

ALRO S.A.

PRELIMINARY FINANCIAL RESULTS

for the year ended
31 December 2017

Note: these preliminary financial results are prepared in accordance with the *Order no. 2844/2016 issued by the Minister of Public Finance*, which is in accordance with the *International Financial Reporting Standards (IFRS)* as adopted by the European Union, except for *IAS 21 The effects of changes in foreign exchange rates* regarding the functional currency. The preliminary financial results are not audited. Therefore, the final audited financial statements for 2017 might be different from these ones.

The functional and the presentation currency is the Romanian leu (RON). This report is prepared in RON thousand, rounded to the nearest unit.

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**Separate statement of profit or loss and other comprehensive income
- unaudited -**

<u>in RON '000</u> <u>Q4 2017</u>	<u>in RON '000</u> <u>Q4 2016</u>		<u>Note</u>	<u>in RON '000</u> <u>2017</u>	<u>in RON '000</u> <u>2016</u>
604,238	549,490	Sales	1	2,466,032	2,127,064
-466,455	-453,180	Cost of goods sold	2	-1,933,679	-1,834,778
137,783	96,310	Gross profit	3	532,353	292,286
-42,823	-38,782	General, administrative and selling expenses	4	-166,602	-133,599
23,912	-	Impairment of investments	5	23,912	-
5,688	1,444	Other operating income		9,937	13,497
-1,260	-438	Other operating expenses		-2,801	-2,575
123,300	58,534	Operating result (EBIT)	6	396,799	169,609
-15,531	-15,194	Interest expenses		-60,007	-61,876
-	-706	(Losses) from embedded derivatives		-	-12,811
2,026	-1,483	Other financial gains / (losses), net		1,153	-2,010
1,439	-38,151	Net foreign exchange gains / (losses)	7	39,875	-12,625
111,234	3,000	Result before income taxes		377,820	80,287
-16,973	425	Income tax		-60,134	-13,067
94,261	3,425	Result for the period	8	317,686	67,220
86,057	6,572	Adjusted net result*	9	355,069	100,820
Other comprehensive income / (expense):					
<i>Items that will not be reclassified subsequently to profit or loss</i>					
-3,394	-494	Remeasurements of post-employment benefit obligations		-3,394	-494
543	79	Income tax on items that will not be reclassified		543	79
-2,851	-415	Other comprehensive income / (expense) for the period, net of tax		-2,851	-415
91,410	3,010	Total comprehensive income / (expense) for the period		314,835	66,805
Earnings per share					
0.132	0.005	Basic and diluted (RON)		0.445	0.094

Gheorghe Dobra
CEO

Genoveva Nastase
CFO

* Adjusted Net Result: Company's net result plus/(minus) non-current assets impairment, plus/ (minus) the loss/ (gain) from derivative financial instruments that do not qualify for hedge accounting, plus/(minus) deferred tax.

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Separate statement of financial position

- unaudited -

		in RON '000	in RON '000
	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment		754,347	699,701
Investment properties		4,646	4,937
Intangible assets		7,759	4,834
Investments	5	447,557	423,645
Deferred tax asset		43,285	102,876
Other non-current assets		67,529	29,047
Total non-current assets		1,325,123	1,265,040
Current assets			
Inventories		515,457	450,276
Trade receivables, net		146,762	142,755
Other current assets		220,158	208,633
Derivative financial instruments asset, current		3,298	671
Restricted cash		60,440	45,082
Cash and cash equivalents		309,736	282,374
Total current assets		1,255,851	1,129,791
Total assets		2,580,974	2,394,831
Shareholders' Equity and Liabilities			
Shareholders' equity			
Share capital		370,037	370,037
Share premium		86,351	86,351
Other reserves		306,191	306,191
Retained earnings		299,011	301,862
Result for the period		317,686	67,220
Equity		1,379,276	1,131,661
Non-current liabilities			
Bank and other loans, non-current	10	844,944	232,160
Finance leases, non-current		3,920	4,214
Provisions, non-current		1,239	1,193
Post-employment benefit obligations		36,019	32,220
Government grants, non-current portion		21,241	12,313
Other non-current liabilities		1,468	410
Total non-current liabilities		908,831	282,510
Current liabilities			
Bank and other loans, current	10	63,998	785,911
Finance leases, current		1,780	1,504
Provisions, current	4	25,516	-
Trade and other payables		133,480	137,424
Government grants, current portion		1,146	1,146
Other current liabilities		66,947	54,675
Total current liabilities		292,867	980,660
Total liabilities		1,201,698	1,263,170
Total shareholders' equity and liabilities		2,580,974	2,394,831

Gheorghe Dobra
CEO

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Notes to the preliminary financial results
- unaudited -

1. In 2017 the Company's sales were of RON 2,466,032 thousand, increasing by 16% from the level reported in 2016, as the Company succeeded to reflect within its results the positive evolution of the aluminium price in international markets. The trend of the aluminium price was continuously growing in 2017, in such a way that the average of LME cash seller quotation was of 1,969 USD/tonne, as compared to the previous year, when it was 1,605 USD/tonne. This upward trend recorded for 2017 culminated with a value of 2,246 USD/tonne on 28 December 2017, and in Q4 2017 the average LME cash-seller was of 2,102 USD/tonne, i.e. by 392 USD/tonne higher than the average of Q4 2016 which had been 1,710 USD/tonne. Thus, the turnover increase was maintained in Q4 2017 when the sales value was higher by 10% (RON 54,748 thousand) compared to Q4 2016.

In 2017, the Company continued its strategy of increasing its high value added products sales, especially those related to the processed aluminium segment. Thus, Alro registered a volume sales increase of the processed aluminium products by over 5,800 tonnes more than in 2016. The same positive variation was maintained in Q4 2017 for sales of processed products, which were higher by more than 1,500 tonnes compared to Q4 2016.

2. The cost of goods sold increased in the year 2017 by RON 98,901 thousand compared to 2016 and at the quarterly level, for the compared periods, the increase was of RON 13,275 thousand. The main reasons leading to this growth were the higher quantity of finished products sold and the increase of the purchase prices of some raw materials. But the increase of the cost of the goods sold was lower than the increase of sales, respectively 5% in 2017 and 3% in the 4th quarter.

3. The Company's gross profit almost doubled in 2017 being of RON 532,353 thousand compared to the last year when it was RON 292,286 thousand, with the gross profit margin also significantly increasing to 22% in 2017 from 14% in 2016.

4. The General and Administrative expenses were higher in 2017 as compared to 2016 due to a provision amounting to RON 25,516 thousand booked in accordance with the Collective Labour Agreement and the GSM decisions regarding management remuneration.

5. As at 31 December 2017, the management carried out an impairment test of the financial investments, following to which the recovery value of its investment in Alum resulted to be higher than its book value. Thus, a revenue from the reversal of impairment of financial assets of RON 23,912 was recognized, which is lower than the impairment loss recognized for the same investment in prior years.

6. The Company's operating result for 2017 had a positive evolution based on an increased turnover, higher by 16% and thanks to Company's management's efforts to manage as efficiently as possible the operations and to reduce its operational costs. Under these circumstances, the Company reported a significantly improved EBIT of RON 396,799 thousand for 2017, compared to RON 169,609 thousand in 2016.

7. The net profit of the Company was also significantly influenced by the net gain from foreign exchange differences, amounting to RON 39,875 thousand in 2017, mainly due to the revaluation of the loans and other liabilities in foreign currency in the context of the RON appreciation against the USD on 31 December 2017 compared to 31 December 2016. In 2016, a net foreign exchange loss of RON 12,625 thousand was recognized.

8. In the light of these favourable factors, the Company registered a net profit of RON 317,686 thousand, approx. 5 times higher than the one reported in the previous year, which was RON 67,220 thousand.

9. At the same time the Adjusted Net Result has improved, which Alro monitors as being a more relevant indicator for the Company's performance than the net result. The reconciliation between the net result and the adjusted net result is detailed below:

<u>in RON '000</u> <u>Q4 2017</u>	<u>in RON '000</u> <u>Q4 2016</u>		<u>in RON '000</u> <u>2017</u>	<u>in RON '000</u> <u>2016</u>
94,261	3,425	Net result of the period	317,686	67,220
-23,912	-	Impairment of investments	-23,912	-
-	-	Impairment of other non-current assets	-	-844
-1,265	3,572	Derivative financial instruments that do not qualify for hedge accounting	1,161	21,377
16,973	-425	Deferred income tax	60,134	13,067
86,057	6,572	Adjusted net result	355,069	100,820

10. In November 2017, the Company signed the extension until November 2020 of the revolving loan agreement with a nominal value of USD 137,000 thousand contracted in December 2015 with a syndicate of banks, and added to it a non-cash financing line of USD 30 million.

At the same time, in December 2017 the Company signed the extension until November 2020 of another revolving loan amounting to RON 180,000 thousand contracted from a commercial bank in December 2015.

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