precipitation tanks	220	115	(105)
7	Warning system for fire protection	200	152	(48)
8	Investments for maintenance and improvement of equipment parameters - Alum (PPE)	1,978	985	(993)
9	Plant economic lightning	50	7	(43)
10	Replacing the obsolete equipments, Endowments 2017	728	781	53
11	New natural gas burners at Steam Boiler no 1	1,360	1,111	(249)
12	Optimization of steam lines and installing steam traps in Digestion	150	0	(150)
13	Maintenance Capex (Digestion modernization - autoclaves registers and agitators for 2 lines)	150	167	17
14	Modernization 6 kV electrical installations (capacitors, electric cells, electric circuits)	100	0	(100)
15	Acquisition and installation frequency converter devices	200	44	(156)
16	Alum Increasing competitiveness by installing equipment to obtain wet and dry hydrate: - Drying hydrate equipment - Hydrate grinding and classifying equipment - Wet hydrate classifying equipment	2,020	2,948	928
17	A site arrangement and installation of hydrate drying, grinding and classification equipment	550	244	(306)
	TOTAL	**9,156**	**7,479**	**(1,677)**

❖ **Litigations status**

On 31.12.2017 ALUM is involved in some litigations as a result of its normal activity.

SC Alum SA Tulcea opened a legal action against the debtor SC Prosidex Rom SRL Constanta, under which the Company was listed on the creditors table with the amount of RON 160,463.

In 2017, a claim against Alum was served by Fednav International Ltd. at the Arbitration Court in London for the recovery of the expenses with demurrage and surveyors fees in amount of USD 170,000 for a bauxite freight in 2015. The ship had heavy delays due to the captain's refusal to load the bauxite, which, in his opinion, was in danger of liquefaction (high humidity).

On the basis of the legal consulting provided by the Company's lawyers, the management considers that those litigations won't have negative effects on the results or on the financial postion of the Company. On December 31, 2017 the Company had in its balance the amount of 212,757 RON for uncertain clients or under litigation, amount for which value adjustment is registered.

2.2 Economic indicators chart

Caption	2016	2017
Liquidity ratios		
Current liquidity ratio (current capital ratio)	1.46	1.48
Quick liquidity ratio (acid test)	0.13	0.19
Risk ratios		
Gearing	-	-
Interest cover ratio	(6.85)	11.42)
Activity ratios (management ratios)		
Turnover of inventories	1.91	1.94
Days in store	191.11	187.82
Turnover of trade receivables – days	5.29	10.05
Turnover of trade payables – days	42.22	32.17
Turnover of fixed assets	3.50	3.86
Turnover of total assets	1.13	1.24
Profitability ratios		
Profitability of capital employed	(0.06)	0.06
Result per share RON	(0.20)	3.39
Gross margin from sales – %	(4.19)	0.16

Analyzing the economic – financial indicators, the following conclusions may be drawn:

- the inventory turnover increased as compared to the previous year due to the increase of cost of sales more than the increase of stocks;
- as regards the receivables recovery period, respectively the period for reimbursing the debts, ALUM collects its receivables at 10 days and pays its commercial debts at 32 days.
- regarding the fixed assets turnover, it increased due to the increase of turnover more than the increase of the fixed assets.
- the turnover of the total assets increased due to the increase of the turnover more than the increase of total assets.

2.3 Profit and loss account

Considering all the above, we submit to the approval of the General Shareholders Meeting the following:

- profit and loss account
- balance sheet
- statement of changes in equity
- statement of cashflows
- notes to financial statements

2.4 Discharging from liabilities of the Board of Directors for 2017

For the period 01.01.2017 – 31.12.2017 based on the Decision of the Ordinary Shareholders Meeting no. 37/14.08.2015, the Board of Directors consisted of:

1. Dobra Gheorghe - Chairman
2. Barabanov Aleksandr - Vice Chairman
3. Cilianu Marin - Member
4. Popa Ioan - Member
5. Duralia Mihaela - Member

We propose the discharge from liabilities of the Board of Directors of ALUM SA Tulcea for 2017.

CHAIRMAN OF THE BOARD OF DIRECTORS
PhD Eng Gheorghe Dobra

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