

**ALRO S.A.**

**QUARTERLY REPORT**

**Separate financial results for the 9 months  
ended 30 September 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)

<b>Q3 2017</b>	<b>Q3 2016</b>		<b>Q1-Q3 2017</b>	<b>Q1-Q3 2016</b>
601,154	466,483	Sales	1,861,794	1,577,574
-475,204	-403,096	Cost of goods sold	-1,467,224	-1,381,598
<b>125,950</b>	<b>63,387</b>	<b>Gross profit</b>	<b>394,570</b>	<b>195,976</b>
-38,863	-31,822	General, administrative and selling expenses	-123,779	-94,817
1,401	1,251	Other operating income	4,249	12,053
-567	-568	Other operating expenses	-1,541	-2,137
<b>87,921</b>	<b>32,248</b>	<b>Operating profit (EBIT)</b>	<b>273,499</b>	<b>111,075</b>
-13,414	-14,853	Interest expenses	-44,476	-46,682
-	-401	(Losses) from embedded derivatives	-	-12,105
-1,987	1,795	Other financial gains / (losses), net	-873	-527
7,321	10,940	Net foreign exchange gains / (losses)	38,436	25,526
<b>79,841</b>	<b>29,729</b>	<b>Profit before income taxes</b>	<b>266,586</b>	<b>77,287</b>
-12,367	-5,012	Income tax	-43,161	-13,492
<b>67,474</b>	<b>24,717</b>	<b>Profit for the period</b>	<b>223,425</b>	<b>63,795</b>
<b>82,354</b>	<b>30,304</b>	<b>Adjusted net result*</b>	<b>269,012</b>	<b>94,248</b>
-	-	<b>Other comprehensive income / (expense) for the period, net of tax</b>	-	-
<b>67,474</b>	<b>24,717</b>	<b>Total comprehensive income / (expense) for the period</b>	<b>223,425</b>	<b>63,795</b>
		<b>Earnings per share</b>		
0.095	0.035	Basic and diluted (RON)	0.313	0.089

**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 30 SEPTEMBER 2017 - UNAUDITED**

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

	<u>30 September 2017</u>	<u>31 December 2016</u>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	739,095	699,701
Investment properties	4,719	4,937
Intangible assets	4,464	4,834
Investments	423,645	423,645
Deferred tax asset	59,715	102,876
Other non-current assets	33,523	29,047
<b>Total non-current assets</b>	<b>1,265,161</b>	<b>1,265,040</b>
<b>Current assets</b>		
Inventories	466,642	450,276
Trade receivables, net	145,796	142,755
Other current assets	247,373	208,633
Derivative financial instruments asset, current	-	671
Restricted cash	114,908	45,082
Cash and cash equivalents	288,468	282,374
<b>Total current assets</b>	<b>1,263,187</b>	<b>1,129,791</b>
<b>Total assets</b>	<b>2,528,348</b>	<b>2,394,831</b>
<b>Shareholders' Equity and Liabilities</b>		
<b>Shareholders' equity</b>		
Share capital	370,037	370,037
Share premium	86,351	86,351
Other reserves	306,191	306,191
Retained earnings	301,862	301,862
Result for the period	223,425	67,220
<b>Equity</b>	<b>1,287,866</b>	<b>1,131,661</b>
<b>Non-current liabilities</b>		
Bank and other loans, non-current	189,464	232,160
Finance leases, non-current	4,292	4,214
Provisions, non-current	1,228	1,193
Post-employment benefit obligations	32,242	32,220
Government grants, non-current portion	21,527	12,313
Other non-current liabilities	674	410
<b>Total non-current liabilities</b>	<b>249,427</b>	<b>282,510</b>
<b>Current liabilities</b>		
Bank and other loans, current	759,841	785,911
Finance leases, current	1,795	1,504
Provisions, current	19,150	-
Trade and other payables	154,553	137,424
Derivative financial instruments liability, current	1,288	-
Government grants, current portion	1,146	1,146
Other current liabilities	53,282	54,675
<b>Total current liabilities</b>	<b>991,055</b>	<b>980,660</b>
<b>Total liabilities</b>	<b>1,240,482</b>	<b>1,263,170</b>
<b>Total shareholders' equity and liabilities</b>	<b>2,528,348</b>	<b>2,394,831</b>

**Gheorghe Dobra**  
Chief Executive Officer

**Genoveva Nastase**  
Chief Financial Officer

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**ALRO S.A.**  
**SEPARATE STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2017 - UNAUDITED**  
(all amounts are expressed in RON thousand, unless otherwise specified)

	Share capital	Share premium	Reserves	Retained earnings	Result for the period	Total
<b>Balance at 1 January 2016</b>	<b>370,037</b>	<b>86,351</b>	<b>306,191</b>	<b>326,313</b>	<b>-24,036</b>	<b>1,064,856</b>
Result for the period	-	-	-	-	63,795	63,795
<b>Other comprehensive income / (expense)</b>	-	-	-	-	-	-
<b>Total comprehensive income / (expense)</b>	-	-	-	-	<b>63,795</b>	<b>63,795</b>
<b>Transactions with owners of the company recognized directly in equity</b>						
<b>Distributions to owners of the company</b>						
Appropriation of prior year result	-	-	-	-24,036	24,036	-
<b>Balance at 30 September 2016</b>	<b>370,037</b>	<b>86,351</b>	<b>306,191</b>	<b>302,277</b>	<b>63,795</b>	<b>1,128,651</b>
<b>Balance at 1 January 2017</b>	<b>370,037</b>	<b>86,351</b>	<b>306,191</b>	<b>301,862</b>	<b>67,220</b>	<b>1,131,661</b>
Result for the period	-	-	-	-	223,425	223,425
<b>Other comprehensive income / (expense)</b>	-	-	-	-	-	-
<b>Total comprehensive income / (expense)</b>	-	-	-	-	<b>223,425</b>	<b>223,425</b>
<b>Transactions with owners of the company recognized directly in equity</b>						
<b>Distributions to owners of the company</b>						
Appropriation of prior year result	-	-	-	67,220	-67,220	-
Dividends distribution	-	-	-	-67,220	-	-67,220
<b>Balance at 30 September 2017</b>	<b>370,037</b>	<b>86,351</b>	<b>306,191</b>	<b>301,862</b>	<b>223,425</b>	<b>1,287,866</b>

**Gheorghe Dobra**  
Chief Executive Officer

**Genoveva Nastase**  
Chief Financial Officer

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

<u>Q3 2017</u>	<u>Q3 2016</u>		<u>Q1-Q3 2017</u>	<u>Q1-Q3 2016</u>
		<b>Cash flow from operating activities</b>		
79,841	29,729	Result before income taxes	266,586	77,287
		<i>Adjustments for:</i>		
20,601	16,782	Depreciation and amortisation	62,496	57,024
-	-	Impairment of property, plant and equipment	-	-844
5,378	-1,328	Movement in provisions	19,150	-27,540
-4,432	1,852	Change in allowance for impairment of inventory	-4,325	-5,566
-	-	Change in allowance for impairment of doubtful receivables	485	-107
2	-21	Loss on disposal of property, plant and equipment	44	55
-13,096	-16,324	Net foreign exchange losses on loan revaluation	-61,578	-34,366
-948	-1,131	Interest income	-2,848	-3,513
13,414	14,853	Interest expense	44,476	46,682
-2	-	Dividend income	-2	-
2,513	575	Effect of derivative financial instruments	2,426	17,805
		<i>Changes in working capital:</i>		
-33,294	-69,179	Change in inventories	-11,324	17,166
-12,668	-451	Change in trade receivables and other assets	-37,501	-16,592
-501	12,129	Change in trade and other payables	22,868	-9,451
-5,125	-9,653	Interest paid	-31,404	-39,304
-1,251	-	Payments from derivatives, net	-2,821	-
<b>50,432</b>	<b>-22,167</b>	<b>Net cash generated by/(used in) operating activities</b>	<b>266,728</b>	<b>78,736</b>
		<b>Cash flow from investing activities</b>		
-40,446	-14,801	Purchase of property, plant and equipment and intangible	-101,286	-55,258
5,028	-	Government grants received	5,028	-
-	24	Proceeds from sale of property, plant and equipment	-	3,667
-54,588	-	Change in restricted cash	-78,906	3,000
922	1,008	Interest received	2,689	2,891
<b>-89,084</b>	<b>-13,769</b>	<b>Net cash generated by/(used in) investing activities</b>	<b>-172,475</b>	<b>-45,700</b>
		<b>Cash flow from financing activities</b>		
-	445	Proceeds from loans and leasing	1,782	191,459
-8,399	-28,599	Repayment of loans	-23,331	-101,942
-15	-	Dividends paid	-66,610	-4,239
<b>-8,414</b>	<b>-28,154</b>	<b>Net cash generated by/(used in) financing activities</b>	<b>-88,159</b>	<b>85,278</b>
<b>-47,066</b>	<b>-64,090</b>	<b>Net change in cash and cash equivalents</b>	<b>6,094</b>	<b>118,314</b>
<b>335,534</b>	<b>309,381</b>	<b>Cash and cash equivalents at beginning of period</b>	<b>282,374</b>	<b>126,977</b>
<b>288,468</b>	<b>245,291</b>	<b>Cash and cash equivalents at end of period</b>	<b>288,468</b>	<b>245,291</b>

**Gheorghe Dobra**  
Chief Executive Officer

**Genoveva Nastase**  
Chief Financial Officer

**ALRO S.A.**  
**NOTES TO THE QUARTERLY REPORT**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 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 Order of the Ministry of Finance no. 2844/2016, which is in accordance with the Financial Reporting Standards (IFRS), as adopted by European Union except for IAS 21 *The effects of changes in foreign exchange rates*. 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 30 September 2017 has not been audited and has not been subject to an external auditor's review.

This Quarterly Report was approved by the Executive Directors on 14 November 2017.

**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>Q3 2017</u>	<u>Q3 2016</u>		<u>Q1-Q3 2017</u>	<u>Q1-Q3 2016</u>
340,193	264,095	Revenues from sales of primary aluminium	1,022,261	861,137
254,134	193,484	Revenues from sales of processed aluminium	818,908	693,680
6,827	8,904	Other	20,625	22,757
<b>601,154</b>	<b>466,483</b>	<b>Total</b>	<b>1,861,794</b>	<b>1,577,574</b>

In the 9-month period, ended 30 September 2017 the Company's turnover recorded a positive variation of 18% (RON 284,220 thousand) as compared to the same period of the previous year, resulted from the increase of the aluminium price quotations on the world market and the quantitative sales. The same increasing trend of the turnover was maintained in the Q3 2017 when the value sales were higher by 29% (RON 134,671 thousand) compared to the Q3 2016.

During the period January - September 2017 the Company recorded a quantitative increase of the processed aluminium sales by 7% mainly sustained by aluminium and aluminium alloys plates and sheets, by 3,700 tonnes higher compared to the same period of 2016, thus confirming the growth strategy from the quantitative point of view of the high value-added finite products.

In the Q3 2017 the quantitative sales have also recorded a significant increase compared to the Q3 2016 in the Primary Division (by 13%) as well as in the Processed Division (by 17%), in particular, the sales of the aluminium wire rod which were by 5,000 tonnes higher and the sales of the aluminium and aluminium alloys plates which were higher by 2,000 tonnes.

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Alro's sales increased also in value terms, being in line with the evolution of aluminium quotations at the world market. During the period January - September 2017 the aluminium price at the London Metal Exchange (LME) continued to record an upward trend, this reflecting in the LME average cash-seller for 9 months 2017 of 1,924 USD/tonne, compared to the same period of the previous year, when it amounted to 1,570 USD/tonne. This upward trend recorded for the 9-month period of 2017 culminated with a value of 2,164 USD/tonne on 20 September 2017, thus in the Q3 2017 the average LME cash-seller was of 2,012 USD/tonne, by 390 USD/tonne higher than the average of Q3 2016 which was amounting to 1,620 USD/tonne.

**The cost of goods sold** in the period January - September 2017, compared with the same period of the year 2016, increased by RON 85,626 thousand, and at the quarterly level, for the compared periods, the increase was of RON 72,108 thousand. The main reasons leading to this growth were the higher amount of sold finite products and increase of the purchase prices of some raw materials. But the increase of the cost of the goods sold was lower than the increase of sales, respectively 6% during the 9-month period and 18% in the 3<sup>rd</sup> quarter.

Under these circumstances, during the 9-month timeframe ended 30 September 2017, **the gross margin** of the Company significantly improved, reaching 21% as compared to the 12% in the same period of the year 2016, and the **operational profit** of the Company reached the level of RON 273,499 thousand, as compared to the same period of the year 2016 when an operational profit of RON 111,075 thousand was recorded.

The General and Administrative expenses were higher in the period January - September 2017 as compared to the same period of 2016 due to provisions booked in accordance with the Collective Labour Agreement. But the increase of the General and Administrative expenses was lower than the increase of the gross margin, which inclusively lead to the improvement of the operational profit margin from 7% in Q1-Q3 2016 to 15% in Q1-Q3 2017.

The net profit of the Company was also significantly influenced by the net gain from the foreign exchange differences, amounting to RON 38,436 thousand in the Q1-Q3 of 2017, mainly due to reassessment of the loans and other liabilities in foreign currency resulted from the appreciation of RON against the USD on 30 September 2017 compared to 31 December 2016, as compared to the Q1-Q3 of the year 2016, when a foreign exchange positive difference amounting to RON 25,526 thousand was recorded.

During the 9 months of the year 2017, in the light of these favourable factors, the Company registered a **net profit of** RON 223,425 thousand, significantly better than the RON 63,795 thousand net profit reported in the same period of the previous year.

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

Q3 2017	Q3 2016		Q1-Q3 2017	Q1-Q3 2016
<b>67,474</b>	<b>24,717</b>	<b>Net result</b>	<b>223,425</b>	<b>63,795</b>
-	-	Impairment of non-current assets	-	-844
2,513	575	Derivative financial instruments that do not qualify for hedge accounting	2,426	17,805
12,367	5,012	Deferred tax	43,161	13,492
<b>82,354</b>	<b>30,304</b>	<b>Adjusted net result</b>	<b>269,012</b>	<b>94,248</b>

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#### **4.2. Separate Statement of Financial Position**

##### **Non-current assets**

As at 30 September 2017, the *Non-Current Assets* in the Statement of Financial Position increased mainly because during the 9-months period of the year 2017 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 through the Competitiveness Operational Program 2014 – 2020.

On the other hand, the deferred tax asset decreased by RON 43,161 thousand as compared to 31 December 2016 mainly due to recognizing the amount of RON 44,872 thousand as a deferred income tax expense having in view that in the 9 months of 2017 the Company utilized RON 280,449 thousand from the tax losses accumulated in the prior years.

##### **Current assets**

As at 30 September 2017, the current assets were higher by RON 133,396 thousand compared to 31 December 2016, due to the increase of the *Restricted cash* by RON 69,826 thousand mainly due to the opening of Letters of Credit for the investments equipment suppliers and of *Other current assets* by RON 38,740 thousand, which include advance payments or various other assets related to the activity.

##### **Equity**

As at 30 September 2017, the equity reached a level of RON 1,287,866 thousand, increasing by 14% as compared to the end of the year 2016 thanks to the net income of RON 223,425 thousand generated in the reporting period.

The General Shareholders' Meeting dated 28 April 2017 approved the dividend distribution from the net profit for the year 2016 amounting to RON 67,220 thousand, dividends which were paid during the second quarter of the year 2017.

##### **Liabilities**

The *Non-current liabilities* of the Company dropped by 12%, from RON 282,510 thousand as at 31 December 2016 to RON 249,427 thousand as at 30 September 2017, particularly due to the classification to short term of a credit installment with a maturity within less than a year from the reporting date as well as to RON appreciation against the USD as compared to 31 December 2016. The *long-term liabilities* include long-term subsidies, which recorded an increase due to the subsidies obtained for investments performed through the European Regional Development Fund, by the Competitiveness Operational Program 2014 – 2020.

The *current liabilities* of the Company increased at a level of RON 991,055 thousand at 30 September 2017 as compared to RON 980,660 thousand at 31 December 2016, mainly due to the increase of the short-term provisions and of trade and other payables, a normal evolution considering the increase of cost of goods sold. *The bank and other loans, current* include the revolving credit facilities with a nominal value of USD 137,000 thousand and of RON 180,000 thousand whose contractual due dates are in November/December 2017, but they were in the progress of negotiation for extension, at the reporting date.

#### **4.3. Separate Statement of Cash Flows**

As at 30 September 2017, the Company recorded cash and cash equivalents amounting to RON 288,468 thousand, as compared to RON 282,374 thousand at the end of the year 2016.

During 9 months of 2017 a significant improvement of the results occurred in respect of the cash flows generated by the Company's operating activities, as the Company reported a positive net cash inflow of approx. 3.5 times higher compared to the same period of the previous year, this amounting to RON 266,728 thousand compared to RON 78,736 thousand recorded in the Q1-Q3 2016, mainly due to the gross profit increase. The same significant improvement was achieved in the Q3 2017, when the cash flow generated by operating activities was of RON 50,432 thousand compared to the negative flow recorded in the Q3 2016 amounting to RON 22,167 thousand. These cash flows reflect the Company's capacity to generate significant liquidities from the aluminium production activity and represent the result of the Company's efforts to manage as efficiently as possible the operations, to keep the costs under control and to cautiously manage the cash inflows and outflows.

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At the same time, as at 30 September 2017 the Company owned restricted cash amounting to RON 78,906 thousand, representing liquidities deposited at banks for issuing Letters of Credit for the purchase of equipment according to the investment plan.

The net cash outflows related to the investment activity in the 9-month period ended 30 September 2017 amounting to RON 172,475 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 certain equipments. Change in restricted cash amounting to RON 78,906 thousand consists in opening of the aforementioned Letters of Credit.

The cash flow from financing activities was negatively influenced in the 9-month period ended 30 September 2017 due to the payment of dividends distributed from the profit of the year 2016 and to the repayment of final installments from the loan granted by a financing bank.

#### 4.4 Events after the reporting date

In the Extraordinary General Shareholders' Meeting that took place on 9 November 2017, it was approved to extend the maturity of a credit facility amounting to USD 137,000 thousand until 20 November 2020 and to supplement the facility with a new non-cash financing line amounting to USD 30,000 thousand, for the issuance of Letters of Credit and Letters of Guarantee. The management of the Company estimate the signing of the extension documentation in the next days following the issuance of this report, fact which will be communicated to the market in due time.

At the same time, the Company is negotiating the extension of the maturity of a RON 180,000 thousand credit facility and of a RON 46,000 thousand non-cash facility for issuing letters of credit and letters of guarantee, for a period of 3 years.

#### 4.5 Ratios

Ratio description	Formula	Q1-Q3 2017	Q1-Q3 2016
Current ratio	Current assets/ Current liabilities	1.27	4.29
Gearing ratio	Long-term borrowings/ Equity x 100	15.04	84.75
	Long-term borrowings/ Capital employed x 100	13.08	45.87
Receivables turnover	Receivables average balance/ Turnover x 270	20.92	24.53
Non-current assets turnover	(Turnover x 360/ 270)/ Non-current assets	1.96	1.60

In the 9-month period ended 30 September 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 30 September 2017, of the two loans mentioned above under Note 4.4.

To ensure the comparability of the ratios "*Current Ratio*" and "*Gearing Ratio*", the ratios for the 9-month period ended 30 September 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-Q3 2017	Q1-Q3 2016
Adjusted current ratio	Current assets/ Current liabilities	4.57	4.29
Adjusted gearing ratio	Long-term borrowings/ Equity x 100	70.53	84.75
	Long-term borrowings/ Capital employed x 100	41.36	45.87