

ALRO S.A.

QUARTERLY REPORT

**Separate financial results for the 3 months
ended 31 March 2017
(unaudited)**

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ALRO S.A.
SEPARATE STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME - UNAUDITED
(all amounts are expressed in RON thousand, unless otherwise specified)

	Q1 2017	Q1 2016
Sales	633,652	564,058
Cost of goods sold	-497,038	-511,820
Gross profit	136,614	52,238
General, administrative and selling expenses	-33,672	-30,695
Other operating income	1,309	1,625
Other operating expenses	-558	-622
Operating result (EBIT)	103,693	22,546
Interest expenses	-15,294	-15,586
(Losses) from embedded derivatives	-	-6,205
Other financial gains / (losses), net	535	443
Net foreign exchange gains / (losses)	4,577	32,357
Result before income taxes	93,511	33,555
Income tax	-15,778	-6,299
Result for the period	77,733	27,256
Adjusted net result*	93,424	40,784
Other comprehensive income / (expense) for the period, net of tax	-	-
Total comprehensive income / (expense) for the period	77,733	27,256
Earnings per share		
Basic and diluted (RON)	0.109	0.038

Gheorghe Dobra
Chief Executive Officer

Genoveva Nastase
Chief Financial Officer

* 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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ALRO S.A.
SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017 - UNAUDITED

(all amounts are expressed in RON thousand, unless otherwise specified)

	31 March 2017	31 December 2016
Assets		
Non-current assets		
Property, plant and equipment	711,859	699,701
Investment properties	4,864	4,937
Intangible assets	4,674	4,834
Investments	423,645	423,645
Deferred tax asset	87,098	102,876
Other non-current assets	23,540	29,047
Total non-current assets	1,255,680	1,265,040
Current assets		
Inventories	416,478	450,276
Trade receivables, net	167,335	142,755
Other current assets	227,787	208,633
Derivative financial instruments asset, current	-	671
Restricted cash	45,102	45,082
Cash and cash equivalents	344,671	282,374
Total current assets	1,201,373	1,129,791
Total assets	2,457,053	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	369,082	301,862
Result for the period	77,733	67,220
Equity	1,209,394	1,131,661
Non-current liabilities		
Bank and other loans, non-current	230,118	232,160
Finance leases, non-current	4,350	4,214
Provisions, non-current	1,205	1,193
Post-employment benefit obligations	32,220	32,220
Government grants, non-current portion	12,028	12,313
Other non-current liabilities	431	410
Total non-current liabilities	280,352	282,510
Current liabilities		
Bank and other loans, current	783,947	785,911
Finance leases, current	1,641	1,504
Trade and other payables	131,954	137,424
Government grants, current portion	1,146	1,146
Other current liabilities	48,619	54,675
Total current liabilities	967,307	980,660
Total liabilities	1,247,659	1,263,170
Total shareholders' equity and liabilities	2,457,053	2,394,831

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ALRO S.A.
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2017 - UNAUDITED
(all amounts are expressed in RON thousand, unless otherwise specified)

	Share capital	Share premium	Reserves	Retained earnings	Result for the period	Total
Balance at 1 January 2016	370,037	86,351	306,191	326,313	-24,036	1,064,856
Result for the period	-	-	-	-	27,256	27,256
Other comprehensive income / (expense)	-	-	-	-	-	-
Total comprehensive income / (expense)	-	-	-	-	27,256	27,256
Transactions with owners of the company recognized directly in equity						
Distributions to owners of the company						
Appropriation of prior year result	-	-	-	-24,036	24,036	-
Balance at 31 March 2016	370,037	86,351	306,191	302,277	27,256	1,092,112
Balance at 1 January 2017	370,037	86,351	306,191	301,862	67,220	1,131,661
Result for the period	-	-	-	-	77,733	77,733
Other comprehensive income / (expense)	-	-	-	-	-	-
Total comprehensive income / (expense)	-	-	-	-	77,733	77,733
Transactions with owners of the company recognized directly in equity						
Distributions to owners of the company						
Appropriation of prior year result	-	-	-	67,220	-67,220	-
Balance at 31 March 2017	370,037	86,351	306,191	369,082	77,733	1,209,394

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ALRO S.A.
SEPARATE STATEMENT OF CASH FLOWS - UNAUDITED
(all amounts are expressed in RON thousand, unless otherwise specified)

	Q1 2017	Q1 2016
Fluxuri de numerar din activitati operationale		
Rezultat inainte de impozitare	93,511	33,555
<i>Ajustari pentru:</i>		
Amortizare	22,605	20,541
Variatia ajustarilor pentru deprecierea valorii stocurilor	-4,127	-907
Variatia ajustarilor pentru deprecierea creantelor	485	-
Pierdere din vanzarea/casarea imobiliarilor corporale	40	83
Diferente nete de curs valutar din reevaluarea imprumuturilor	-6,190	-44,143
Venituri din dobanzi	-905	-1,311
Cheltuieli cu dobanzile	15,294	15,586
(Castig) / Pierdere din instrumentele financiare derivate	-87	7,229
<i>Modificari ale capitalului circulant:</i>		
Variatia stocurilor	35,912	68,261
Variatia creantelor si a altor active	-37,934	-40,847
Variatia datoriilor	-11,119	-28,670
Dobanzi platite	-9,973	-15,308
Plati din operatiuni cu instrumente financiare derivate, net	-1,570	-
Fluxuri de numerar nete din / (utilizate in) activitatile operationale	95,942	14,069
Fluxuri de numerar din activitati de investitii		
Achizitii de imobilizari corporale si necorporale	-30,858	-18,376
Incasari din vanzari de imobilizari corporale	1	3,643
Variatia numerarului restrictionat	-	3,000
Dobanzi incasate	601	612
Fluxuri de numerar nete din / (utilizate in) activitati de investitii	-30,256	-11,121
Fluxuri de numerar din activitati de finantare		
Imprumuturi primite si leasing	728	188,034
Rambursari de imprumuturi	-4,117	-73,014
Dividende platite	-	-4,239
Fluxuri de numerar nete din / (utilizate in) activitati de finantare	-3,389	110,781
Modificare neta a numerarului si a echivalentelor de numerar	62,297	113,729
Numerar si echivalente de numerar la inceputul perioadei	282,374	126,977
Numerar si echivalente de numerar la sfarsitul perioadei	344,671	240,706

Gheorghe Dobra
Chief Executive Officer

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ALRO S.A.
NOTES TO THE QUARTERLY REPORT
FOR THE PERIOD ENDED 31 MARCH 2017 - UNAUDITED
(all amounts are expressed in RON thousand, unless otherwise specified)

1 GENERAL INFORMATION

Alro S.A. (the "Company" or "Alro") is a joint-stock company established in Romania in 1961 and is the largest aluminium producer in Continental Europe, except Russia and Scandinavia. The Company's shares 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.

2 BASIS OF PREPARATION

These financial figures have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("EU"), which is in accordance with the Public Finance Minister's Order no. 2844/2016. The Company's functional and reporting currency is the Romanian leu (RON). This quarterly report is prepared in RON thousand, rounded to the nearest unit.

The financial information as at 31 March 2017 has not been audited and has not been subject to an external auditor's review.

3 SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies and methods of computation have been followed in this separate quarterly report as those applied in preparing the Company's separate financial statements as at 31 December 2016.

This separate quarterly report has been prepared on a going concern basis, which assumes the Company will be able to continue in operation for the foreseeable future and to discharge its liabilities in the normal course of business.

4. EXPLANATORY NOTES

4.1. Separate statement of profit or loss and other comprehensive income

Revenues from sales

	<u>Q1 2017</u>	<u>Q1 2016</u>
Revenues from sales of primary aluminium	334,583	306,261
Revenues from sales of processed aluminium	291,860	250,876
Other	7,209	6,921
Total	<u>633,652</u>	<u>564,058</u>

In the first quarter of the year 2017, the sales recorded a 12% positive variation (RON 69,594 thousand) compared to the same quarter of the year 2016, as a consequence of the increase of the aluminium price on the international market, of the appreciation of the American currency against the Romanian leu and also of sales structure improvement.

In the analysed period, the aluminium quotations at the London Metal Exchange (LME) continued to record the same upward trend as in the last part of the year 2016, with the maximum value recorded in 2017 being 1,955 USD/ton at the end of March. Thus, the LME average in the period January – March 2017 was 1,851 USD/ton, by 300 USD/ton higher than the average of the same period in 2016, which was 1,516 USD/ton.

As a result of Alro's fundamental strategy of focusing on high value added aluminium products, the volume of processed aluminium sales was by approx. 2,000 tons higher in the analysed period as compared to the same period of the previous year.

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4.1. Separate statement of profit or loss and other comprehensive income (continued)

The cost of goods sold

In the first two months of the year 2017, especially due to the adverse weather conditions (extended periods of very low temperatures, water freezing), the energy price in Romania increased up to record levels, which generated disturbances in the activity of the energy suppliers. Two of the Company's suppliers failed to fulfill their contract obligations, and Alro was forced to find alternatives in the energy market for securing the respective quantity of electricity under market terms and conditions of that time. Consequently, although in the first quarter of the year 2017 the costs related to the electric power increased as compared to the same period of the previous year, the cost of goods sold dropped by 3%, this decrease resulting from the actions taken by the Company to use the available resources as efficiently as possible.

Under these circumstances, for the 3-month period ended as at 31 March 2017, the **gross margin** of the Company increased to 22% as compared to the 9% in 2016, and the **operational profit** of the Company significantly improved reaching RON 103,693 thousand, as compared to the same period of the year 2016 when an operational profit of RON 22,546 thousand was recorded.

The net gain from **foreign exchange differences** was smaller than in the first 3 months of the year 2016, because the national currency appreciated less in 2017 than it did in 2016, and the Company has a significant part of its credit facilities denominated in USD and translated in RON at the period closing rate.

The net result of the Company was a net profit of RON 77,733 thousand, significantly better than the RON 27,256 thousand net profit reported in the same period of the previous year and even better than the one for the entire year 2016.

At the same time the *Adjusted Net Result* significantly 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:

	Q1 2017	Q1 2016
Net result	77,733	27,256
Derivative financial instruments that do not qualify for hedge accounting	-87	7,229
Deferred tax	15,778	6,299
Adjusted net result	93,424	40,784

4.2. Separate Statement of Financial Position

Non-current assets

In the first three months of the year 2017, the *Non-Current Assets* in the Statement of Financial Position increased mainly because the Company contracted and purchased equipment within its investment project dedicated to the research infrastructure for high qualification industrial applications, which project is co-funded by the European Fund for Regional Development, by the Competitiveness Operational Program 2014 - 2020.

On the other hand, the deferred tax asset decreased by RON 15,778 thousand as compared to 31 December 2016 mainly due to recognizing the amount of RON 14,817 thousand as a deferred income tax expense having in view that in Q1 2017 the Company has utilized RON 92,606 thousand from the tax losses cumulated in the prior years.

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4.2. Separate Statement of Financial Position (continued)

Current assets

As at 31 March 2017, the current assets were higher than at 31 December 2016, due to the improvement of the liquidities (the *Cash and cash equivalents* increased by RON 62,297 thousand in the 3-month period analyzed), of the *Trade receivables* amid a higher turnover and of *Other current assets*, which include advance payments or various other assets related to the activity.

At the same time, the *Inventory* dropped by 8% from 31 December 2016, from RON 450,276 thousand to RON 416,478 thousand as at 31 March 2017, being harnessed through sales and/or utilization in the the production process.

Equity

As at 31 March 2017, the equity reached a level of RON 1,209,394 thousand, increasing by 7% as compared to the end of the year 2016 thanks to the net income of RON 77,733 thousand generated in the reporting period.

Subsequently to the period analysed in this report, the general Shareholders' Meeting dated 28 April 2017 approved the distribution into dividends of the net profit for the year 2016 amounting to RON 67,220 thousand, which results into a gross dividend payable of 0.09417 RON/share.

Liabilities

The *Non-current liabilities* of the Company have not recorded significant variances. As regards the bank loans, the *Current liabilities* include contracted credit facilities with a nominal value of RON 180,000 thousand, USD 97,000 thousand and EUR 36,383 thousand whose contract due dates are in November / December 2017 but that are now in the progress of negotiation to extend their maturities / to refinance.

4.3. Separate Statement of Cash Flows

As at 31 March 2017, the Company recorded cash and cash equivalents amounting to RON 344,671 thousand, as compared to RON 282,374 thousand at the end of the year 2016.

In the 3-month period ended 31 March 2017, a significant improvement of the results occurred in respect of the cash flows generated by the Company's operations, as the Company reported a positive net cash inflow of RON 95,942 thousand (in 3 months 2016 it amounted to RON 14,069 thousand). These results reflect the Company's efforts to manage as efficiently as possible the cash flows and to optimise the working capital.

The net cash outflows related to the investment activity in the 3-month period ended 31 March 2017 amounting to RON 30,256 thousand include mainly advance payments for the investments co-financed by the European Regional Development Fund, payments for electrolysis pots reconditioning in the Alro Primary Aluminium Division and various improvements made to the equipments both in the Primary and Processed Aluminium divisions of the Company.

The net cash flow from financing in the first quarter of the year 2017 was mainly influenced by the repayment of an installment from the loan granted by a financing bank, as per the agreed schedule.

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4.4 Ratios

Ratio description	Formula	Q1 2017	Q1 2016
Current ratio	Current assets/ Current liabilities	1.24	3.73
Gearing ratio	Long-term borrowings/ Equity x 100	19.39	86.25
	Long-term borrowings/ Capital employed x 100	16.24	46.31
Receivables turnover	Receivables average balance/ Turnover x 90	22.02	25.42
Non-current assets turnover	(Turnover x 360/ 90)/ Non-current assets	2.02	1.71

In the 3-month period ended 31 March 2017, the “Current Ratio” as well as the “Gearing ratio” decreased as compared to the same period of the year 2016 as a result of the classification from long term to short term at 31 December 2016, of the revolving credit facility amounting to USD 137,000 thousand granted by a bank syndicate and of the revolving credit facility amounting to RON 180,000 thousand contracted from a commercial bank, both of them having the contractual maturity by the end of the year 2017. Currently, the Company is negotiating the terms and conditions for extending the two credit facilities.

To ensure the comparability of the ratios “Current Ratio” and “Gearing Ratio”, the ratios for the 3-month period ended 31 March 2017 are presented below, adjusted with the two aforementioned credit facilities by including them in the *Long term borrowings* and *Capital employed* and excluding them from the *Current liabilities* category. Thus an improvement in real terms of both the ratios can be noted.

Ratio description	Formula	Q1 2017	Q1 2016
Adjusted current ratio	Current assets/ Current liabilities	5.77	3.73
Adjusted gearing ratio	Long-term borrowings/ Equity x 100	82.14	86.25
	Long-term borrowings/ Capital employed x 100	45.10	46.31