

Current Report

Nr. 44/18.06.2018

To: **The Financial Regulating Authority
Bucharest Stock Exchange**

Date of report: **June 18, 2018**

Name of issuer: **Alro S.A.**

Headquarters: **Slatina, 116 Pitesti Street, Olt County**

Telephone/ fax number: **+40 249 431 901 / +40 249 437 500**

Sole registration number at the Trade Register Office: **RO 1515374**

Trade Register Number: **J28/8/1991**

The European Unique Identifier (EUID): **ROONRCJ28/8/1991**

Legal Entity Identifier (LEI): **5493008G6W6SORM2JG98**

Subscribed and paid-in share capital: **356,889,567.5 RON**

Regulated market on which the issued shares are traded: **Bucharest Stock Exchange-Standard Category** (market symbol: **ALR**)

Ref: Current Report in compliance with the National Securities Commission's Regulation No.1/2006 on issuers and securities operations, as subsequently amended

Significant event to be reported:

Information about the intention to launch a secondary public offering of Alro's shares

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FOR IMMEDIATE RELEASE: 18th June 2018

ALRO S.A. ANNOUNCES THE INTENTION OF VIMETCO N.V. AND CONEF S.A. TO OFFER SHARES

Alro S.A. (ALR:BVB) (the "Company" or "Alro"), today announces that its major shareholder, Vimetco N.V., and Conef S.A., (together the "Selling Shareholders"), intend to proceed with a public offering of shares in the Company (the "Offer").

The Company together with its subsidiaries (the "Group") is one of the largest vertically integrated aluminium producers in Europe measured by production capacity with operations throughout all major stages of aluminium production. The Group consists of upstream and downstream divisions, from the mining and refining of raw materials to the production and sale of primary and processed aluminium products (comprising flat rolled products ("FRPs") and extruded products). The Group's

Sales and EBITDA in 2017 were RON 2.7 billion (approximately US\$ 679 million) and RON 566 million (approximately US\$ 140 million) respectively.

Marian Năstase, Chairman of Alro, commented: "This is exciting news for Alro. Alro has become a key player in the global aluminium market, with strong heritage, scale and international presence. We have a strong management team, that has worked together for many years with a clear strategy to continue to grow Alro's presence with major customers across the EU and beyond, and a proven track record of growth and strong cash flow generation."

Gheorghe Dobra, General Manager of Alro, added: "Our vertically integrated model, that means that we have control over every aspect of our production, is a key strength of Alro. We have been actively pursuing a strategy to increase our reach into sophisticated industries which demand processed aluminium that meets very specialized technical standards. We are proud that manufacturers such as Airbus come to Alro for aluminium products that are of the highest quality."

Vimetco N.V. currently holds 84.2% of the shares in Alro. The Selling Shareholders expect to offer shares in Alro to institutional investors and retail investors in Romania, and to eligible investors outside of Romania.

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About Alro (the "Group")

- The Group is one of the largest vertically integrated aluminium producers in Europe measured by production capacity with operations throughout all major stages of aluminium production. The Group consists of upstream and downstream divisions, from the mining and refining of raw materials to the production and sale of primary and processed aluminium products (comprising FRPs and extruded products).
- Using bauxite extracted from the mines it operates in Sierra Leone (Africa), the Group produces alumina, the main raw material used for aluminium production, which is processed in its refinery located in Tulcea, Romania.
- The mines operated by the Group and its refinery cover all of its bauxite and alumina needs. The total measured and indicated bauxite resources of the mines operated by the Group as of 1 January 2018 were estimated by the Group at 53.6 million tonnes, which it considers sufficient for approximately 20 years of operations (at the existing rates of production). In 2017, the Group produced 1,787,716 tonnes and 472,606 tonnes of bauxite and alumina, respectively.
- The aluminium production and processing facilities of the Group are located in Slatina, Romania. It produced approximately 282,000 tonnes of primary aluminium in 2017 of which approximately 56 per cent was used internally in the production of processed products which, in the same year, amounted to approximately 109,000 tonnes.

- The Group manufactures and sells a diversified and flexible portfolio of aluminium products, including primary aluminium products such as wire rod, billets, slabs and ingots, as well as FRPs such as aluminium sheets, coils and plates, and a wide range of extruded profiles.
- The Group has a strong presence in many industry sectors of the international markets and its expertise enables it to meet specialized technical and production standards demanded by certain customers in industries such as the aeronautic, automotive, marine and construction.
- Since 2002, the Group has invested approximately USD 412 million to develop and maintain primary and processed aluminium production capacity. The Group's investment programme has also focused on enhancing product quality while expanding the range of products manufactured by the Group to include a higher amount of high value added products ("HVAPs") for sophisticated industries.

Key Performance Data (in RON '000s)

	three-month period ended 31 March (unaudited)		Year ended 31 December (audited)		
	2018	2017	2017	2016	2015
(RON thousand, unless stated otherwise)					
Financial Data					
Sales	749,242	681,432	2,726,272	2,302,803	2,422,759
EBITDA ⁽¹⁾	132,857	153,208	566,455	291,592	305,994
EBITDA margin (%) ⁽²⁾	17.7%	22.5%	20.8%	12.7%	12.6%
Adjusted net result ⁽³⁾	93,645	106,640	402,626	100,325	76,514
Net profit/ (loss)	124,621	90,219	391,106	71,496	(18)
(Tonnes)					
Production output⁽⁴⁾					
Bauxite	592,428	466,437	1,787,716	1,368,531	1,334,046
Alumina	134,163	100,146	472,606	467,031	404,825
Primary aluminium	71,274	66,639	282,074	272,507	271,356
Processed aluminium (FRPs and extruded profiles)	28,405	27,320	108,972	103,367	102,386

(1) EBITDA: calculated as result before income taxes plus interest expenses, losses/(gains) from derivative financial instruments, other financial costs, net, net foreign exchange losses/(gains), and depreciation, amortization and impairment.

(2) EBITDA margin is a profitability ratio calculated as EBITDA divided by revenues, expressed as a percentage.

(3) Adjusted net result is calculated as follows: net result plus/(minus) non-current assets impairment expense/(reversal), plus/(minus) the loss/(gain) from derivative financial instruments that are not designated under hedge accounting, plus/(minus) deferred tax expense/(income).

(4) Including products held in stock and products transferred between divisions.

Alro's Competitive Strengths

- **Supportive aluminium market fundamentals and attractive end-market growth**
 - Various favourable conditions, including substitution opportunities from steel to aluminium as a result of its low carbon footprint and energy efficient nature and continued production curtailments in China partly as a result of stringent

environmental regulations, have led to a significant growth in demand for aluminium across various industries in the last three years as well as new opportunities for the Group. CRU Consulting ("CRU") has forecast global growth in demand in primary aluminium to continue at a compound annual growth rate of 3.0 per cent over the period from 2017 to 2030.

- According to CRU, global demand for processed aluminium products has also been rapidly increasing, mainly driven by changes in product requirements and long-term growth and substitution trends in end-markets, such as the transportation and aeronautic industries, tied with the higher demand for key products where aluminium is used, such as cars, aircraft and packaging materials.
- These supportive aluminium market fundamentals and the Group's expertise within the largest and faster growing sectors of the aluminium market enabled it to increase its revenue by 13 per cent, from RON 2,422,759 thousand in 2015 to RON 2,726,272 thousand in 2017.
- **Significant growth driven by focus on HVAPs within FRPs**
 - The Group's processed aluminium product portfolio comprises FRPs, including plates, sheets, strips and coils, and extruded products. The long-standing importance the Group has given to developing in-house technical expertise and investing in its asset base has enabled it to organically expand its product portfolio to a broad range of high value added FRPs with a focus on very high value added products ("VHVAPs") for sophisticated industries such as the automotive and the aeronautic industries.
 - The Group has invested significantly in research and development to meet rigorous certification and qualification procedures, all of which enable the Group to achieve higher margins while fostering long-term relationships with customers within industries highly attractive for the Group.
 - Targeting such industries - for example, certification with the National Aerospace and Defense Contractors Accreditation Program (NADCAP) allowing the Group to supply the aerospace industry with aluminium plates - has resulted in an increase in its share of revenue from sales of FRPs as compared to primary aluminium products, from 28 per cent in 2010 to 45 per cent in 2017.
 - Reflecting the strategy to shift product mix toward HVAPs, the Group increased its sales and sales volume of processed aluminium products by 9 per cent and 7 per cent, respectively, from 2015 to 2017 and increased its share of VHVAPs within FRPs, on which the Group is able to negotiate higher margins, increased from 11.9 per cent in 2015 to 13.4 per cent in 2017.
- **High margin business and limited capex requirements to sustain growth and generate strong cash flows**
 - The continued expansion of the Group's product portfolio toward VHVAPs enabled the Group to increase profitability levels with EBITDA increasing by 85 per cent from 2015 to 2017, and EBITDA margin increasing from 12.6 per cent and 12.7 per cent in 2015 and 2016, respectively, to 20.8 per cent in 2017.

- The high degree of vertical integration in its operations and its well invested asset base has allowed the Group to sustain its growth trend with relatively limited amounts of capital expenditures in 2015, 2016 and 2017, ranging from RON 102,394 thousand in 2015 to RON 217,752 thousand in 2017.
- The foregoing has allowed the Group to increase its profitability while at the same time generating strong cash flows without diverting significant cash to development capital expenditures, significantly increasing the Group's free cash flows (calculated as net cash generated from operating activities minus net cash (used in) investing activities) from RON 3,157 thousand in 2015 to RON 171,529 thousand in 2017.
- **High vertical integration secures supply and optimizes costs**
 - The Group benefits from a high degree of vertical integration throughout all major stages of aluminium production. This enables it to reduce and control costs and ensure a secure supply of its main raw materials, while increasing operating efficiencies and fostering direct relationships with end users.
 - In 2017, 2016 and 2015, all of the Group's alumina and bauxite requirements were met by Alum S.A. and Sierra Mineral, respectively, with their excess production sold to third parties. Excess production also allows the Group to increase its primary aluminium product output without having to source its main raw materials from third party suppliers. During the same period, all of the Group's primary aluminium requirements for its processed aluminium production were produced in the Group's smelters.
- **Strong commitment and focus to deliver high capital returns to shareholders**
 - The Company has focused on delivering high capital returns to shareholders through balancing the creation of value within the business and the distribution of generated profits. During the last two years, the Company has declared dividends amounting to 94 per cent and 97.7 per cent of the Group's consolidated profit in 2016 and 2017, respectively.
- **Advanced asset base supports commitment to environmental compliance**
 - The Group's production and processing facilities, use modern technologies which enables the Group to meet increasingly stringent environmental protection standards.
 - Since 2002, the Group has invested approximately USD 412 million to develop and maintain primary and processed aluminium production capacity, of which approximately USD 101 million was invested in health, safety and environmental, and energy efficiency related projects, such as the Eco Recycling Facility which started operating in 2013 and reached a production capacity of 32,000 Mt/year in 2017.
 - In addition, over the years, the Group's advanced asset base and equipment has enabled it to reduce industrial water consumption, increase energy efficiency, progressively reduce air CO₂ emissions, and increase recycling rates for aluminium waste and scrap.

- The Group consistently reduced its greenhouse gas intensity (measured as CO₂ emission per tonne of aluminium produced) from 1.45 in 2015 to 1.40 in 2017. In 2017, according to the JRC Report, "Energy Efficiency and GHG Emissions", the Group reached 99 per cent efficiency in the use of energy efficient technologies in its smelter, measured as the degree to which the energy efficiency of the smelter approached its maximum achievable efficiency.
- **Experienced management team with exceptional record of delivery**
 - The Group has a highly skilled and experienced management team with proven industry expertise and an exceptional track record of managing growth in a challenging market environment.
 - In the years since the Company's privatization in 2002, the Group's management team has successfully increased the vertical integration of its operations and repositioned its product portfolio toward processed aluminium products. They did this through acquisitions, in particular of Alprom in 2003, Alum in 2005 and Sierra Mineral in 2011, and through expanding the capacity and improving the efficiency of the Group's smelter and processing facilities.
 - To mitigate the impact of the global financial downturn on the business in 2008 and 2009 and falling aluminium prices, the management team implemented a series of significant crisis management measures, including responsible production curtailment and active reduction of operating costs.
 - The key managers at the Company have extensive knowledge of the Romanian local markets and the consumer markets they serve. The Company's general manager, Gheorghe Dobra, has more than 34 years of experience in the aluminium industry and has worked for the Group since 1984. The chairman of the Company's board of directors, Marian Năstase, and the Company's financial manager, Genoveva Năstase, each have more than 16 years of experience in the aluminium industry, having both worked for the Group since 2002.

Alro's Strategy

- **Focus on downstream**
 - The Group is focused on expanding its FRP portfolio as part of its strategy of downstream integration. With an emphasis on growing its sales of HVAPs, the Group aims to increase average product premia and, as the value-added premium becomes a greater share of the overall product price, reduce the Group's exposure to LME price volatility.
 - In addition, increased expertise within VHVAPs targeted at sophisticated industries allows the Group to understand better the needs of end-users and gives the Group greater bargaining power in comparison to commoditised product sales. To drive organic growth, the Group intends to expand the share of VHVAPs, particularly heat-treated plates, within its FRP portfolio and add

processing capacity and technical know-how whilst increasing its overall market share in FRPs.

- The Group intends to: (i) increase the share of scrap recycling within its primary aluminium production, committing approximately USD 17 million between 2018 and 2020, and investing USD 13 million in the upgrade of its cast house; (ii) increase its FRP production capacity from 90,000 tonnes per year in 2017 to 120,000 tonnes per year by 2022 committing approximately USD 16 million through 2021 targeting, in the mid-term, a 50 per cent split between its production volumes of processed and primary aluminium; (iii) invest approximately USD 19 million in 2018 in expanding the share of heat-treated plates production capacity within the Group's processing division; and (iv) invest approximately USD 15 million through 2020 in increasing the capacity and efficiency of its hot rolling mill and improving the quality of hot rolled products to meet the most demanding requirements of its customers.
- **Expanding and diversifying the Group's end-markets**
 - Through a well-diversified product mix, the Group aims at maximising its margins by entering into sophisticated markets within both the primary and processed aluminium segments. Over the years, the Group has obtained various certificates, including NADCAP, which enable it to supply products to customers within industries such as the aeronautic, marine and automotive industries. In order to better serve and gain market share within such industries, the Group seeks to further expand the number of certified products, including alloys certified by NADCAP.
 - To do this, the Group intends to (i) engage directly with end customers (avoiding intermediaries) to increase sales and to foster long-term relationships; and (ii) increase the level of innovation through the implementation of research and development projects.
- **Permanent focus on productivity and cost control**
 - The Group intends to enhance its profitability and competitive position by continuing to focus on productivity and cost control within the Group's existing infrastructure. The Group's costs are heavily influenced by market factors, with respect to the price of raw materials and energy supply, and the technical efficiency of its operations. As a consequence, the Group continues to manage costs through its hedging policies and vertically integrated supply chain.
 - The Group aims at reducing its energy consumption rates and is currently seeking to increase the use of recycled metal quantities. To this end, the Group is focusing on increasing the production capacity of the Eco Recycling Facility, with the objective to reach a capacity of 100,000 metric tonnes per year by 2020.
- **Commitment to environmental sustainability to become a "Factory of the Future"**
 - As governments introduce new environmental protection regulations, any failure to address impact on the environment is likely to become increasingly expensive.

- According to the benchmark released by the European aluminium association, the Group has improved its carbon dioxide emissions in its primary aluminium smelters from 6th place to 3rd place from 2008 to 2014 and its alumina refinery has reduced greenhouse gas emissions by 19.95 per cent compared to 2012 emissions levels.
- Going forward, the Group is committed to implementing its long-term project to become a "Factory of the Future" with the objective of implementing a new aluminium plant concept based on eco-friendly technologies, zero emissions, zero waste, and on reduction of the overall energy consumption levels.

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