Quarterly Report 31 March 2019

vimetco

alro

CONTENTS

ALRO GROUP

CONSOLIDATED QUARTERLY REPORT FOR THE FIRST QUARTER OF 2019

Consolidated Financial Results for the First Quarter of 2019 (Q1 2019) as Compared to the First Quarter of 2018 (Q1 2018) (unaudited)

ALRO Group

The companies part of ALRO Group are: Alro S.A. – manufacturer of aluminium, Alum S.A. – producer of alumina, Sierra Mineral Holdings I, Ltd. – bauxite mining, Vimetco Extrusion S.R.L. – extrusion business line, Conef S.A. – holding and management company, Global Aluminium Ltd. – holding company and Bauxite Marketing Ltd - marketing. Having this structure, the Group created an integrated production chain, assuring the raw materials for ALRO.

Alro Group

Consolidated quarterly report for Q1 2019

Highlights of the first quarter of 2019 (Q1 2019)

- Consolidated turnover of RON 767 million in Q1 2019, by 2.4% higher than in Q1 2018, despite a slight downturn of aluminium quotations in international markets;

- Sales of high value added aluminium products up by 6% in money terms and by 4% quantity wise in Q1 2019 compared to Q1 2018;

- Positive cashflow from operations, which generated RON 61 million in Q1 2019 (in Q1 2018: RON 71 million);

- Commissioning of the new equipment within the investment projects for research infrastructure for high qualification industrial applications in Alro and of the equipment for the research of aluminum hydroxide technology (dry and wet) at Alum in Q1 2019;

- inclusion of Alro in BET and BET-TR: the Index Committee of the Bucharest Stock Exchange approved the inclusion of ALRO (code ALR) in BET, the main index of the market, and in the BET-TR, the total return version of BET, starting from 18 March 2019.

ALRO Group

Indicator	Q1 2019	Q1 2018
Primary aluminium production (tonnes)	70,746	71,274
Processed aluminium production (tonnes)	27,748	28,405
Alumina production (tonnes)	118,580	134,163
Bauxite production (tonnes)	571,764	592,428
Sales (thousand RON)	767,439	749,242
EBITDA[1] (thousand RON)	94,725	132,856
EBITDA margin (%)	12.3%	17.7%
Adjusted net result[2] (thousand RON)	812	93,645
Net result (thousand RON)	-9,065	124,621

ALRO S.A.

Indicator	Q1 2019	Q1 2018
Primary aluminium production (tonnes)	70,746	71,274
Processed aluminium production (tonnes)	22,616	22,193
Primary aluminium sales (tonnes)	38,549	40,008
Processed aluminium sales (tonnes)	22,641	21,032
Sales (thousand RON)	674,225	667,852
EBITDA1 (thousand RON)	57,614	104,492
EBITDA margin (%)	8.5%	15.6%
Adjusted net result[2] (thousand RON)	-16,764	79,130
Net result (thousand RON)	-26,144	110,519
Adjusted net result[2] per share (RON)	-0.023	0.111
Net result per share (RON)	-0.037	0.155

[1] EBITDA earnings before interest, taxes, depreciation, amortization and impairment;

[2] 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.

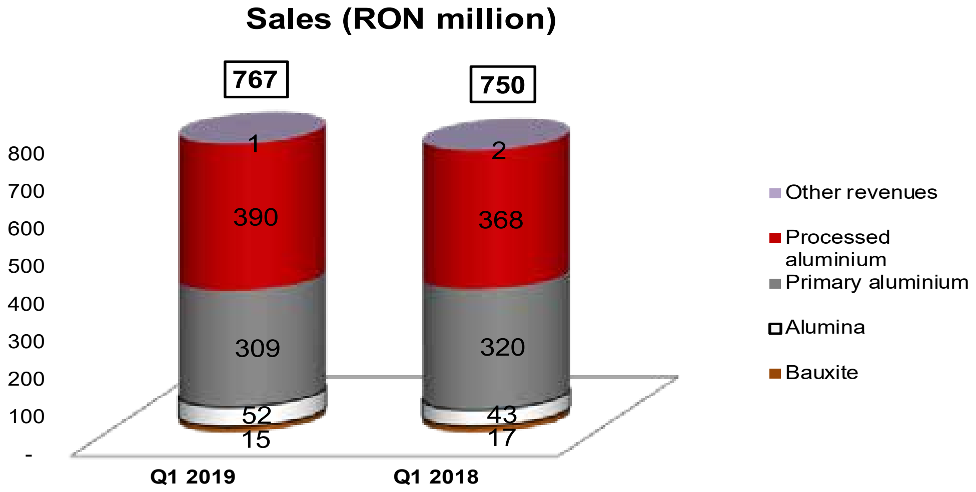
Alro S.A. and its subsidiaries ("Alro Group" or "the Group") is one of the largest vertically integrated aluminium producers in Europe measured by production capacity. In Q1 2019, the Group continued to act as a role model company that pays attention to all its stakeholders and each group individually: from investors whom it remunerated by a generous dividend payout ratio in the latest years, with the interim 9-month 2018 dividends being paid in Q1 2019, to the governmental authorities in the jurisdictions where it operates, where it paid all the due taxes in time; from employees whom it rewarded and compensated for the Group achievements, to local communities where it deploys training programs and formation for future industry specialists; from lenders to whom the Group duly pays its liabilities, to clients that it strives to serve better and to markets and specialized industrial sectors that it increasingly manages to access. Nevertheless in Q1 2019, the Group has dedicated a significant part of its resources to the continuity and sustainability of its business: it has invested CAPEX of RON 26 million, it has placed into operation the equipments for research of higher technology applications at Alro and Alum acquired in 2018, and it is deploying projects to achieve minimum energy and material consumption in its production processes.

Sales

Alro Group's consolidated sales for the 3-month period ended 31 March 2019 were of RON 767,439 thousand, which is a 2.4% increase compared to the level reported in the same period of 2018 (RON 749,242 thousand). It is now harvesting the investments in equipments done in the latest years, and it has managed to increase its proportion of high and very high value added products in its total deliveries, which are dedicated to specialized industries, such as aerospace and automotive industry. Thus, by pursuing step by step a long-term committment, the Group has reached the performance that more than half of its revenues are generated by high value added products (a share of 51% of the Q1 2019 Group's total revenues represent processed products, compared to 49% in Q1 2018).

From an industry perspective, the aluminium price quoted at the London Metal Exchange (LME) continued in 2019 the decreasing trend observed towards the end of 2018, in such a way that the aluminum LME average price for 3 months ended 31 March 2019 was of 1,859 USD/tonne compared to the aluminium LME average price recorded during the 3 months ended 31 March 2018 of 2,159 USD/tonne. Under these circumstances, in spite of Alro Group's efforts to better respond to market demands and of higher deliveries of processed products, the 300 USD/tonne drop in LME quotations limited the revenues in terms of value.

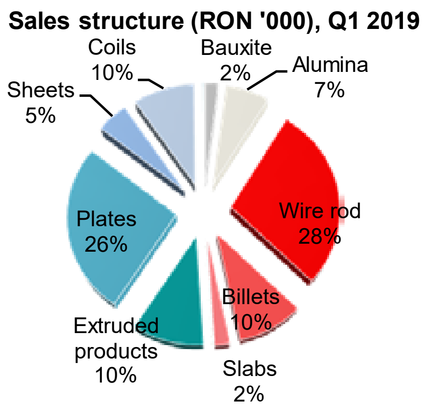
Revenues from contracts with customers	**Q1 2019**	**Q1 2018**
Revenues from bauxite segment	15,458	16,556
Revenues from alumina segment	51,879	42,728
Revenues from primary aluminium segment	308,578	320,283
Revenues from processed aluminium segment	390,040	367,972
Other	1,484	1,703
Total	**767,439**	**749,242**

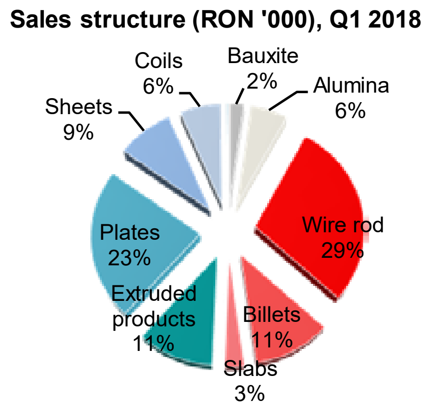


In Q1 2019, the Alro Group achieved a 4% increase in deliveries of processed products (quantity terms) versus Q1 2018. The growth in sales for the Processed aluminium division was particularly with coils and plates, which exceeded by 1,900 tonnes and 1,800 tonnes, respectively, the quantity of coils and plates sold during the same period of the previous year. On the other side, sheets sales were by 2,200 tonnes less in Q1 2019 than in Q1 2018. Starting from July 2018, ALRO initiated a modernization and upgrade program for one of its rolling mills, which is planned to be fully operational in Q2 2019. Thus, in Q1 2019, thanks to the Group's flexibility in allocating capacity among different product types, the impact of the one-off interruption event was limited and the Group managed to compensate the lower sales of certain processed aluminium products with higher sales, for a product mix which could ensure advantageous profit margins, so in terms of values, sales of processed products increased by 6% in Q1 2019 as compared to Q1 2018.

Sales of wire rod in the Primary Aluminum segment increased by more than 600 tonnes in Q1 2019 as compared to Q1 2018. However, this increase could not offset the decrease in billets sales in the periods compared, due to the instability of the billets sales market starting in November 2018. Thus primary aluminum sales declined 2.5% in terms of quantity and 4% in terms of value for the 3 months of 2019 compared to the same period of previous year of a result of the drop in LME quotations.

In terms of sales structure, the sales of the Primary Aluminium segment to external customers were 40% of the Group's total revenues in Q1 2019 (in Q1 2018: 43%), due to billets market&demand instability.

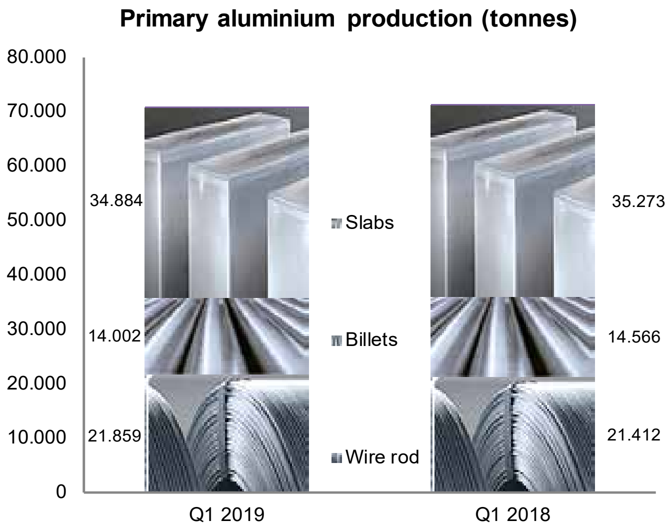


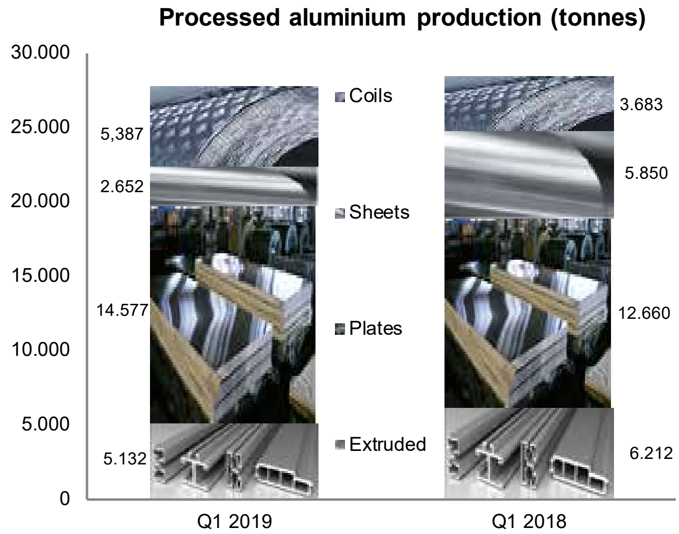


The alumina sales to 3rd parties were higher during the 3 months of 2019 by RON 9,151 thousand as compared to the same period of previous year. The organization, as an integrated production chain that has its own facilities for bauxite extraction and alumina production, allowed the Group to take advantage of the opportunities existing in the international alumina market and bauxite markets in such a way that, besides fully assuring the raw material for aluminium production within the group, it used its production capacities to sell the surplus outside the Group.

Production

Alro Group reported a total production of primary aluminium of 70,746 tonnes in Q1 2019; this is nearly the same level as the one reported in the same period of last year (Q1 2018: 71,274 tonnes). The aluminium wire rod production was more than 440 tonnes higher in Q1 2019 compared to the same period of previous year, with the Group focusing to produce more tonnes of wire rod to take advantage of the market opportunities, in the context of a lower demand for billets on the market. At the same time, the quantity of processed aluminium production was slightly lower than the quantity achieved in Q1 2018 (Q1 2019: 27,748 tonnes compared to Q1 2018: 28,405 tonnes), while the quantity of coils and plates produced was higher by more than 3,600 tonnes than the one produced in Q1 2018, to offset the decline in sheets sales during the period when it performed the reconditioning and the upgrading of one of its rolling mills in the FRP section.





The Group's **cost of goods sold** was of RON 662,326 thousand in Q1 2019, and of RON 581,920 thousand in Q1 2018. The increase by 14% was determined mainly by the growth of the purchase prices of some utilities and raw materials, in line with their specific market prices. For reducing the Group's energy dependence, in the primary aluminium sector, starting the end of 2018, the Group began to invest in improving the performance of the electrolysis sector by implementing a new pot replacement methodology using a new design that is expected to generate a reduction in energy consumption, in line with the Group's strategies and commitments.

Considering the unfavorable international context reflected in the low prices of the aluminum at the London Metal Exchange and the increase of raw material and utility prices during the period of 3 months of 2019, compared to the same period of previous year, the gross profit margin decreased from 22% in Q1 2018 to 14% in Q1 2019, the gross profit achieved by the Group in Q1 2019 being of RON 105,113 thousand compared to RON 167,322 thousand in Q1 2018.

Concomitantly, the Group reduced its **General and administrative expenses** by 4%, and also diminished the level of the outstanding provision for remuneration of staff and management for 2018 by reversing an amount of RON 14,846 thousand from it, which is reflected in the category **Other operating income** in 2019 (please refer to notes 7 and 8 as well).

The interest expenses increased in the first three months of 2019 compared to the similar period of 2018 due to the new facilities contracted by the Group in Q2 2018 and Q1 2019, and the increase of interest rates (i.e. ROBOR and LIBOR) on financial markets.

The foreign exchange loss is mainly due to the revaluation of the USD-denominated borrowings and other liabilities as at 31 March 2019, in the context of the significant depreciation of the RON versus the American currency (4.2434 RON/USD at 31 March 2019 and 4.0736 at 31 December 2018), comparatively to the first three months of 2018, when the the RON had appreciated versus the USD compared to the end of 2017 (3.7779 RON/USD at 31 March 2018 and 3.8915 RON/USD at 31 December 2017).

Although the overall **result before taxes** of the Group was a loss, the Group incurred **tax expenses** in the jurisdictions where its operations had profit. At the same time, having in view the limitations on deductibility of financial costs in Romania, the Group was affected by these and incurred additional income tax (please refer to Note 10 for further details).

Thus, although the **operating profit** of Alro Group was RON 59,359 thousand, due to these negative factors, the Group's **net result** for the first quarter of 2019 is a loss of RON 9,065 thousand compared to the profit of RON 124,621 thousand recorded in the first quarter of 2018.

As concerns the **adjusted net result**, this is positive, as the calculation excludes elements such as the loss from the negative change in value of the derivative financial instruments for which hedge accounting was not applied.

The reconciliation between the net result and the adjusted net result for Q1 2019 and Q1 2018 is detailed below:

Adjusted net result	Q1 2019	Q1 2018
NET RESULT (RON '000)	**-9,065**	**124,621**
Plus/(minus) charge/ (reversal) of non-current assets impairment expense/(income)	-36	-6
Plus/(minus) the loss/(gain) from derivative financial instruments that do not qualify for hedge accounting	7,232	-54,052
Plus/(minus) deferred tax expense/ (income)	2,681	23,082
ADJUSTED NET RESULT	**812**	**93,645**

ALRO GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2019 (UNAUDITED)

Interim consolidated statement of profit or loss and other comprehensive income for the three months ended 31 March 2019 - unaudited

in RON '000,
except per share data

	Note	Three months ended 31 March 2019	Three months ended 31 March 2018
Revenue from contracts with customers	5	767,439	749,242
Cost of goods sold		-662,326	-581,920
Gross profit		**105,113**	**167,322**
General, administrative and selling expenses	7	-63,590	-66,341
Other operating income	8	20,708	2,023
Other operating expenses		-2,872	-1,579
Operating result (EBIT)		**59,359**	**101,425**
Interest expenses	9	-18,399	-9,604
Gains (losses) from derivative financial instruments, net	18	-7,232	54,052
Other financial gains / (losses), net		-4,414	-3,563
Net foreign exchange gains / (losses)		-30,958	7,836
Result before income taxes		**-1,644**	**150,146**
Income tax	10	-7,421	-25,525
Result for the period		**-9,065**	**124,621**
Other comprehensive income / (expense), net of tax:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations		-6	-13
Items that may be reclassified subsequently to profit or loss:			
Translation adjustment		1,481	3,498
Other comprehensive income / (expense) for the period, net of tax		**1,475**	**3,485**
Total comprehensive income / (expense) for the period		**-7,590**	**128,106**
Result attributable to:			
Shareholders of Alro SA		**-9,130**	**124,568**
Non-controlling interest		**65**	**53**
		-9,065	124,621
Total comprehensive income / (expense) attributable to:			
Shareholders of Alro S.A.		**-7,665**	**128,032**
Non-controlling interest		**75**	**74**
		-7,590	128,106
Earnings per share			
Basic and diluted (RON)	11	-0.013	0.175

Dr. Ing Gheorghe DOBRA
Chief Executive Officer

Ec. Genoveva NĂSTASE
Chief Financial Officer

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

These financial statements were authorized for issue by the management on 13 May 2019.

Interim consolidated statement of financial position as at 31 March 2019 - unaudited

in RON '000

	Note	31 March 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	12	1,176,562	1,190,373
Intangible assets		6,850	6,934
Goodwill		93,963	90,837
Deferred tax asset	10	49,050	50,354
Other non-current assets	13	67,606	52,634
Total non-current assets		**1,394,031**	**1,391,132**
Current assets			
Inventories	15	825,901	835,029
Trade receivables, net		87,598	70,126
Other current assets		435,222	431,178
Restricted cash	16	9,430	8,370
Cash and cash equivalents	16	293,550	203,609
Total current assets		**1,651,701**	**1,548,312**
Total assets		**3,045,732**	**2,939,444**
Shareholders' Equity and Liabilities			
Shareholders' equity			
Share capital		370,037	370,037
Share premium		86,351	86,351
Other reserves		346,235	344,333
Retained earnings		369,927	135,358
Result for the period		-9,130	235,006
Equity attributable to shareholders of Alro S.A.		**1,163,420**	**1,171,085**
Non-controlling interest		1,814	1,739
Total shareholders' equity		**1,165,234**	**1,172,824**
Non-current liabilities			
Bank and other loans, non-current	17	1,113,817	870,781
Lease liabilities, non-current	17	7,758	3,550
Provisions, non-current		33,714	32,854
Post-employment benefit obligations		42,642	42,610
Government grants, non-current portion		51,753	49,956
Other non-current liabilities		3,143	3,601
Total non-current liabilities		**1,252,827**	**1,003,352**
Current liabilities			
Bank and other loans, current	17	167,917	73,563
Lease liabilities, current	17	4,862	2,500
Provisions, current		14,893	31,233
Trade and other payables		238,748	210,750
Derivative financial instruments liability, current	18	7,232	-
Current income taxes payable		8,720	14,300
Government grants, current portion		4,309	1,914
Other current liabilities	19	180,990	429,008
Total current liabilities		**627,671**	**763,268**
Total liabilities		**1,880,498**	**1,766,620**
Total shareholders' equity and liabilities		**3,045,732**	**2,939,444**

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Interim consolidated statement of changes in shareholders' equity for the three months ended 31 March 2019 - unaudited

	Share capital	Share premium	Other reserves
Balance at 1 January 2018	**356,091**	**86,351**	**364,519**
Result for the period	-	-	-
Other comprehensive income / (expense)			
Translation adjustment	-	-	-
Remeasurements of post-employment benefits	-	-	-
Other comprehensive income / (expense)	-	-	-
Total comprehensive income / (expense) for the period	**-**	**-**	**-**
Transactions with owners of the company recognized directly in equity			
Distributions to owners of the company			
Appropriation of prior year result	-	-	30
Balance at 31 March 2018	**356,091**	**86,351**	**364,549**
Balance at 1 January 2019	**370,037**	**86,351**	**367,834**
Result for the period	-	-	-
Other comprehensive income / (expense)			
Translation adjustment	-	-	-
Remeasurements of post-employment benefits	-	-	-
Other comprehensive income / (expense)	**-**	**-**	**-**
Total comprehensive income / (expense) for the period	-	-	-
Transactions with owners of the company recognized directly in equity			
Distributions to owners of the company:			
Appropriation of prior year result (Note 22)	-	-	431
Balance at 31 March 2019	**370,037**	**86,351**	**368,265**

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These financial statements were authorized for issue by the management on 13 May 2019.

in RON '000

Translation reserve	Total other reserves	Retained earnings	Result for the period	Attributable to shareholders of Alro SA	Non-controlling interests	Total shareholders' equity
-32,977	**331,542**	**49,409**	**390,581**	**1,213,974**	**1,374**	**1,215,348**
-	**-**	-	124,568	**124,568**	53	**124,621**
3,477	**3,477**	-	-	**3,477**	21	**3,498**
-	**-**	-13	-	**-13**	-	**-13**
3,477	**3,477**	**-13**	**-**	**3,464**	**21**	**3,485**
3,477	**3,477**	**-13**	**124,568**	**128,032**	**74**	**128,106**
	30	390,551	-390,581	**-**	-	**-**
-29,500	**335,049**	**439,947**	**124,568**	**1,342,006**	**1,448**	**1,343,454**
-23,501	**344,333**	**135,358**	**235,006**	**1,171,085**	**1,739**	**1,172,824**
-	**-**	-	-9,130	**-9,130**	65	**-9,065**
1,471	**1,471**	-	-	**1,471**	10	**1,481**
-	**-**	-6	-	**-6**	-	**-6**
1,471	**1,471**	**-6**	**-**	**1,465**	**10**	**1,475**
1,471	**1,471**	**-6**	**-9,130**	**-7,665**	**75**	**-7,590**
	431	234,575	-235,006	**-**	-	**-**
-22,030	**346,235**	**369,927**	**-9,130**	**1,163,420**	**1,814**	**1,165,234**

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Chief Executive Officer

Ec. Genoveva NĂSTASE
Chief Financial Officer

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These financial statements were authorized for issue by the management on 13 May 2019.

Interim consolidated statement of cash flows for the three months ended 31 March 2019 - unaudited

in RON '000

	Note	Three months ended 31 March 2019	Three months ended 31 March 2018
Cash flow from operating activities			
Result before income taxes		-1,644	150,146
Adjustments for:			
Depreciation and amortisation		35,402	31,438
Impairment of property, plant and equipment		-36	-6
Movement in provisions		-16,340	1,823
Change in allowance for impairment of inventory	15	4,209	9,449
Change in allowance for impairment of doubtful receivables	7	-92	860
Loss on disposal of property, plant and equipment		502	579
Net foreign exchange differences on loans revaluation		31,207	-6,836
Interest income		-1,751	-2,233
Interest expense	9	18,399	9,604
Effect of derivative financial instruments	18	7,232	-54,052
Changes in working capital:			
Change in inventories	15	7,362	-50,109
Change in trade receivables and other assets		-37,088	-34,506
Change in trade and other payables		37,415	31,345
Income taxes paid		-10,323	-5,482
Interest paid		-21,843	-6,065
Cash receipts/ (Payments) from derivatives, net		8,649	-4,593
Net cash generated by / (used in) operating activities		**61,260**	**71,362**
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets, net		-44,386	-45,312
Government grants received		-	239
Proceeds from sale of property, plant and equipment		271	185
Change in restricted cash	16	-1,060	21,095
Interest received		1,513	1,211
Net cash used in investing activities		**-43,662**	**-22,582**
Cash flow from financing activities			
Proceeds from loans and leasing		311,885	643
Repayment of loans	17	-2,393	-14,077
Dividends paid	11	-237,226	6
Net cash provided by/(used in) financing activities		**72,266**	**-13,428**
Net change in cash and cash equivalents		**89,864**	**35,352**
Cash and cash equivalents at beginning of period		**203,609**	**320,828**
Effect of exchange rate differences on cash and cash equivalents		77	-59
Cash and cash equivalents at end of period	**16**	**293,550**	**356,121**

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Chief Executive Officer

Ec. Genoveva NĂSTASE
Chief Financial Officer

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

These financial statements were authorized for issue by the management on 13 May 2019.

This is a free translation from the original Romanian binding version

1. Organisation and nature of business

Alro S.A. (the *Company* or the *Parent Company*) is a listed company established in 1961 in Romania and is one of the largest vertically integrated aluminium producers in Europe, by production capacity. The shares of Alro S.A. are traded on the Bucharest Stock Exchange under the symbol ALR.

The Company's administrative and managerial offices are located in Romania, with the headquarters in 116, Pitesti Street, Slatina, Olt County, Romania.

Vimetco N.V. (the Netherlands) is the major shareholder of Alro S.A., holding 54.19% of the Company's share capital at 31 March 2019. Vimetco N.V. is a privately held company and its registered office is at Strawinskylaan 403, World Trade Center, A Tower, 4th floor, 1077 XX Amsterdam, The Netherlands. The Company's ultimate controlling entity is Maxon Limited (Bermuda).

Alro S.A. and its subsidiaries (collectively referred to as the Group) form a vertically integrated producer of primary and processed aluminium products: in Sierra Leone the bauxite is extracted, which is used to produce alumina in the Alum refinery at Tulcea; this is further used by Alro at its smelter in Slatina to produce aluminium. Alro casts aluminium into primary products that are sold or processed as higher value added products (flat rolled or extruded) at Alro or Vimetco Extrusion facilities. The Group has its customers primarily in Central and Eastern Europe.

These interim condensed consolidated financial statements were authorised for issue by the management on 13 May 2019.

2. Basis of preparation

Statement of compliance

These interim condensed consolidated financial statements of Alro and its subsidiaries (further named *Condensed financial statements*) for the 3 months ended 31 March 2019 are unaudited and have been prepared in accordance with *IAS 34 Interim financial reporting* as adopted by the European Union (EU). The accounting policies are in accordance with the Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, which is in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU)*.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2018. These interim condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2018.

The financial statements of Alro Group are available in hard copy at the Parent Company's premises, upon request. They are also available on the website of the Parent Company www.alro.ro within the applicable legal time frame.

Going concern

These interim condensed financial statements have been prepared on a going concern basis, which assumes the Group will be able to realize its assets and discharge its liabilities in the normal course of business.

*The Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, is in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU), except for IAS 21 The effects of changes in foreign exchange rates regarding functional currency, except for the provisions of IAS 20 Accounting for Government Grants regarding the recognition of revenue from green certificates,except for the provisions of IFRS 15 Revenue from contracts with customers regarding the revenue from taxes of connection to the distribution grid and except for the accounting treatment of interim dividends, which, according to the Ministry of Public Finance Order no. 3067/2018, are recorded in the consolidated statement of financial position at 31 March 2019 as receivables on the position 'Other current assets' and, the unpaid balance, as liabilities on the position 'Other current liabilities'. These exceptions do not affect the compliance of the financial statements of the Group with IFRS.

Functional and presentation currency

The functional currency of the parent company is the Romanian leu (RON). For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency and translated in the presentation currency.

These financial statements are presented in RON thousand, rounded to the nearest unit, unless otherwise stated.

The rates applied in translating foreign currencies to RON were as follows:

	31 March 2019	31 December 2018
USD exchange rate at the end of the period**	4.2434 USD/RON	4.0736 USD/RON

	31 March 2019	31 March 2018
USD average exchange rate***	4.1687 USD/RON	3.7858 USD/RON

**) as communicated by National Bank of Romania
***) computed as an average of the daily exchange rates communicated by the National Bank of Romania

3. Application of the new and revised international financial reporting standards

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective

The Group applies, for the first time, IFRS 16 *Leases* that requires restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 16 Leases

IFRS 16 Leases, issued on 13 January 2016 is effective for annual periods beginning on or after 1 January 2019 (early application was permitted, but not before an entity applies IFRS 15). IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease.* IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17.

a) Nature of the effect of adoption of IFRS 16

Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under *Prepayments* and *Trade and other payables,* respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

In adopting IFRS 16, at 1 January 2019 right-of-use assets of RON 14,669 thousand were recognised, being presented in the statement of financial position in *Other non-current assets*. Additional lease liabilities of RON 7,360 thousand were recognised.

b) Summary of new accounting policies in adopting IFRS 16

The Group applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach. The Group applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Group recognises new assets and liabilities for its operating leases of vehicles, land and equipments. A depreciation charge for right-of-use assets and interest expense on lease liabilities are also recognized. Right-of-use assets for property leases is measured on transition as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Standards issued, but not yet effective and not early adopted

- *Conceptual Framework in IFRS standards.* The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018 (not yet adopted by the EU). The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- *IFRS 17 Insurance Contracts.* The standard, issued on 18 May 2018, is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have also been applied. The standard has not been yet endorsed by the EU. IFRS 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. This standard is not applicable to the Group.

- *Amendment to IFRS 3 Business Combinations*,issued on 22 October 2018 (not yet adopted by EU) intended to improve the definition of a business and assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments apply prospectively to transactions or other events that occur on or after the date of first application.

- *Amendments to IFRS 9 Prepayment features with negative compensation* were issued on 18 May 2018 (effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted). The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be *negative compensation*), to be measured at amortized cost or at fair value through other comprehensive income. The amendments do not have an impact on the Group's financial statements.

- *Amendments to IAS 1 and IAS 8: Definition of Material*, issued on 31 October 2018 (not yet adopted by EU). The amendments clarify and align the definition of *material* and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS. The new definition states that *information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.* The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. Although the amendments to the definition of material is not expected to have a significant impact on financial statements, the introduction of the term *obscuring information* in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how the information is organised in the financial statements.

- *Amendments to IAS 19: Plan Amendment, Curtailment or Settlement,* issued on 7 February 2018 (not yet adopted by EU). The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements.

- *Amendments to IAS 28: Long-term interests in associates and joint ventures* (issued on 12 October 2018, not yet adopted by the EU). The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the *net investment* in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 *Financial Instruments*, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These amendments are not applicable to the Group.

- *IFRIC 23 Uncertainty over income tax treatments.* Interpretation was issued on 7 June 2017, is applicable for annual periods beginning on or after 1 January 2019 and earlier application is permitted. Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The directors do not anticipate that the application of the amendments in the future will have an impact on the Group’s consolidated financial statements.

in RON '000, except per share data

- *Annual Improvements to IFRS Standards 2015 – 2017 Cycle* (effective for annual periods beginning on or after 1 January 2019), issued on 12 December 2017 and not yet adopted by the EU. The improvements are not expected to have a material impact on the Group's financial statements. These annual improvements are a collection of amendments to IFRSs:

  - *IFRS 3 Business Combinations* and *IFRS 11 Joint Arrangements*: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

  - *IAS 12 Income Taxes:* The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

  - *IAS 23 Borrowing Costs*: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

4. Estimates

The preparation of condensed financial statements requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2018, except for the changes disclosed in Note 3.

5. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contract with customers:

						Three months ended 31 March 2019
Segments	**Bauxite**	**Alumina**	**Primary aluminium**	**Processed aluminium**	**Others**	**Total**
Type of good or service						
Sale of bauxite	66,595	-	-	-	-	**66,595**
Sale of alumina	-	189,761	-	-	-	**189,761**
Sale of primary aluminium	-	-	564,600	-	-	**564,600**
Sale of processed aluminium	-	-	-	390,268	-	**390,268**
Other revenues and services performed	6,858	73	-	147	8,937	**16,015**
Total revenue from contracts with customers	**73,453**	**189,834**	**564,600**	**390,415**	**8,937**	**1,227,239**

in RON '000, except per share data

Segments	Bauxite	Alumina	Primary aluminium	Processed aluminium	Others	Total
						Three months ended 31 March 2018
Type of good or service						
Sale of bauxite	68,193	-	-	-	-	**68,193**
Sale of alumina	-	170,283	-	-	-	**170,283**
Sale of primary aluminium	-	-	589,042	-	-	**589,042**
Sale of processed aluminium	-	-	-	367,610	-	**367,610**
Other revenues and services performed	7,220	112	-	426	8,962	**16,720**
Total revenue from contracts with customers	**75,413**	**170,395**	**589,042**	**368,036**	**8,962**	**1,211,848**

The increase in the Group revenue was mainly due to the Processed Aluminium segments, as well as due to the Alumina segment following the increase of the aluminium quantity sold, and the favourable conditions for the sale of alumina and hydrate.

Set out below, is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

Revenue	Bauxite	Alumina	Primary aluminium	Processed aluminium	Others	Total
						Three months ended 31 March 2019
External customer	15,458	51,879	308,578	390,040	1,484	**767,439**
Inter-segment	57,995	137,955	256,022	375	7,453	**459,800**
Total revenue	**73,453**	**189,834**	**564,600**	**390,415**	**8,937**	**1,227,239**
Adjustments and eliminations	-57,995	-137,955	-256,022	-375	-7,453	**-459,800**
Total revenue from contracts with customers	**15,458**	**51,879**	**308,578**	**390,040**	**1,484**	**767,439**

Revenue	Bauxite	Alumina	Primary aluminium	Processed aluminium	Others	Total
						Three months ended 31 March 2018
External customer	16,556	42,728	320,283	367,972	1,703	**749,242**
Inter-segment	58,857	127,667	268,759	64	7,259	**462,606**
Total revenue	**75,413**	**170,395**	**589,042**	**368,036**	**8,962**	**1,211,848**
Adjustments and eliminations	-58,857	-127,667	-268,759	-64	-7,259	**-462,606**
Total revenue from contracts with customers	**16,556**	**42,728**	**320,283**	**367,972**	**1,703**	**749,242**

Transactions between operating segments are based on transfer prices that are set on an arm's length basis in a manner similar to transactions with third parties. For the way the Group monitors the performance of its segments, please see note 6.

6. Segment information

For management purposes, the Group is organized on a vertically integrated basis into divisions: bauxite, alumina, primary aluminium and processed aluminium. For the purpose of resource allocation and assessment of segment performance the divisions are the basis on which the Group reports its segment information to the chief operating decision maker. The bauxite segment is located in Sierra Leone. The alumina segment located in Tulcea, Romania, uses bauxite to produce alumina, which is the principal raw material for aluminium smelting. The Primary aluminium division manufactures primary aluminium products like wire rod, slabs, billets and ingots and the Processed aluminium segment develops and sells flat rolled products, such as sheets, plates and coils, and extruded products. Both the Primary and Processed aluminium divisions are located in Slatina, Romania. No operating segments have been aggregated to form the above reportable operating segments.

Segment revenues and expenses are directly attributable to the segments; joint expenses are allocated to the business segments on a reasonable basis. The income, expenses and result per segments include the transfers between business segments.

in RON '000, except per share data

In order to have a better visibility on the operational and financial performance of the Group segments, to be able to benefit from its synergies as an integrated group, the Management now monitors the segments results whereby the inter-segment transactions are reported at their cost. For the purpose of this note, the inter-segment transfers of the bauxite and alumina segments, represented by deliveries of raw material, and also the transfers of the aluminium segments, consisting of slabs transfered by Alro to its own processing division and billets transferred to the Vimetco Extrusion extruding plant, are reflected at their complete cost, regardless of the fact whether they are within the same entity or not.

The management monitors interest income and expense on a net basis.

Alro Group revenues and results for the three months ended 31 March 2019 and 2018 by segment, were as follows:

	Bauxite	Alumina	Primary aluminium	Processed aluminium	Others	Inter-segment operations	Total
Three months ended 31 March 2019							
Sales to external customers	15,458	51,879	308,578	390,040	1,484	-	**767,439**
Inter-segment sales	44,418	130,812	285,401	375	7,453	-468,459	-
Total sales	**59,876**	**182,691**	**593,979**	**390,415**	**8,937**	**-468,459**	**767,439**
Segment results (gross profit)	**5,261**	**26,029**	**33,456**	**36,700**	**2,346**	**1,321**	**105,113**
Other operating income & expenses, net	-9,626	-7,061	-18,950	-12,945	3,191	-363	-45,754
Operating result (EBIT)	**-4,365**	**18,968**	**14,506**	**23,755**	**5,537**	**958**	**59,359**
Total depreciation, amortisation and impairment	4,519	4,977	17,655	8,444	-	-229	35,366
EBITDA	**154**	**23,945**	**32,161**	**32,199**	**5,537**	**729**	**94,725**
Interest and other finance costs, net							-30,045
Net foreign exchange gains / (losses)							-30,958
Result before income taxes							**-1,644**
Three months ended 31 March 2018							
Sales to external customers	16,556	42,728	320,283	367,972	1,703	-	**749,242**
Inter-segment sales	45,582	119,188	233,004	64	7,259	-405,097	-
Total sales	**62,138**	**161,916**	**553,287**	**368,036**	**8,962**	**-405,097**	**749,242**
Segment results (gross profit)	**7,501**	**13,223**	**63,555**	**81,193**	**1,158**	**692**	**167,322**
Other operating income & expenses, net	-9,608	-6,230	-30,968	-19,556	572	-107	-65,897
Operating result (EBIT)	**-2,107**	**6,993**	**32,587**	**61,637**	**1,730**	**585**	**101,425**
Total depreciation, amortisation and impairment	4,918	3,713	14,818	7,982	-	-	31,431
EBITDA	**2,811**	**10,706**	**47,405**	**69,619**	**1,730**	**585**	**132,856**
Interest and other finance costs, net							40,885
Net foreign exchange gains / (losses)							7,836
Result before income taxes							**150,146**

Other operations include services to related entities and external customers.

In the first quarter of the year 2019, the primary aluminium and processed aluminium segments result was lower than the result for the same period of last year due to the decrease of the LME reference price and on the other hand due to the increase in the cost of raw materials and utilities used in production, in line with market trends. The alumina sales grew in comparison to the previous analyzed period, with higher quantities being sold to third party clients, which contributed to the higher gross profit for the segment.

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, property, plant and equipment and intangible assets, net of allowances for impairment. While most of such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of trade payables, wages and taxes payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes, borrowings, financial liabilities and other un-allocatable items.

in RON '000, except per share data

Segment assets and liabilities at 31 March 2019 and 31 December 2018, respectively, were as follows:

Alro Group	Bauxite	Alumina	Primary aluminium	Processed aluminium	Others	Inter-segment balances	Total
31 March 2019							
Total assets	179,465	594,530	1,105,494	703,352	1,291,932	-829,041	**3,045,732**
Total liabilities	319,057	280,693	202,187	174,860	1,341,630	-437,929	**1,880,498**
31 December 2018							
Total assets	158,466	540,823	1,146,583	687,906	1,220,738	-815,072	**2,939,444**
Total liabilities	299,867	233,352	178,735	172,808	1,477,558	-595,700	**1,766,620**

Total assets representing *Others* include mainly investments in subsidiaries, administrative buildings, deferred tax asset and derivative financial instruments.

Total liabilities representing *Others* include mainly borrowings, provisions and dividends.

Inter-segment operations and *Others* include intercompany eliminations and non-allocatable items.

7. General, administrative and selling expenses

	Three months ended 31 March 2019	Three months ended 31 March 2018
Staff costs	-28,692	-32,983
Third party services	-13,825	-13,450
Consulting and audit	-7,164	-5,861
Consumables	-2,465	-3,109
Taxes other than income taxes	-2,338	-2,165
Depreciation and amortisation	-2,335	-1,993
Insurance	-2,399	-1,739
Marketing and public relations	-1,179	-1,284
Travelling	-958	-1,126
Research and development costs	-950	-
Other	-1,377	-1,771
Change in allowance for doubtful debts	92	-860
Total	**-63,590**	**-66,341**

8. Other operating income

During the 3 months ended 31 March 2019, the Group analyzed the preliminary results for the period and decided to adjust the amounts that would be paid as remuneration to its employees and management out of the provisions booked at 31 December 2018, thus reversing an amount of RON 14,846 thousand.

9. Interest expenses

	Three months ended 31 March 2019	Three months ended 31 March 2018
Interest expense	-18,399	-9,604
Total	**-18,399**	**-9,604**

in RON '000, except per share data

Interest expense increased in the first quarter of 2019 compared to the same period of the previous year, mainly as a result of additional loans taken by Alro's in January 2019 as increments of existing loans (with a new non-revolving facility of USD 20,000 thousand and a USD 50,000 thousand facility), of Alum's drawdown of the remaining USD 10,000 thousand from its loan contracted in May 2018, and also due to the increase in the LIBOR and ROBOR benchmark interest rates. For further details, see also *Note 17 Borrowings and lease liabilities.*

Interest expense includes the amount of RON 3,108 thousand (in Q1 2018: RON 2,121 thousand) representing transaction costs on loans, which are recognized during the period as interest expense based on the effective interest rate method. The cash effectively paid as transaction costs in 2019 for loans contracted in January 2019 and other loans taken was of RON 7,872 thousand and it is included in the Statement of cash flow under Interest paid (in 2018: RON 503 thousand).

10. Income tax

At 31 March 2019, the Group had a net deferred income tax asset of RON 49,050 thousand (at 31 December 2018: RON 50,354 thousand), of which RON 44,385 thousand is for fiscal losses carried forward (at 31 December 2018: RON 42,963 thousand), as the management believes there will be sufficient taxable profits in future against which these fiscal losses carried forward could be used.

Income tax expense is recognized based on management's best estimate of the annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. During the 3 months ended 31 March 2019, following the amendments of the Romanian Fiscal Code applicable starting 1 January 2018 related to the exceeding borrowing costs, the amount of RON 38,040 thousand, representing interest expenses and items related to interest was treated as being non-deductible for tax purposes, and resulted in an increase of the income tax by RON 6,086 thousand (Q1 2018: nil).

The main components of the income tax expense in the consolidated interim statement of profit or loss and comprehensive income are:

	Three months ended 31 March 2019	Three months ended 31 March 2018
Income tax		
Current income tax	-4,740	-2,443
Deferred income tax	-2,681	-23,082
Income tax expense	***-7,421***	***-25,525***
Income tax recognised in other comprehensive income	-	-
Total income taxes	**-7,421**	**-25,525**

11. Earnings per share

	Three months ended 31 March 2019	Three months ended 31 March 2018
Net result attributable to the owners of the Entity	-9,130	124,568
Weighted average number of ordinary shares	713,779,135	713,779,135
Basic and diluted earnings per share (RON/share)	-0.013	0.175

Basic and diluted per share data are the same as there are no dilutive securities.

During the reporting period, no interim dividends were declared by the Group related to the 3 months ended 31 March 2019.

Until the reporting date, the Group paid RON 237,226 thousand of the dividends declared for 9 months ended 30 September 2018 (Q1 2018: 0).

in RON '000, except per share data

12. Property, plant and equipment

During the 3 months ended 31 March 2019, the Group acquired property, plant and equipment of RON 25,545 thousand (during the 3 months of the year 2018: RON 40,709 thousand). In 2019, the Group invested in projects aimed at reducing the energy consumption in the smelter area by implementing a new and advanced technology for pot relining. Other capital expenditure was made on the purpose to improve the cast products quality by purchasing and installing two slab homogenizing furnaces and a cooling chamber in the Cast house. The investments in the processed aluminium division continued with the revamping of the Cold Rolling Mill no. 2, as well as implementing an advanced production planning system and a flat rolled products marking and traceability system.

At the same time, the Group allocated resources for the replacement of the existing equipment in order to sustain the level of the budgeted production by performing overhauls of the electrolysis pots at Alro, as well as the investments to maintain and improve the equipment parameters at Alum. Simultaneously with the investment activity within the technological processes, the Group performed various refurbishing works and purchased equipment necessary to support the mining activity in Sierra Leone.

During the 3-month period of the year 2019, the equipments purchased in 2018 within the investment projects for research infrastructure concerning high qualification industrial applications in Alro, as well as the for the research of aluminium hydroxide (wet and dry) manufacturing technologies in Alum, have been placed into operation, these projects being co-funded through the European Fund for Regional Development by the Competitiveness Operational Programme 2014 - 2020 (2018: 0). In Q1 2019 the Group received the acceptance for RON 5,042 thousand from the above mentioned subsidies (in 2018 the Group received the acceptance for subsidies receipts in amount of RON 1,525 thousand).

The depreciation expense of property, plant and equipment for the 3 months of 2019 was RON 34,982 thousand (during the comparative period of 2018: RON 32,157 thousand).

The borrowing costs capitalized in the property, plant and equipment during the 3 months ended 31 March 2019 were of RON 422 thousand at an average interest rate of 6.75% p.a. (during the 3 months ended 31 March 2018: RON 1,390 thousand at an average interest rate of 5.66 % p.a.).

From January to March 2019 the disposals of property, plant and equipment were of RON 8,050 thousand, net (during the 3 months ended 31 March 2018: RON 764 thousand, net), mainly representing the transfer of machines and vehicles previously recognized as per IAS 17 in the *Property, plant and equipment* to the category *Other non-current assets*, as per IFRS 16 which the Group applies starting from 1 January 2019. See also Notes 3 and 13. The amount of RON 7,277 thousand included in the *Property, plant and equipment* at 31 December 2018 was transferred to the *Other non-current assets*.

At 31 March 2019, the net book value of property, plant and equipment pledged for securing the Group's borrowings amounts to RON 820,832 thousand (31 December 2018: RON 745,126 thousand).

13. Other non-current assets

	31 March 2019	31 December 2018
Collateral deposits	45,200	45,200
Amounts paid in advance	8,460	7,434
Right-of-use assets	13,946	-
Total	**67,606**	**52,634**

Collateral deposits represent cash placed with a bank until November 2020 as a pledge for a revolving loan and a non-cash facility contracted by the Parent Company (refer to *Note 16 Cash and cash equivalents as well)*.

At 31 March 2018, the category *Amounts paid in advance* represents payments for compliance with the regulations in force regarding the renewable energy supported by green certificates, which the Group estimates to recover in more than one year from the reporting date.

Starting 1 January 2019 the Group has applied IFRS 16 Leases and recognized as non-current assets the right to use the underlying asset during the lease term amounting to RON 14,669 thousand. The Group has leasing contracts mainly for equipments and vehicles with terms of up to 5 years. The carrying value of the right of use assets was RON 13,946 thousand at 31 March 2019. For further details see also Note 3.

in RON '000, except per share data

14. Financial instruments

Set out below, is an overview of financial assets and financial liabilities held by the Group as at 31 March 2019 and 31 December 2018.

Categories of financial instruments

	31 March 2019	31 December 2018
Financial assets		
Cash and bank balances	302,980	211,979
At amortised cost (receivables)	196,118	178,750
Total financial assets	**499,098**	**390,729**

	31 March 2019	31 December 2018
Financial liabilities		
Fair value through profit or loss (FVTPL)	7,232	-
Designated as at FVTPL	7,232	-
Amortised cost:	1,706,487	1,586,928
Trade and other payables	412,133	636,534
Non-current bank and other loans	1,121,575	874,331
Current bank and other loans	172,779	76,063
Total financial liabilities	**1,713,719**	**1,586,928**

There were no reclassifications between the categories of financial assets during the 3 months 2019 and 2018.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

• The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

• The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

• The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, the fair value of financial instruments is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. The fair value of LME forward swap over-the-counter derivatives is determined using LME aluminium quotes for each settlement dates provided by dealers.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

• Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

• Level 2 fair value measurements are those derived from valuation techniques containing inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

• Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group does not have level 3 financial instruments.

There were no transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments.
The Management consider that the fair values of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their carrying amounts largely due to the short term maturities, low transaction costs of these instruments as of financial position date, and for the long-term borrowings due to the fact that they were recently contracted.

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The fair value of the following financial assets and liabilities approximate their carrying amount:
- Trade and other receivables;
- Other current financial assets;
- Cash and cash equivalents;
- Trade and other payables;
- Borrowings.

15. Inventories

	31 March 2019	31 December 2018
Raw and auxiliary materials	360,562	368,452
Work in progress	240,686	224,405
Finished goods	257,446	270,320
Less: allowance for obsolescence	-32,793	-28,148
Total	**825,901**	**835,029**

The value of inventories pledged for securing the Group's borrowings amounts to RON 767,925 thousand (31 December 2018: RON 779,508 thousand).

The movement in adjustments for the impairment of inventories is the following:

	Three months ended 31 March 2019	Three months ended 31 March 2018
Balance at beginning of the year	**-28,148**	**-15,180**
(Charge) to cost of goods sold	-4,314	-9,449
Reversal to cost of goods sold	105	-
Translation adjustments	-436	290
Balance at end of the period	**-32,793**	**-24,339**

16. Cash and cash equivalents

	31 March 2019	31 December 2018
Cash at banks in RON	158,019	67,202
Cash at banks in other currencies	135,430	136,368
Petty cash and cash equivalents	101	39
Total	**293,550**	**203,609**

A part of the Group's bank accounts (RON 230,252 thousand as at 31 March 2019 and RON 137,289 thousand as of 31 December 2018) are pledged to guarantee the borrowings from banks.

Restricted cash:

	31 March 2019	31 December 2018
Restricted cash	9,430	8,370
Total	**9,430**	**8,370**

At 31 March 2019, in addition to the above figures the Group has the amount of RON 45,200 thousand representing cash placed with a bank until December 2020 as a pledge for a revolving loan and a non-cash facility contracted by the Group. The amounts are included in *Other non-current assets* on the Statement of Financial Position due to the maturity of the deposits, which is longer than 1 year (Please see Note 13).

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17. Borrowings and lease liabilities

	31 March 2019	31 December 2018
Long-term borrowings		
Long-term bank loans	1,281,734	944,344
Less: Short-term portion of long-term bank loans	-167,917	-73,563
Bank loans, non-current	***1,113,817***	***870,781***
Lease liabilities	7,758	3,550
Total long-term borrowings and lease liabilities	**1,121,575**	**874,331**
Short-term borrowings		
Short-term bank loans	-	-
Short-term portion of long-term bank loans	167,917	73,563
Short-term bank loans, total	***167,917***	***73,563***
Lease liabilities	4,862	2,500
Total short-term borrowings and lease liabilities	**172,779**	**76,063**
Total borrowings and lease liabilities	**1,294,354**	**950,394**

The bank borrowings of the Group will mature until 2023 and the related interest rates ranged between 2.80% for EUR and 19% for SLL (Sierra Leone Leones) in Q1 2019 (in Q1 2018: between 2.80% for EUR and 19% for SLL).

In May 2018 the Group subsidiary Alum signed two credit facilities by an agreement with two banks, for a total amount of USD 25 million, for financing investment projects. In Q1 2019, the remaining part of USD 10,000 thousand was drawn down.

In January 2019, the Parent Company signed an amendment to one of its existing loans of USD 167,000 thousand, by which, among others:
- the facility was supplemented with a new non-revolving facility in value up to USD 20,000 thousand for the purpose of covering the general needs and working capital of the Company, with the maturity in December 2019.
- the facility was supplemented with a new facility of up to USD 50,000 thousand on the purpose of financing and refinancing the capital expenditure of the Company in 2018 and 2019, with the maturity in December 2024.

At 31 March 2019, the Group had the amount of RON 20,356 thousand undrawn from the borrowing facilities contracted with the banks (at 31 December 2018: RON 43,966 thousand).

At 31 March 2019, the Group had the amount of RON 52,056 thousand unutilized and available from the non-cash facilities for letters of credit and letters of guarantee (at 31 December 2018: RON 10,574 thousand).

According to the existing borrowing agreements the Group is subject to certain restrictive covenants. These covenants require the Group, among other things, to refrain from paying dividends to its shareholders unless certain conditions are met, and to maintain a minimum or maximum level for certain financial ratios, including: debt service coverage ratio, net debt to EBITDA, net debt to equity, current ratio, net financial debt to shareholders equity, solvency ratio.

At 31 March 2019, the Group was compliant with all the financial loan covenants.

The Group borrowings are secured with accounts receivable amounting to RON 42,311 thousand (at 31 December 2018: RON 51,807 thousand), with current accounts opened with the lending banks, with collateral deposits of RON 45,200 thousand (at 31 December 2018: RON 45,200 thousand), with property, plant and equipment (land, buildings, equipment) with a net book value of RON 820,832 thousand (2018: RON 745,126 thousand) and with inventories of RON 767,925 thousand (2018: RON 779,508 thousand).

Following the adoption of IFRS 16 at 1 January 2019, the Group presented additional lease liabilities of RON 7,360 thousand for the Group (refer to note 3 as well). The net book value of lease liabilities of the Group at 31 March 2019 was of RON 12,620 thousand (31 December 2018: RON 6,050 thousand).

The Group has estimated that the fair value of the borrowings and the lease liabilities approximates their carrying amount, mainly due to the maturity of less than one year for the short-term loans, and due to the fact that the long term loans have variable interest and were recently obtained. Their fair value belongs to the level 3 of the fair value measurement hierarchy.

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18. Derivative financial instruments

Details of the fair value of derivative financial instruments are set out below:

	Assets	Liabilities
31 March 2019		
Foreign exchange options	-	7,232
Total	**-**	**7,232**
Thereof:		
Non-current	-	-
Current	-	7,232
31 December 2018		
Commodity options	-	-
Total	**-**	**-**
Thereof:		
Non-current	-	-
Current	-	-

Foreign exchange options

In February 2019, seeking to mitigate the foreign exchange rate risk swings, the Group entered into several transactions, namely European and Asian zero cost option collars, for a notional of USD 150 million with financial institutions. Through these contracts, the Group secured a minimum conversion rate into RON for its aluminium sales denominated in USD. The options have monthly settlements during March- December 2019.

The unrealized net loss resulting from the mark-to-market of these options at 31 March 2019 amounting to RON 7,232 thousand is included in the category *Gains (losses) from derivative financial instruments*, net in the Consolidated statement of profit or loss (in 2018: nil).

As at 31 March 2019 the fair value of the foreign exchange options was a negative amount of RON 7,232 thousand (31 December 2018: nil).

The fair value of the options was determined by using an evaluation model developed by an international, reputed company that is specialized in financial information. The respective model is Black-Scholes type and uses market data to retrieve the value of the option at the required date, for the specified contractual dates. The contracted options generally have identical characteristics, the only variable part being the contracted currency amount and the exercise date. The inputs for the valuation model include, besides the contracted currency amount, the strike price, the exercise date and the valuation date, also observable elements such as the forward curve of the EUR / RON and EUR / USD currency pair, implied volatilities, interest rate. The valuation model is highly sensitive to the forex quotes mentioned above.

Commodity options

In the end of 2017, the Group entered into several transactions with financial institutions consisting of 100% collar of Asian options by taking long positions on put options and short positions on call options for a quantity of approximately 61,300 tonnes aluminium, for which a minimum price of 2,200 USD/tonne to 2,400 USD/tonne was secured, with exercising dates during January - December 2018.

Also in January 2018, on the purpose of protecting its revenues against the volatility of aluminium price, the Group entered into several transactions with financial institutions consisting of 100% collar of Asian options by taking long positions on put options and short positions on call options for a quantity of approximately 30,700 tonnes aluminium, for which a minimum price of 2,200 USD/tonne to 2,400 USD/tonne was secured, with exercising dates during February-December 2018.

In the first 3 months of the year 2018, options for an approximate quantity of 15,800 tonnes were exercised due to the fact that the LME quotations were below the minimum price of 2,200 USD/tonne. The gain of RON 3,023 thousand from the exercise of options in Q1 2018 is included in the category *Gains (losses) from derivative financial instruments, net* in the Consolidated interim statement of profit or loss.

The unrealized net gain resulting from the mark-to-market of these options at 31 March 2018 amounting to RON 51,029 thousand is included in the category *Gains (losses) from derivative financial instruments*, net in the Consolidated statement of profit or loss.

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The fair value of these options was determined by using an evaluation model developed by an international, reputed company that is specialized in financial information. The respective model is Black-Scholes type and uses market data to retrieve the value of the option at the required date, for the specified contractual dates. The contracted options generally have identical characteristics, the only variable part being the contracted quantity and the exercise date. The inputs for the valuation model include, besides the contracted aluminium quantity, the strike price, the exercise date and the valuation date, also observable elements such as the LME (aluminium price) curve, implied volatilities, interest rate. The valuation model is highly sensitive to aluminium price input.

The options were classified within Level 2 of the fair value measurement hierarchy.

There were no transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments.

The Group does not have level 3 derivative financial instruments.

In 2019 there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities, except for the normal volatility of aluminium prices on international markets, and of foreign exchange rates.

19. Other current liabilities

The category *Other current liabilities* at 31 March 2019 includes interim dividends declared as per applicable regulations (the Order of the Minister of Public Finances no. 3067/2018), for the 9 months ended 30 September 2018, distributed by the Parent Company from the net accounting profit of the period, and from retained earnings carried forward from previous years. At 31 March 2019, the interim dividends payable amounted to RON 89,397 thousand.

At 31 March 2019, in *Other current liabilities* were also included dividends declared in previous years and payable to non-controlling interests, in total amount of RON 5,151 thousand.

20. Related party transactions

The Group enters, under normal terms of business, into certain transactions with its major shareholder, companies under common control, directors and management. The transactions between the related parties are based on mutual agreements, are not secured, and the management considers such transactions to be on an arm's length basis.

The main related parties of the Group are:

Related party	
Vimetco N.V.	Major shareholder
Alum S.A.	Subsidiary
Vimetco Extrusion SRL	Subsidiary
Conef S.A.	Subsidiary
Sierra Mineral Holdings 1, Ltd	Subsidiary
Global Aluminum Ltd.	Subsidiary
Bauxite Marketing Ltd.	Subsidiary
Vimetco Trading SRL	Common control
Vimetco Management Romania SRL	Common control
Vimetco Power Romania SRL	Common control
Conef Gaz SRL	Common control
Conef Energy SRL	Common control
Centrul Rivergate SRL	Common control
Rivergate Rating Group	Common control
Rivergate Fire SRL	Common control

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The main related party transactions are described below. Group transactions are eliminated on consolidation.

Sales of goods and services	Three months ended 31 March 2019	Three months ended 31 March 2018
Companies under common control	335	323
Total goods and services provided to related parties	**335**	**323**

Goods and services purchased from related parties:

Companies under common control	-72,667	-61,654
Total goods and services purchased from related parties	**-72,667**	**-61,654**

Interest income from related parties:

Vimetco N,V,	-	1,018
Total interest income from related parties	**-**	**1,018**

Furthermore, the following balances were outstanding at 31 March 2019 and 31 December 2018:

Trade and other accounts receivable:

	31 March 2019	31 December 2018
Companies under common control	8,116	3,465
Allowance for doubtful receivables	-372	-372
Total trade and other accounts receivable from related parties	**7,744**	**3,093**

Trade and other accounts payable:

	31 March 2019	31 December 2018
Companies under common control	3,678	3,365
Total trade and other accounts payable to related parties	**3,678**	**3,365**

Dividends

During the 3 months ended 31 March 2019, the Parent Company paid dividends declared for 9 months ended 30 September 2018 to the major shareholder Vimetco NV in amount of RON 89,739 thousand (during the 3 months ended 31 March 2018: nil). The outstanding balance of dividends payable to Vimetco NV as of 31 March 2019 is RON 87,243 thousand (at 31 December 2018:RON 176,982 thousand).

Management compensation

The total compensation of the Group's key management personnel included in *General, administrative and selling expenses* in the *Statement of Profit or Loss and other Comprehensive Income* amounts to RON 1,840 thousand (during the 3 months of the year 2018: RON 3,938 thousand), while the expense for determined contribution plan (social contributions) during the 3 months of the year 2019 was RON 402 thousand (during the 3 months of the year 2018: RON 926 thousand).

Key management personnel transactions

A number of key management personnel, or their close family members, hold positions in other companies that result in them having control or significant influence over these companies.

A number of these companies transacted with the Group during the 3 months ended 31 March 2019. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on an arm's length basis.

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The transactions concluded between the Group and the related parties were as follows:

	Three months ended 31 March 2019	Three months ended 31 March 2018
Goods and services purchased from entities controlled by key management personnel or their close family members	35	15
Total	**35**	**15**

21. Commitments and contingencies

Commitments

Investment commitments

As at 31 March 2019, the Group's commitments pertaining to the investments amounted to RON 50,077 thousand (31 December 2018: RON 57,340 thousand).

Raw material purchase contracts

As at 31 March 2019, the Group had contracts for purchases of raw materials, other consumables and utilities in amount of RON 1,186,888 thousand (31 December 2018: RON 1,256,016 thousand).

Contingencies

Litigations

As at 31 March 2019 the Group was subject to a number of lawsuits resulting from the normal course of the business. Management believes that these actions will not have a significant impact on the financial performance and financial position of the Group.

In May 2015, the Parent Company acknowledged a legal civil action at the Bucharest Court of Law, brought by Hidroelectrica S.A., regarding material claims by the electricity producer for alleged unrealized benefits from the bilateral contract with Alro S.A. In December 2015, the Primary Court rejected a significant part of the claims of Hidroelectrica as being time-barred, and consequently only remaining claims are under discussion, related to a short period from the contract of less than 2 months, which were subsequently dismissed in first instance by the Court in June 2016. In the appeal stage, the Bucharest Court of Appeal has also dismissed Hidroelectrica appeal action, and the Company reported this information to the investors and interested public. Hidroelectrica has filed a second appeal which was dismissed by the High Court of Cassation and Justice. The decision is final.

In 2016, the Parent Company also contested before the Court of Law a decision of the Competition Council that fined the Company by RON 21,239 thousand for an alleged vertical agreement on the energy market, which was firmly challenged by the Company, as well as several Romanian Energy Regulatory Authority ("ANRE") orders regarding the calculation of green certificate quota for the Company's energy consumptions in 2015 and regarding the quota settlement methodology. The disputes are ongoing before the competent Courts of Law.

22. Events after the reporting date

The General Shareholders' Meeting dated 25 April 2019 approved the distribution into dividends of the amount of RON 326,600 thousand (RON 202,860 thousand from the net profit realized by the Parent Company during the year 2018 and RON 123,740 thousand from retained earnings) and the payment of a gross dividend of 0.45756 RON/share. This distribution is in line with the decision of the General Shareholders' Meeting no. 608 adopted on 13 December 2018, when the gross dividend per share of RON 0.45756 was distributed in full for the interim period of 9 months ended 30 September 2018, therefore no payments or reimbursements are to be made due to settlement.

The General Shareholders' Meeting dated 25 April 2019 approved a new structure of the Board of Directors of the Parent Company Alro, whereby the number of directors was increased from 7 to 11.

There were no other material subsequent events that could have a significant impact on these financial statements.

Ratios in accordance with Appendix 13A from regulation 5/2018 issued by FSA

Ratios

Ratio description	Formula	Three months ended 31 March 2019	Three months ended 31 March 2018
Current ratio	Current assets/ Current liabilities	2.63	3.47
Gearing ratio	Long-term borrowings/ Equity x 100	96.25	61.29
	Long-term borrowings/ Capital employed x 100	49.05	38.00
Receivables turnover	Receivables average balance/ Turnover x 90	9.25	10.99
Non-current assets turnover	(Turnover x 360/ 90)/ Non-current assets	2.20	2.30