**ALUM S.A. TULCEA**

**INDEPENDENT AUDITOR'S REPORT**

**AND**

**THE INDIVIDUAL FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**Prepared in accordance with Ministry of Public Finance Order no. 1802/2014**
**with subsequent amendments**

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# RAPORTUL AUDITORULUI INDEPENDENT
*INDEPENDENT AUDITOR'S REPORT*

Catre actionarii ALUM SA
*To the Shareholders of ALUM SA*

## Raport asupra auditului situatiilor financiare
*Report on the Audit of the Financial Statements*

### Opinia
*Opinion*

Am auditat situatiile financiare individuale ale societatii ALUM SA („Societatea") cu sediul social in Tulcea, strada Isaccei nr. 82, identificata prin codul unic de inregistrare fiscala 2360405, care cuprind situatia pozitiei financiare la data de 31 decembrie 2018, contul de profit si pierdere, situatia modificarilor capitalului propriu si situatia fluxurilor de trezorerie pentru exercitiul financiar incheiat la aceasta data si un sumar al politicilor contabile semnificative si alte informatii explicative.
*We have audited the standalone financial statements of ALUM SA (the Company) with official head office in Tulcea, Isaccei Str. nr. 82, identified by sole fiscal registration number 2360405, which comprise the statement of financial position as at December 31, 2018, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information*

In opinia noastra, situatiile financiare anexate ofera o imagine fidela si justa a pozitiei financiare a Societatii la data de 31 decembrie 2018, ca si a performantei financiare si a fluxurilor de trezorerie ale acesteia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Ordinul Ministrului Finantelor Publice nr. 1802/2014, cu modificarile si clarificarile ulterioare.
*In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Order of the Minister of Public Finance no. 1802/2014, with all subsequent modifications and clarifications.*

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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Bazele opiniei
*Basis for opinion*

Noi am efectuat auditul conform Standardelor Internationale de Audit (ISA), Regulamentului (UE) nr. 537/2014 al Parlamentului European si al Consiliului din 16 aprilie 2014 („Regulamentul (UE) nr. 537/2014") si Legii nr.162 /2017 („Legea 162/2017"). Responsabilitatile noastre conform acestor standarde sunt descrise mai detaliat in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare" din raportul nostru. Suntem independenti fata de Societate conform Codului etic al profesionistilor contabili emis de Consiliul pentru Standarde Internationale de Etica pentru Contabili (codul IESBA),conform cerintelor etice care sunt relevante pentru auditul situatiilor financiare in Romania, inclusiv Regulamentul (UE) nr. 537/2014 si Legea 162/2017, si ne-am indeplinit responsabilitatile etice conform acestor cerinte si conform Codului IESBA. Consideram ca probele de audit pe care le-am obtinut sunt suficiente si adecvate pentru a constitui baza pentru opinia noastra.
*We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.*

Aspecte cheie de audit
*Key audit matters*

Aspectele cheie de audit sunt acele aspecte care, in baza rationamentului nostru profesional, au avut cea mai mare importanta pentru auditul situatiilor financiare din perioada curenta. Aceste aspecte au fost abordate in contextul auditului desfasurat asupra situatiilor financiare in ansamblu, si in formarea opiniei noastre asupra acestora, si nu emitem o opinie separata cu privire la aceste aspecte cheie.
*Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.*

Pentru fiecare aspect de mai jos, am prezentat in acel context o descriere a modului in care auditul nostru a abordat respectivul aspect.
*For each matter below, our description of how our audit addressed the matter is provided in that context.*

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Am indeplinit responsabilitatile descrise in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare" din raportul nostru, inclusiv in legatura cu aceste aspecte cheie. In consecinta, auditul nostru a inclus efectuarea procedurilor proiectate sa raspunda la evaluarea noastra cu privire la riscul de erori semnificative in cadrul situatiilor financiare. Rezultatele procedurilor noastre de audit, inclusiv ale procedurilor efectuate pentru a aborda aspectele de mai jos, constituie baza pentru opinia noastra de audit asupra situatiilor financiare anexate.

*We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.*

| *Aspecte cheie de audit* | *Modul de adresare* |
|---|---|
| *Analiza deprecierii investitiei in filiale, a creantelor si avansurilor de la acestea*<br><br>Informațiile furnizate de Alum privind creanțele comerciale de la Sierra Mineral Holding Ltd. și investițiile în filiale, inclusiv deprecierea aferentă, sunt incluse în Nota 1.c, Nota 5 respectiv Nota 10.6. | |
| Investitia detinuta in Global Aluminium Ltd, societatea-mama a Sierra Mineral Holding Limited, creantele fata de SMHL, precum si avansurile acordate catre SMHL, sunt semnificative pentru auditul nostru, avand in vedere soldurile inregistrate – valoarea bruta a investitiei in filiala in valoare de 82.581 mii RON, valoarea creantelor detinute de Societate de la SMHL in valoare de si 47.133 mii RON si avansuri acordate SMHL in valoare de 202.503 mii RON.<br><br>In anii trecuti, industria aluminiului a inregistrat o descrestere cliclica in perioada 2013 - 2016, ceea ce a condus la inchiderea de capacitati si amanarea de catre multi investitori a investiilor in aceasta industrie; in consecinta, in perioadele precedente, conducerea Societatii a recunoscut o depreciere de 82.581 mii RON a investitiei detinute in Global Aluminium Ltd, respectiv o depreciere in valoare de 47.133 mii RON a creantelor de la SMHL si a avansurilor acordate catre SMHL. La 31 decembrie 2018 conducerea Societatii a actualizat testul de depreciere din care a rezultat o | Procedurile noastre de audit au inclus, printre altele, folosirea specialistilor nostri in evaluare pentru a ne asista in evaluarea ipotezelor cheie si a metodologiilor utilizate de catre Societate in cadrul testului de depreciere al invesitiilor in filiale si a creantelor de incasat de la SMHL.<br><br>Procedurile noastre, au inclus, dar nu s-au limitat la:<br><br>- evalaurea competentei, capabilitatilor si obiectivitatii evaluatorului extern<br>- validarea ratei de actualizare, inclusiv a ratei fara risc, rata de risc a tarii, gradul de indatorare si costul capitalurilor imprumutate;<br>- analiza principalelor ipoteze luate in calcul la estimarea fluxurilor viitoare de numerar (cum ar fi evolutia viitoare a preturilor de vanzare, volumul productiei, costuri si cheltuieli, modificari in capitalului circulant, etc) prin analiza consecventei ipotezelor cu evolutia mediului economic specific, cu informatiile de piata disponibile si cu planul de afaceri al Societatii; |

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| ajustare de depreciere suplimentara in valoarea de 16.940 mii RON cu privire la avansurile acordate.<br><br>Testul anual de depreciere al investitiei detinute in filiale este semnificativ pentru auditul nostru, intrucat procesul de evaluare este complex, necesita estimari semnificative din partea managementului si este bazat pe ipoteze care sunt fundamentate pe evolutia viitoare a pretului global al bauxitei si a conditiilor de operare din Sierra Leone. | - dacă anumite ipoteze au luat în considerare sau nu riscurile asociate fluxurilor de trezorerie, au inclus variabilitatea potențială a valorii și perioadei de realizare a fluxurilor de trezorerie și efectul aferent asupra ratei de actualizare;<br>- analiza senzitivitatii valorii recuperabile a unitatii generatoare de numerar, pentru a intelege impactul potential al modificarilor rezonabile in ipotezele semnificative ale modelului;<br>- am evaluat acuratetea bugetelor si estimarilor precedente ale managementului prin comparatie cu performanta actuala inregistrata in anul curent fata de cea prongozata anterior;<br>- am testat acuratetea matematica a modelului utilizat precum si conformitatea acestuia cu cerintele standardelor de evaluare;<br><br>De asemenea, am evaluat masura in care informatiile prezentate de Societate cu privire la testul de depreciere a activelor sunt adecvate. |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| *Impairment testing of investment in subsidiaries, trade receivables and advances regarding Sierra Mineral Holdings Ltd. ("SMHL")*<br><br>*Alum's disclosures of trade receivables from Sierra Mineral Holding Ltd. and the investment in subsidiaries, including the related impairment, are included in Note 1.c, Note 5, Note 10.6 respectively.* | |
| *Investment in Global Aluminium Ltd, the parent of SMHL, trade receivables and advances to SMHL, are significant to our audit because of their magnitude, with a gross book value of RON 82,581 thousand for the investment in subsidiary, RON 47,133 thousand for the trade receivable and advances granted to SMHL of RON 202,503 thousand.* | *Our audit procedures included, among others, involvement of our internal valuation specialists to assist us in evaluating the key assumptions and methodologies used by the Company for the impairment testing of its investment in subsidiaries and amounts receivable from SMHL.*<br><br>*Specifically our work included, but was not limited to, the following procedures:*<br>· *assessed the competence, capabilities and objectivity of the external valuation expert* |

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| *The aluminium industry has suffered a cyclical downturn in the period 2013 - 2016, resulting in capacity shutdowns and deferred investments by many players in the industry; as a consequence, in prior years the management has recognized an impairment adjustment of RON 82,581 thousand on the Company's investment in Global Aluminium Ltd and of RON 47,133 thousand on the receivables from SMHL.*<br>*As of 31 December 2018, the management has updated the impairment test which resulted in an additional impairment adjustment of RON 16,940 thousand in relation to advances granted to SMHL.*<br><br>*The annual impairment test is significant to our audit because the assessment process is complex, requires significant management judgment and is based on assumptions that are affected by expected future prices of bauxite (a global commodity) and market conditions in Sierra Leone.* | · *evaluated the discount rate used in the model including specific inputs to the determination of the discount rate such as the risk-free rate and country risk rates, along with gearing and cost of debt;*<br>· *analysed the key assumptions applied in the estimates of future cash flows (such as expected sales prices, production / sales volumes, cost and expenses, working capital changes, etc.) for consistency with the general and industry-specific economic environment and relevant available market information and the business plans of the Group;*<br>· *assessed whether or not certain assumptions considered the risks associated with the cash flows, included the potential variability in the amount and timing of cash flows and the related effect on the discount rate.*<br>· *analysed the sensitivity of the recoverable amounts, to understand the potential impact to reasonable changes in the significant assumptions.*<br>· *assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year;*<br>· *tested the mathematical accuracy of the impairment model used and its conformity with the requirements of the valuation standards;*<br><br>*We further assessed the adequacy of the Company's disclosures about impairment testing of investment in subsidiaries and receivables from them.* |

## Alte informatii
*Other information*

Alte informatii includ Raportul administratorilor, dar nu includ situatiile financiare si raportul nostru de audit cu privire la acestea. Conducerea este responsabila pentru alte informatii.
*The other information comprises the Administrators' Report, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.*

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Opinia noastra de audit asupra situatiilor financiare nu acopera alte informatii si nu exprimam nicio forma de concluzie de asigurare asupra acestora.
*Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.*

In legatura cu auditul efectuat de noi asupra situatiilor financiare, responsabilitatea noastra este de a citi aceste alte informatii si, facand acest lucru, de a analiza daca acestea nu sunt in concordanta, in mod semnificativ, cu situatiile financiare sau cunostintele pe care le-am obtinut in urma auditului sau daca acestea par sa includa erori semnificative. Daca, in baza activitatii desfasurate, ajungem la concluzia ca exista erori semnificative cu privire la aceste alte informatii, noi trebuie sa raportam acest lucru.
*In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.*

Responsabilitatea conducerii si a persoanelor responsabile cu guvernanta pentru situatiile financiare
*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Conducerea Societatii are responsabilitatea intocmirii si prezentarii fidele a situatiilor financiare in conformitate cu Ordinul Ministrului Finantelor Publice nr. 1802/2014, cu modificarile si clarificarile ulterioare, si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea de situatii financiare care sunt lipsite de denaturari semnificative, cauzate fie de frauda, fie de eroare.
*Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Order of the Minister of Public Finance no. 1802/2014, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error*.

La intocmirea situatiilor financiare, conducerea este responsabila sa evalueze abilitatea Societatii de a-si desfasura activitatea conform principiului continuitatii activitatii si sa prezinte, daca este cazul, aspectele referitoare la continuitatea activitatii si folosirea principiului continuitatii activitatii, mai putin in cazul in care conducerea intentioneaza sa lichideze Societatea sau sa ii inceteze activitatea sau nu are nicio alternativa reala decat sa procedeze astfel.
*In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.*

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Persoanele responsabile cu guvernanta au responsabilitatea supravegherii procesului de raportare financiara a Societatii.
*Those charged with governance are responsible for overseeing the Company's financial reporting process.*

Responsabilitatile auditorului pentru auditul situatiilor financiare
*Auditor's Responsibilities for the Audit of the Financial Statements*

Obiectivele noastre constau in obtinerea unei asigurari rezonabile privind masura in care situatiile financiare, luate in ansamblu, nu contin denaturari semnificative cauzate de eroare sau frauda si de a emite un raport de audit care sa includa opinia noastra. Asigurarea rezonabila reprezinta un nivel ridicat de asigurare, insa nu este o garantie ca un audit desfasurat in conformitate cu standardele ISA va detecta intotdeauna o denaturare semnificativa, daca aceasta exista. Denaturarile pot fi cauzate fie de frauda fie de eroare si sunt considerate semnificative daca se poate preconiza, in mod rezonabil, ca acestea, atat la nivel individual sau luate in ansamblu, vor influenta deciziile economice ale utilizatorilor luate in baza acestor situatii financiare.
*Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.*

Ca parte a unui audit in conformitate cu standardele ISA, ne exercitam rationamentul profesional si ne mentinem scepticismul profesional pe intreg parcursul auditului. De asemenea:
*As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also*:

- Identificam si evaluam riscurile de denaturare semnificativa a situatiilor financiare, cauzate fie de frauda fie de eroare, stabilim si efectuam proceduri de audit care sa raspunda acestor riscuri si obtinem probe de audit suficiente si adecvate pentru a constitui o baza pentru opinia noastra. Riscul de nedetectare a unei denaturari semnificative cauzate de frauda este mai ridicat decat cel de nedetectare a unei denaturari semnificative cauzate de eroare, deoarece frauda poate include complicitate, falsuri, omisiuni intentionate, declaratii false sau evitarea controlului intern.
- *Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control*.

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- Intelegem controlul intern relevant pentru audit pentru a stabili procedurile de audit adecvate in circumstantele date, dar nu si in scopul exprimarii unei opinii asupra eficacitatii controlului intern al Societatii.
- *Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.*

- Evaluam gradul de adecvare a politicilor contabile utilizate si rezonabilitatea estimarilor contabile si a prezentarilor aferente de informatii realizate de catre conducere.
- *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.*

- Concluzionam asupra caracterului adecvat al utilizarii de catre conducere a principiului continuitatii activitatii, si determinam, pe baza probelor de audit obtinute, daca exista o incertitudine semnificativa cu privire la evenimente sau conditii care ar putea genera indoieli semnificative privind capacitatea Societatii de a-si continua activitatea. In cazul in care concluzionam ca exista o incertitudine semnificativa, trebuie sa atragem atentia, in raportul de audit, asupra prezentarilor aferente din situatiile financiare sau, in cazul in care aceste prezentari sunt neadecvate, sa ne modificam opinia. Concluziile noastre se bazeaza pe probele de audit obtinute pana la data raportului nostru de audit. Cu toate acestea, evenimente sau conditii viitoare pot determina ca Societatea sa nu isi mai desfasoare activitatea in baza principiului continuitatii activitatii.
- *Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.*

- Evaluam prezentarea, structura si continutul general al situatiilor financiare, inclusiv al prezentarilor de informatii, si masura in care situatiile financiare reflecta tranzactiile si evenimentele de baza intr-o maniera care realizeaza prezentarea fidela.
- *Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.*

Comunicam persoanelor responsabile cu guvernanta, printre alte aspecte, obiectivele planificate si programarea in timp a auditului, precum si constatarile semnificative ale auditului, inclusiv orice deficiente semnificative ale controlului intern, pe care le identificam pe parcursul auditului nostru.
*We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.*

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De asemenea, prezentam persoanelor responsabile cu guvernanta o declaratie cu privire la conformitatea noastra cu cerintele etice privind independenta si le comunicam toate relatiile si alte aspecte care pot fi considerate, in mod rezonabil, ca ar putea sa ne afecteze independenta si, unde este cazul, masurile de siguranta aferente.
*We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.*

Dintre aspectele pe care le comunicam persoanelor responsabile cu guvernanta, stabilim acele aspecte care au avut cea mai mare importanta in cadrul auditului asupra situatiilor financiare din perioada curenta si, prin urmare, reprezinta aspecte cheie de audit.
*From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.*

## Raport cu privire la alte cerinte legale si de reglementare
*Report on Other Legal and Regulatory Requirements*

### Raportare asupra unor informatii, altele decat situatiile financiare si raportul nostru de audit asupra acestora
*Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon*

Pe langa responsabilitatile noastre de raportare conform standardelor ISA si descrise in sectiunea „Alte informatii", referitor la Raportul administratorilor, noi am citit Raportul administratorilor si raportam urmatoarele:
Pe langa responsabilitatile noastre de raportare conform standardelor ISA si descrise in sectiunea „Alte informatii", referitor la Raportul administratorilor, noi am citit Raportul administratorilor si raportam urmatoarele:

a) in Raportul administratorilor nu am identificat informatii care sa nu fie consecvente, sub toate aspectele semnificative, cu informatiile prezentate in situatiile financiare la data de 31 decembrie 2018, atasate;
b) Raportul administratorilor, identificat mai sus, include, sub toate aspectele semnificative, informatiile cerute de Ordinul Ministrului Finantelor Publice nr. 1802/2014, cu modificarile ulterioare, punctele 489-492;
c) pe baza cunostintelor noastre si a intelegerii dobandite in cursul auditului situatiilor financiare intocmite la data de 31 decembrie 2018 cu privire la Societate si la mediul acesteia, nu am identificat informatii eronate semnificative prezentate in Raportul administratorilor.

*In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Administrators' Report, we have read the Administrators' Report and report that:*

*a) in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2018;*

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
*English translation only for information purposes. The translation of the report should be read with the financial statements, as a whole. In all matters of interpretations of information, views or opinions, the original Romanian language version of our report takes precedence over this translation.*

b) *the Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 1802/2014 and subsequent amendments, points 489-492;*
c) *based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at December 31, 2018, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.*

Alte cerinte privind cuprinsul raportului de audit conform Regulamentului (UE) nr. 537/2014 al Parlamentului European si al Consiliului
*Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council*

Numirea si aprobarea auditorului
*Appointment and Approval of Auditor*

Am fost numiti auditori ai Societatii de catre Adunarea Generala a Actionarilor la data de 24 aprilie *2018* pentru a audita situatiile financiare ale exercitiului financiar incheiat la 31 decembrie 2018. Durata totala de misiune continua, inclusiv reinnoirile (prelungirea perioadei pentru care am fost numiti initial) si renumirile anterioare drept auditori a fost de 6 ani, acoperind exercitiile financiare incheiate la 31 decembrie 2013 pana la 31 decembrie 2018.
*We were appointed as auditors of the Company by the General Meeting of Shareholders on 24 April 2018 to audit the financial statements for the financial year end December 31, 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has been of 6 years, covering the financial periods end December 31, 2013 until December 31, 2018.*

Servicii non-audit
*Provision of Non-audit Services*

Nu am furnizat Societatii servicii non-audit interzise mentionate la articolul 5 alineatul (1) din Regulamentul (UE) nr. 537/2014 al Parlamentului European si al Consiliului si ramanem independenti fata de Societate pe durata auditului.
Pe langa serviciile de audit statutar, am furnizat Societatii si entitatilor controlate de aceasta servicii de proceduri convenite in legatura cu revizuirea documentației de monitorizare a respectării condițiilor relevante ale schemei de ajutor de stat referitoare la cota redusă a certificatelor verzi conform HG 495/2014.
*No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.*

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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*In addition to statutory audit services, we provided to the Company and its controlled undertakings agreed upon procedures related to the review of documentation for monitoring of the compliance with the relevant conditions of the state aid scheme related to green certificates reduced quota, under HG 495/2014.*

In numele,
*On behalf of,*

Ernst & Young Assurance Services SRL
Bd. Ion Mihalache 15-17, etaj 21, Bucuresti, Romania
*15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania*

Inregistrat in Registrul Public electronic cu nr. 77
*Registered in the electronic Public Register under No. 77*

Nume Auditor / Partener: Alexandru Lupea
*Name of the Auditor/ Partner: Alexandru Lupea*
Inregistrat in Registrul Public electronic cu nr. 273
*Registered in the electronic Public Register under No. 273*

Bucuresti, Romania
*Bucharest, Romania*
21 martie 2019
*21 March 2019*

Traducerea in limba engleza are doar scop informativ. Traducerea raportului trebuie citita impreuna cu situatiile financiare, luate in ansamblu. In situatiile in care informatiile, punctele de vedere si opiniile sunt susceptibile de interpretare, versiunea originala in limba romana a raportului nostru prevaleaza acestei traduceri.
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**ALUM S.A. TULCEA**
**INDIVIDUAL BALANCE SHEET**
**AS AT DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless specified otherwise)**

COUNTY **TULCEA**
UNIT: **ALUM S.A. TULCEA**
ADDRESS: loc. **TULCEA**
**82**, **ISACCEI** Street
TELEPHONE 0240 535022 FAX 0240 535495
Trade Registry no.
**J/36/29/1991**

OWNERSHIP FORM 34
MAIN BUSINESS
(name of CAEN class)
**Metalurgy of Aluminum**
CODE CAEN CLASS 2442
VAT NO
**RO2360405**

**Code 10**

| No. | | Row | December 31, 2017 | December 31, 2018 |
|---|---|---|---|---|
| **A** | **NON-CURRENT ASSETS** | | | |
| **I** | **Intangible assets** | | | |
| **1** | Set-up expenses | **01** | - | - |
| **2** | Development expenses | **02** | - | - |
| **3** | Concessions, patents, licenses, trademarks, similar rights and values and other intangible assets | **03** | 18,258 | 23,247 |
| **4** | Goodwill | **04** | - | - |
| **5** | Intangible assets for exploration and evaluation of mineral resources | **05** | - | - |
| **6** | Advances | **06** | - | - |
| | **Total (rows 01 to 06)** | **07** | **18,258** | **23,247** |
| **II** | **Property, plant and equipment** | | | |
| **1** | Land and buildings | **08** | 76,399,009 | 72,772,800 |
| **2** | Technical installations and machinery | **09** | 46,034,592 | 48,647,504 |
| **3** | Other fixtures, plant and furniture | **10** | 667,050 | 773,115 |
| **4** | Investment property | **11** | - | - |
| **5** | Tangible assets in progress | **12** | 21,971,179 | 53,863,999 |
| **6** | Investment property in progress | **13** | - | - |
| **7** | Tangible assets for exploration and evaluation of mineral resources | **14** | - | - |
| **8** | Biological assets | **15** | - | - |
| **4** | Advances | **16** | 2,732,413 | 3,052,996 |
| | **Total (rows 08 to 16)** | **17** | **147,804,242** | **179,110,414** |
| **III** | **Financial assets** | | | |
| **1** | Shares held in related parties | **18** | - | - |
| **2** | Loans to related parties | **19** | 17,175,010 | - |
| **3** | Participating interests | **20** | - | - |
| **4** | Loans to entities based on participating interests | **21** | - | - |
| **5** | Other investments | **22** | - | - |
| **6** | Other borrowings | **23** | - | - |
| | **Total (rows 18 to 23)** | **24** | **17,175,010** | **-** |

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**ALUM S.A. TULCEA**
**INDIVIDUAL BALANCE SHEET**
**AS AT DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless specified otherwise)**

| No. | | Row | December 31, 2017 | December 31, 2018 |
|---|---|---|---|---|
| | **Total NON-CURRENT ASSETS (rows 07+17+24)** | **25** | **164,997,509** | **179,133,661** |
| **B** | **CURRENT ASSETS** | | | |
| **I** | **Inventories** | | | |
| **1** | Raw materials and consumables | **26** | 58,436,113 | 69,115,551 |
| **2** | Work in progress | **27** | 50,415,426 | 63,489,866 |
| **3** | Finished goods and merchandise | **28** | 2,269,651 | 6,340,916 |
| **4** | Advances | **29** | 192,527,012 | 203,358,859 |
| | **Total (rows 26 to 29)** | **30** | **303,648,202** | **342,305,191** |
| **II** | **Receivables** | | | |
| **1** | Trade receivables (net) | **31** | 20,904,147 | 11,047,194 |
| **2** | Amounts receivable from Group companies | **32** | 14,378,542 | 1,059,136 |
| **3** | Amounts receivable from participating interests | **33** | - | - |
| **4** | Other receivables | **34** | 718,950 | 1,779,448 |
| **5** | Capital subscribed and paid in | **35** | - | - |
| **5** | Capital subscribed and paid in | **35a** | - | - |
| | **Total (rows 31 to 35 + 35a)** | **37** | **36,001,638** | **13,885,778** |
| **III** | **Short term financial investments** | | | |
| **1** | Shares held in related parties | **38** | - | - |
| **2** | Other short term investments | **39** | - | - |
| | **Total (rows 38+39)** | **40** | **-** | **-** |
| **IV** | **Petty cash and bank accounts** | **41** | **8,253,926** | **4,088,184** |
| | **TOTAL CURRENT ASSETS (rows 31+37+40+41)** | **42** | **347,903,767** | **360,279,153** |
| **C** | **PREPAID EXPENSES (rows 44+45)** | **43** | **758,837** | **2,378,883** |
| | Amounts to be resumed within 1 year | **44** | 758,837 | 2,378,883 |
| | Amounts to be resumed within a period >1 year | **45** | - | - |
| **D** | **PAYABLES WITHIN 1 YEAR** | | | |
| **1** | Debenture loans | **46** | - | - |
| **2** | Amounts due to credit institutions | **47** | - | 300,132 |
| **3** | Advances on account of orders | **48** | 164,902,309 | 67,948,863 |
| **4** | Trade payables | **49** | 61,838,291 | 57,855,029 |
| **5** | Bills of exchange payable | **50** | - | - |
| **6** | Amounts due to Group companies | **51** | - | - |
| **7** | Amounts due to related parties | **52** | - | - |
| **8** | Other payables, including tax and social security | **53** | 9,269,806 | 14,452,909 |
| | **Total (rows 46 to 53)** | **54** | **236,010,405** | **140,556,932** |

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**ALUM S.A. TULCEA**
**INDIVIDUAL BALANCE SHEET**
**AS AT DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless specified otherwise)**

| No. | | Row | December 31, 2017 | December 31, 2018 |
|---|---|---|---|---|
| **E** | **NET CURRENT ASSETS/NET CURRENT LIABILITIES (rows 42+44-54-71-74-77)** | **55** | **112,652,199** | **222,020,386** |
| **F** | **TOTAL ASSETS LESS CURRENT LIABILITIES (rows 25+45+55)** | **56** | **277,649,708** | **401,154,049** |
| **G** | **LONG TERM PAYABLES** | | | |
| | **1** Debenture loans | **57** | - | - |
| | **2** Amounts due to credit institutions | **58** | - | 61,104,000 |
| | **3** Advances received on account of orders | **59** | - | - |
| | **4** Trade payables | **60** | - | - |
| | **5** Bills of exchange payable | **61** | - | - |
| | **6** Amounts due to affiliates | **62** | - | - |
| | **7** Amounts due to related parties | **63** | - | - |
| | **8** Other payables, including tax and social security | **64** | 741,767 | 1,504,127 |
| | **Total (rows 57 to 65)** | **65** | **741,767** | **62,608,127** |
| **H** | **PROVISIONS** | | | |
| | **1** Provisions for employees benefits | **66** | 3,506,861 | 4,033,226 |
| | **2** Provisions for taxes | **67** | - | - |
| | **3** Other provisions | **68** | 18,493,838 | 22,476,822 |
| | **Total (rows 66 to 68)** | **69** | **22,000,699** | **26,510,048** |
| **I** | **DEFERRED INCOME** | | | |
| | **1** Subsidies for investments (rows 71+72) | **70** | 1,768,718 | 4,842,936 |
| | Amounts to be resumed within 1 year | **71** | - | 80,716 |
| | Amounts to be resumed within a period >1 year | **72** | 1,768,718 | 4,762,220 |
| | **2** Deferred income (rows 74+75) | **73** | - | - |
| | Amounts to be resumed within 1 year | **74** | - | - |
| | Amounts to be resumed within a period >1 year | **75** | - | - |
| | **3** Deferred income for assets transferred from clients (rows 77+78) | **76** | - | - |
| | Amounts to be resumed within 1 year | **77** | - | - |
| | Amounts to be resumed within a period >1 year | **78** | - | - |
| | **4** Negative goodwill | **79** | - | - |
| | **TOTAL (rows 70+73+76+79)** | **80** | **1,768,718** | **4,842,936** |
| **J** | **EQUITY AND RESERVES** | | | |
| **I** | **Equity** | | | |
| | **1** Capital subscribed and paid in | **81** | 488,412,908 | 488,412,908 |
| | **2** Capital subscribed and not paid in | **82** | - | - |

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**ALUM S.A. TULCEA**
**INDIVIDUAL BALANCE SHEET**
**AS AT DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless specified otherwise)**

| No. | | Row | December 31, 2017 | December 31, 2018 |
|---|---|---|---|---|
| **E** | **NET CURRENT ASSETS/NET CURRENT LIABILITIES (rows 42+44-54-71-74-77)** | **55** | **112,652,199** | **222,020,386** |
| **F** | **TOTAL ASSETS LESS CURRENT LIABILITIES (rows 25+45+55)** | **56** | **277,649,708** | **401,154,049** |
| **G** | **LONG TERM PAYABLES** | | | |
| | **1** Debenture loans | **57** | - | - |
| | **2** Amounts due to credit institutions | **58** | - | 61,104,000 |
| | **3** Advances received on account of orders | **59** | - | - |
| | **4** Trade payables | **60** | - | - |
| | **5** Bills of exchange payable | **61** | - | - |
| | **6** Amounts due to affiliates | **62** | - | - |
| | **7** Amounts due to related parties | **63** | - | - |
| | **8** Other payables, including tax and social security | **64** | 741,767 | 1,504,127 |
| | **Total (rows 57 to 65)** | **65** | **741,767** | **62,608,127** |
| **H** | **PROVISIONS** | | | |
| | **1** Provisions for employees benefits | **66** | 3,506,861 | 4,033,226 |
| | **2** Provisions for taxes | **67** | - | - |
| | **3** Other provisions | **68** | 18,493,838 | 22,476,822 |
| | **Total (rows 66 to 68)** | **69** | **22,000,699** | **26,510,048** |
| **I** | **DEFERRED INCOME** | | | |
| | **1** Subsidies for investments (rows 71+72) | **70** | 1,768,718 | 4,842,936 |
| | Amounts to be resumed within 1 year | **71** | - | 80,716 |
| | Amounts to be resumed within a period >1 year | **72** | 1,768,718 | 4,762,220 |
| | **2** Deferred income (rows 74+75) | **73** | - | - |
| | Amounts to be resumed within 1 year | **74** | - | - |
| | Amounts to be resumed within a period >1 year | **75** | - | - |
| | **3** Deferred income for assets transferred from clients (rows 77+78) | **76** | - | - |
| | Amounts to be resumed within 1 year | **77** | - | - |
| | Amounts to be resumed within a period >1 year | **78** | - | - |
| | **4** Negative goodwill | **79** | - | - |
| | **TOTAL (rows 70+73+76+79)** | **80** | **1,768,718** | **4,842,936** |
| **J** | **EQUITY AND RESERVES** | | | |
| **I** | **Equity** | | | |
| | **1** Capital subscribed and paid in | **81** | 488,412,908 | 488,412,908 |
| | **2** Capital subscribed and not paid in | **82** | - | - |

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**ALUM S.A. TULCEA**
**INDIVIDUAL INCOME STATEMENT**
**FOR THE YEAR ENDED**
**DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless specified otherwise)**

| Code 20 No. | | Row | Year ended December 31, 2017 | Year ended December 31, 2018 |
|---|---|---|---|---|
| **1** | **Net turnover (rows 02+03-04+05+06)** | **01** | **636,079,551** | **876,424,730** |
| | Income from production sold | **02** | 635,924,942 | 876,482,820 |
| | Income from sales of goods | **03** | 154,727 | 118,872 |
| | Commercial discounts granted | **04** | 118 | 176,962 |
| | Interest income recorded by entities removed from the General Register and who have ongoing leases | **05** | - | - |
| | Income from operating subsidies pertaining to net turnover | **06** | - | - |
| **2** | Income pertaining to the cost of the Work in progress | | | |
| | – Cr balance | **07** | - | 17,145,299 |
| | – Dr balance | **08** | 3,773,039 | - |
| **3** | Production for own purposes and capitalized | **09** | - | - |
| **4** | Income from revaluation of tangible assets | **10** | - | - |
| **5** | Income from property investment production | **11** | - | - |
| **6** | Income from subsidies | **12** | - | |
| **7** | Other operating income | **13** | 4,243,480 | 2,406,053 |
| | out of which, income from negative goodwill | **14** | - | - |
| | out of which, income from subsidies for investments | **15** | - | - |
| | **Total operating income (rows 01+07-08+09+10+11+12+13)** | **16** | **636,549,992** | **895,976,082** |
| **8** | a) Raw materials and consumables | **17** | 381,336,712 | 517,760,232 |
| | Other material expenses | **18** | 131,328,884 | 168,666,975 |
| | b) Other external expenses (power and water supply) | **19** | 18,887,855 | 28,449,501 |
| | c) Merchandise expenses | **20** | 129,972 | 90,761 |
| | Commercial discounts received | **21** | 67,805 | 177,678 |
| **9** | **Personnel related expenses (rows 23+24)** | **22** | **44,349,013** | **53,612,918** |
| | a) Salaries and bonuses | **23** | 36,147,233 | 51,257,308 |
| | b) Social security | **24** | 8,201,780 | 2,355,610 |
| **10** | **a) Adjustments for tangible and intangible assets (rows 26-27)** | **25** | **17,569,632** | **18,839,203** |
| | a. 1) Expenses | **26** | 17,614,947 | 18,880,842 |
| | a. 2) Revenues | **27** | 45,315 | 41,639 |

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**ALUM S.A. TULCEA**
**INDIVIDUAL INCOME STATEMENT**
**FOR THE YEAR ENDED**
**DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless specified otherwise)**

| Code 20 No. | | Row | Year ended December 31, 2017 | Year ended December 31, 2018 |
|---|---|---|---|---|
| | **b) Adjustments for current assets (rows 29-30)** | **28** | **(5,323,180)** | **12,786,870** |
| | b. 1) Expenses | **29** | 19,775 | 16,954,748 |
| | b. 2) Revenues | **30** | 5,342,955 | 4,167,878 |
| **11** | **Other operating expenses (rows 32 to 38)** | **31** | **26,095,331** | **37,453,259** |
| | 11.1. External services | **32** | 19,759,747 | 31,816,743 |
| | 11.2. Other taxes and similar payments | **33** | 1,518,570 | 1,689,106 |
| | 11.3. Expenses on environmental protection | **34** | 504,720 | 741,906 |
| | 11.4. Expenses from revaluation of tangible assets | **35** | - | - |
| | 11.5. Expenses related to calamities and other similar events | **36** | - | - |
| | 11.6. Other expenses | **37** | 4,312,293 | 3,205,504 |
| | Refinancing interest expense recorded by entities removed from the General Register and who have ongoing leases | **38** | - | - |
| | **Impairment adjustments (rows40-41)** | **39** | **658,583** | **3,535,670** |
| | Expenses | **40** | 997,978 | 3,906,420 |
| | Income | **41** | 339,395 | 370,750 |
| | **Total operating expenses (rows 17 to 20-21+22+25+28+31+39)** | **42** | **614,964,996** | **841,017,713** |
| | **Operating Result** | | | |
| | - profit (rows 16-42) | **43** | 21,584,997 | 54,958,369 |
| | - loss (rows 42-16) | **44** | - | - |
| **12** | Income from participating interests | **45** | - | 14,540,732 |
| | - of which, income from affiliates | **46** | - | 14,540,732 |
| **13** | Interest income | **47** | 1,955,412 | 820,854 |
| | - of which, income obtained from affiliates | **48** | 1,955,371 | 820,609 |
| **14** | Income from other financial investments and loans part of the non-current assets | **49** | - | - |
| **15** | Other financial income | **50** | 23,758,058 | 34,888,611 |
| | - of which, income from affiliates | **51** | - | - |
| | **Total financial income (rows 45+47+49+50)** | **52** | **25,713,470** | **50,250,198** |
| **16** | Adjustments for long term financial assets and financial investments held as current assets (rows 54-55) | **53** | - | - |
| | Expenses | **54** | - | - |
| | Income | **55** | - | - |

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**ALUM S.A. TULCEA**
**INDIVIDUAL INCOME STATEMENT**
**FOR THE YEAR ENDED**
**DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless specified otherwise)**

| Code 20 No. | | Row | Year ended December 31, 2017 | Year ended December 31, 2018 |
|---|---|---|---|---|
| 17 | Interest expenses | 56 | 1,289,254 | 2,145,078 |
| | - of which, expenses incurred with affiliates | 57 | - | - |
| | Other financial expenses | 58 | 32,580,098 | 36,961,008 |
| | **Total financial expenses (rows 53+56+58)** | 59 | **33,869,351** | **39,106,087** |
| | **Financial profit or loss** | | | |
| | - profit (rows 52-59) | 60 | - | 11,144,111 |
| | - loss (rows 59-52) | 61 | 8,155,881 | - |
| | **Total income (rows 16+52)** | 62 | **662,263,462** | **946,226,280** |
| | **Total expenses (rows 42+59)** | 63 | **648,834,347** | **880,123,799** |
| 18 | **Gross profit or loss** | | | |
| | - profit (rows 62-63) | 64 | 13,429,115 | 66,102,480 |
| | - loss (rows 63-62) | 65 | - | - |
| 19 | Income tax | 66 | - | 11,924,475 |
| 20 | Income tax specific to certain activities | 67 | | 42,875 |
| 21 | Other taxes not included in the captions above | 68 | - | - |
| 22 | **Net profit or loss for the year** | | | |
| | - profit (rows 64-65-66-67-68) | 69 | 13,429,115 | 54,135,130 |
| | - loss (rows 65+66+67+68-64) | 70 | - | - |

These individual financial statements were approved today, March 21, 2019.

**Gheorghe Dobra**
General Manager

**Mihaela Duralia**
Chief Financial Officer

The accompanying notes are an integral part of these individual financial statements.
This is a free translation from the original Romanian binding version.

**ALUM S.A. TULCEA**
**INDIVIDUAL CASH FLOW STATEMENT**
**AS AT DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless specified otherwise)**

| | Year ended December 31, 2017 | Year ended December 31, 2018 |
|---|---|---|
| **Cash flows from operations** | | |
| **Net profit** | **13,429,115** | **66,102,480** |
| *Adjustments for:* | | |
| Amortization/depreciation of intangible and tangible assets | 17,573,308 | 18,845,068 |
| Adjustment for the impairment of tangible and financial assets | (3,676) | (5,865) |
| Adjustments for the impairment of receivables | (5,337,619) | (4,129,427) |
| Provisions | 658,583 | 3,535,670 |
| Adjustments for the impairment of inventories | 14,201 | 16,916,297 |
| Profit/(Loss) from foreign exchange differences | 9,769,705 | 600,303 |
| Net earning pertaining to disposals of tangible assets | (18,643) | (392,002) |
| Interest income | (2,049,470) | (1,032,785) |
| Interest expenses | 1,208,072 | 2,115,036 |
| Dividend income | - | (14,540,732) |
| **Cash from operations before changes to working capital** | **35,243,576** | **88,014,043** |
| Decrease of inventories | (4,205,320) | (44,741,440) |
| (Increase)/decrease of trade receivables and other receivables | (1,403,447) | 32,288,637 |
| Increase in trade payables and other payables | 21,625,978 | (100,612,626) |
| **Cash flow from/(used in) operations** | **51,260,787** | **(25,051,386)** |
| Interests received | 243,636 | 1,741,615 |
| Interests paid | (608,004) | (1,910,641) |
| Dividends received | - | 14,540,732 |
| Income tax paid | 323,289 | (7,240,047) |
| **Net cash from/(used in) operations** | **51,219,708** | **(17,919,727)** |
| **Cash flow from/(used in) investment activities** | | |
| Purchases of tangible and intangible assets | (24,777,743) | (49,916,451) |
| Government grants received | 1,598,500 | 3,244,436 |
| **Net cash used for investment activities** | **(23,179,243)** | **(46,672,015)** |
| **Cash flow from/(used in) financing activities** | | |
| Proceeds from borrowings | - | 60,426,000 |
| Repayment of bank loans | (20,885,000) | - |
| **Net cash from/(used in) financing activities** | **(20,885,000)** | **60,426,000** |

The accompanying notes are an integral part of these individual financial statements.
This is a free translation from the original Romanian binding version.

| | Year ended December 31, 2017 | Year ended December 31, 2018 |
|---|---|---|
| Cash and cash equivalents at the beginning of the year | 1,098,461 | 8,253,926 |
| Net increase/(decrease) in cash and cash equivalents | 7,155,465 | (4,165,742) |
| **Cash and cash equivalents at the end of the year** | **8,253,926** | **4,088,184** |

These individual financial statements were approved today, March 21, 2019.

**Gheorghe Dobra**
General Manager

**Mihaela Duralia**
Chief Financial Officer

**ALUM S.A. TULCEA**
**INDIVIDUAL STATMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**AS AT DECEMBER 31, 2018**
**(all amounts are expressed in RON, unless specified otherwise)**

| Element of equity | Balance as at January 1, 2017 | Increases | out of which transfers | Decreases | out of which transfers | Balance as at December 31, 2017 |
|---|---|---|---|---|---|---|
| Capital subscribed and paid in | 488,412,908 | - | - | - | - | 488,412,908 |
| Legal reserves | 8,332,308 | 671,456 | 671,456 | - | - | 9,003,764 |
| Reserves representing surplus made from revaluation reserves | - | - | - | - | - | - |
| Other reserves | 53,511 | - | - | - | - | 53,511 |
| Revaluation reserves | 51,354,140 | - | - | 5,600,869 | 5,600,869 | 45,753,271 |
| Retained earnings | (290,753,885) | (11,380,925) | (11,031,731) | - | - | (302,134,810) |
| Retained earnings from the adjustment of accounting errors | (707,779) | - | - | - | - | (707,779) |
| Result for the year | (16,632,600) | 13,429,115 | - | (16,632,600) | (16,632,600) | 13,429,115 |
| Allocation of profit | - | (671,456) | (671,456) | - | - | (671,455) |
| **Total** | **240,058,603** | **2,048,190** | **(11,031,731)** | **(11,031,731)** | **(11,031,731)** | **253,138,524** |

In 2017 was recorded in retained earnings a correction in amount of RON 349 thousand related to prior periods (included on the column "Increases"), as a result of the settlement of Sierra bauxite cargo insurance expenses for 2016, in accordance with MoPFO no. 1802/2014.

These individual financial statements were approved today, March 21, 2019.

**Gheorghe Dobra**
General Manager

**Mihaela Duralia**
Chief Financial Officer

The accompanying notes are an integral part of these individual financial statements.
This is a free translation from the original Romanian binding version.

| Element of equity | Balance as at January 1, 2018 | Increases | out of which transfers | Decreases | out of which transfers | Balance as at December 31, 2018 |
|---|---|---|---|---|---|---|
| Capital subscribed and paid in | 488,412,908 | - | - | - | - | 488,412,908 |
| Legal reserves | 9,003,764 | 3,305,124 | 3,305,124 | - | - | 12,308,888 |
| Reserves representing surplus made from revaluation reserves | - | - | - | - | - | 0 |
| Other reserves | 53,511 | - | - | - | - | 53,511 |
| Revaluation reserves | 45,753,271 | - | - | 4,915,179 | 4,915,179 | 40,838,092 |
| Retained earnings | (302,134,810) | 17,672,838 | 17,672,838 | - | - | (284,461,972) |
| Retained earnings from the adjustment of accounting errors | (707,779) | - | - | - | - | (707,779) |
| Result for the year | 13,429,115 | 54,135,130 | - | 13,429,115 | 13,429,115 | 54,135,130 |
| Allocation of profit | (671,455) | (3,305,124) | (3,305,124) | (671,456) | (671,456) | (3,305,124) |
| **Total** | **253,138,524** | **71,807,968** | **17,672,838** | **17,672,838** | **17,672,838** | **307,273,655** |

These individual financial statements were approved today, March 21, 2019.

**Gheorghe Dobra**
General Manager

**Mihaela Duralia**
Chief Financial Officer

## 1 NON-CURRENT ASSETS

### a) Property, plant and equipment

| COST | Balance as at January 1, 2018 | Increases | Decreases | Balance as at December 31, 2018 |
|---|---|---|---|---|
| Land and buildings | 116,917,986 | 3,979,243 | 54,774 | 120,842,455 |
| Installations and machinery | 353,405,561 | 8,947,472 | 490,790 | 361,862,243 |
| Measurement, control, adjustment installations and devices | 13,882,303 | 1,404,005 | 354,382 | 14,931,926 |
| Vehicles | 16,509,651 | 3,857,322 | 584,790 | 19,782,183 |
| Other installations, plant | 884,211 | 180,759 | 10,110 | 1,054,860 |
| Advances and tangibles in progress | 26,495,090 | 49,929,922 | 17,716,518 | 58,708,494 |
| **TOTAL** | **528,094,802** | **68,298,723** | **19,211,364** | **577,182,161** |

| ACCUMULATED DEPRECIATION | Balance as at January 1, 2018 | Depreciation recorded during the year | Reductions | Revaluation | Balance as at December 31, 2018 |
|---|---|---|---|---|---|
| Land and buildings | 40,400,084 | 7,584,213 | 54,774 | - | 47,929,523 |
| Installations and machinery | 313,840,191 | 9,428,808 | 449,259 | - | 322,819,740 |
| Measurement, control, adjustment installations and devices | 9,238,570 | 1,007,949 | 354,382 | - | 9,892,137 |
| Vehicles | 13,648,898 | 730,616 | 170,703 | - | 14,208,811 |
| Other installations, plant | 217,162 | 74,586 | 10,002 | - | 281,745 |
| **TOTAL** | **377,344,904** | **18,826,172** | **1,039,120** | **-** | **395,131,956** |

## 1 FIXED ASSETS (continued)

**ADJUSTMENT FOR IMPAIRMENT**

| | Balance as at January 1, 2018 | Increases | Transfers | Decreases | Balance as at December 31, 2018 |
|---|---|---|---|---|---|
| Constructions | 118,893 | 21,240 | - | - | 140,133 |
| Installations and machinery | 1,035,264 | - | - | 27,104 | 1,008,160 |
| Tangible assets in progress | 1,791,499 | - | - | - | 1,791,499 |
| **Total** | **2,945,656** | **21,240** | **-** | **27,104** | **2,939,791** |
| **Net value** | **147,804,242** | | | | **179,110,414** |

As of December 31, 2018 the net book value of tangible assets acquired through finance leasing is RON 821,933 (December 31, 2017: RON 1,151,637).
Tangible assets in progress include improvements made to the existent fixed assets and new investments in equipment that have not been put in function yet.

The gross book value of the fully amortized fixed assets as of December 31, 2018 is in amount of RON 148,797,827 (2017: RON 259,006,168).

The gross book value of the disposed fixed assets in 2018 is in amount of RON 1,494,846 (2017: 4,500,154 RON).

As of December 31, 2018 the pledged fixed assets had a net book value of RON 114,880 thousand (2017: RON 1,133 thousand).

**Impairment tests for property, plant and equipment**

There were no impairment indications identified for the Company, therefore no impairment test of the property, plant and equipment was performed as at 31 December 2018 and December 2017.

### b) Intangible assets

**COST**

| | Balance as at January 1, 2018 | Increases | Decreases | Balance as at, December 31, 2018 |
|---|---|---|---|---|
| Development expenses | 5,034,412 | - | - | 5,034,412 |
| Advances and intangible assets in progress | - | - | - | - |
| Concessions, patents, licenses | 333,023 | 23,886 | - | 356,908 |
| **Total** | **5,367,435** | **23,886** | **-** | **5,391,320** |

## 1 FIXED ASSETS (continued)

### b) Intangible assets (continued)

**ACCUMULATED AMORTIZATION**

| | Balance as at January 1, 2018 | Increases | Decreases | Balance as at, December 31, 2018 |
|---|---|---|---|---|
| Development expenses | 5,034,412 | - | - | 5,034,412 |
| Concessions, patents, licenses | 314,765 | 18,896 | - | 333,661 |
| **Total** | **5,349,177** | **18,896** | **-** | **5,368,073** |
| **Net value** | **18,258** | | | **23,248** |

The development expenses include projects, solution and efficiency studies related to the study of the process of silicon removal and technological sizing per variants, increasing the capacity of the static oven, respectively technical and technological rehabilitation and are depreciated over a period of 5 years.

### c) Financial long term assets

In May 2011, the Company purchased 100% of the share capital of Global Aluminium Ltd BVI, with the head office in Trinity Chambers, PO Box 4301, Road Town Tortola, British Virgin Islands, for the amount of USD 30 million, the equivalent of RON 82,581,000. The Company carried out an impairment test of its investment in Global Aluminium Ltd. BVI as of December 31, 2013. As a result of this test there was recorded an adjustment for impairment for the entire value of the investment. According to the analysis as of December 31, 2018 the impairment remained at the same value as for the previous year.

In June 2011, the Company concluded a receivable assignment agreement with Global Aluminium Ltd BVI, with the head office in Trinity Chambers, PO Box 4301, Road Town Tortola, British Virgin Islands, for the amount of USD 10,383,669. The interest according to the contract is Libor 12M + 4.5% per year. The receivable has been recovered entirely in 2018.

| Receivable assignment agreement GAL | Balance as at January 1, 2018 | Balance as at December 31, 2018 |
|---|---|---|
| Receivable - USD | 7,100,740 | - |
| Receivable - RON | 27,632,529 | - |
| | | |
| Short term receivables - USD | 2,947,272 | - |
| Short term receivables - RON | 11,469,309 | - |
| | | |
| Long term receivables - USD | 4,153,468 | - |
| Long term receivables - RON | 16,163,220 | - |
| | | |
| Interest - USD | 227,587 | - |
| Interest - RON | 885,653 | - |

## 1 NON CURRENT ASSETS (continued)

### c) Financial long term assets (continued)

In April 2017, the Company concluded a loan agrement with Sierra Mineral Holdings I Limited, with the head office in Sea Meadow House, Blackburne Highway, Road Town Tortola, British Virgin Islands, for the amount of USD 1,400,000 for putting the dryer facility in operation. The interest according to the contract is Libor 3M + 5% per year. The loan will be reimbursed in 3 years, in 8 equal installments starting with July 2018, with a grace period of 1 year.

| Loan agreement dryer SMHL | Balance as at January 1, 2018 | Balance as at December 31, 2018 |
|---|---|---|
| Receivable - USD | 780,000 | 260,000 |
| Receivable - RON | 3,035,370 | 1,059,136 |
| | | 260,000 |
| Short term receivables - USD | 520.000 | 1,059,136 |
| Short term receivables - RON | 2.023.580 | |
| | | - |
| Long term receivables - USD | 260.000 | - |
| Long term receivables - RON | 1.011.790 | |
| | | - |
| Interest - USD | - | - |
| Interest - RON | - | 260,000 |

## 2 PROVISIONS

| | Balance as at January 1, 2018 | Increases | Decreases | Balance as at December 31, 2018 |
|---|---|---|---|---|
| Provisions for pensions and similar obligations | 3,506,861 | 897,115 | 370,750 | 4,033,226 |
| Provisions for rehabilitation of fixed assets | 18,493,838 | 973,679 | - | 19,467,517 |
| **Total** | **22,000,699** | **1,870,794** | **370,750** | **23,500,743** |

The provision for pensions and similar obligations was set up for the Company's obligation to give retirement benefits to the employees in accordance with the provisions of the collective employment contract.

The Company makes full provision for the future cost of decommissioning and rehabilitating the storage facilities for residual product (red mud lake) on a discounted basis.

The rehabilitation provision represents the present value of rehabilitation costs relating to the site, which are expected to be incurred up to 2023, which is when the storage on the site should be either closed or extended.

## 2 PROVISIONS (continued)

These provisions have been recorded based on the estimates made by the experienced constructions engineers specialists from ALUM. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary rehabilitation works required that will reflect market conditions at the relevant time.

Also, the timing of rehabilitation is likely to depend on when the site cease to store at economically viable rates.

The discount rate used in the calculation of the provision as at 31 December 2018 was 4.29% (2017: 4.02%).

## 3 ALLOCATION OF PROFIT

The Company recorded a profit of RON 54,135,130 for the year ended December 31, 2018 that will be allocated in the General Shareholders Meeting according to the actual legislation.

In 2018 there has been distributed to legal reserves the amount of RON 3,305,124 representing 5% from the gross profit for 2018.

## 4 ANALYSIS OF THE OPERATING RESULT

| Caption | | Year ended December 31, 2017 | Year ended December 31, 2018 |
|---|---|---|---|
| **1.** | **Net turnover** | **636,079,551** | **876,424,730** |
| **2.** | **Cost of goods sold and services provided (3+4+5+6)** | **590,575,700** | **768,896,248** |
| 3. | Basic activity expenses | 429,009,466 | 561,104,205 |
| 3.1 | Raw materials and other materials | 371,909,374 | 483,753,505 |
| 3.2 | Direct salary expenses | 13,850,660 | 17,126,313 |
| 3.3 | Other direct material expenses | 43,249,432 | 60,224,387 |
| 4. | Auxiliary activity expenses | 134,365,845 | 172,537,253 |
| 5. | Production overheads | 27,070,417 | 35,164,030 |
| 6. | Expenses regarding the materials sold | 129,972 | 90,761 |
| **7.** | **Gross result pertaining to net turnover (1-2)** | **45,503,851** | **107,528,481** |
| 8. | Marketing expenses | 1,635,553 | 3,157,660 |
| 9. | General administrative expenses | 26,912,701 | 31,645,642 |
| 10. | Non operational expenses | (46,525) | 20,543,613 |
| 11. | Other operating income*) | 4,582,875 | 2,776,803 |
| **12.** | **Operating result (7-8-9-10+11)** | **21,584,997** | **54,958,369** |

## 5 RECEIVABLES AND PAYABLES

| Receivables | Balance as at December 31, 2018 | Due within 1 year | Due over 1 year |
|---|---|---|---|
| Domestic clients | 4,382,645 | 4,382,645 | - |
| Foreign clients | 54,045,290 | 54,045,290 | - |
| Adjustment for the impairment of doubtful receivables | (47,380,741) | (47,380,741) | - |
| **Trade receivables** | **11,047,194** | **11,047,194** | **-** |
| VAT under settlement | 141,251 | 141,251 | - |
| VAT recoverable | 1,418,120 | 1,418,120 | - |
| Advances to personnel | 213,051 | 213,051 | - |
| Income tax | - | - | - |
| Other receivables | 19,538 | 19,538 | - |
| Sundry debtors | 3,551 | 3,551 | - |
| Adjustments for the impairment of other receivables | (16,063) | (16,063) | - |
| **Other receivables** | **1,779,448** | **1,779,448** | **-** |
| **Loans to affiliates** | **1,059,136** | **1,059,136** | **-** |
| **Total** | **13,885,778** | **13,885,778** | **-** |

| Receivables | Balance as at December 31, 2017 | Due within 1 year | Due over 1 year |
|---|---|---|---|
| Domestic clients | 4,537,419 | 4,537,419 | - |
| Foreign clients | 67,875,186 | 67,875,186 | - |
| Adjustment for the impairment of doubtful receivables | (51,510,168) | (51,510,168) | - |
| **Trade receivables** | **20,902,437** | **20,902,437** | **-** |
| VAT under settlement | 162,062 | 162,062 | - |
| VAT recoverable | - | - | - |
| Advances to personnel | 163,539 | 163,539 | - |
| Income tax | - | - | - |
| Other receivables | 197,584 | 197,584 | - |
| Sundry debtors | 213,538 | 213,538 | - |
| Adjustments for the impairment of other receivables | (16,063) | (16,063) | - |
| **Other receivables** | **720,659** | **720,659** | **-** |
| **Loans to affiliates** | **31,553,552** | **14,378,542** | **17,175,010** |
| **Total** | **53,176,648** | **36,001,638** | **17,175,010** |

According to the impairment test performed by CMF Consulting, an independent valuation company, as of December 31, 2018 there is a potential loss from trade receivables from SMHL in amount of RON 47,133 thousand (USD 11,570 thousand) lower than the provision recorded by the Company as of December 31, 2017 in amount of RON 51,278 thousand (USD 13,177 thousand).

## 5 RECEIVABLES AND PAYABLES (continued)

Movement in allowance for trade receivables is as follows:

| | 2017 | 2018 |
|---|---|---|
| Balance at beginning of the year | 56,847,787 | 51,510,168 |
| Charge during the year | 5,336 | 15,241 |
| Release during the year | 5,342,955 | 4,144,668 |
| **Balance at end of the year** | **51,510,168** | **47,380,741** |

Company's receivables from related parties are presented in Note 10.8.

| Payables | Balance as at December 31, 2018 | Due | |
|---|---|---|---|
| | | within 1 year | over 1 year |
| Trade payables and similar accounts | 57,855,029 | 57,855,029 | - |
| Creditor clients | 67,948,863 | 67,948,863 | - |
| Bank loans | 61,404,132 | 300,132 | 61,104,000 |
| VAT payable | 3,692,412 | 3,692,412 | - |
| Guarantees received from suppliers | 2,088,204 | 683,327 | 1,404,877 |
| Dividends payable | 4,534 | 4,534 | - |
| Sundry creditors | 65,497 | 65,497 | - |
| Other payables | 5,400,522 | 5,301,273 | 99,250 |
| Income tax | 4,705,866 | 4,705,866 | - |
| **Total** | **203,165,059** | **140,556,932** | **62,608,127** |

| Payables | Balance as at December 31, 2017 | Due | |
|---|---|---|---|
| | | within 1 year | over 1 year |
| Trade payables and similar accounts | 61,838,291 | 61,838,291 | - |
| Creditor clients | 164,902,309 | 164,902,309 | - |
| Bank loans | - | - | - |
| VAT payable | 3,629,782 | 3,629,782 | - |
| Guarantees received from suppliers | 826,229 | 376,399 | 449,830 |
| Dividends payable | 4,534 | 4,534 | - |
| Sundry creditors | 26,621 | 26,621 | - |
| Other payables | 5,524,407 | 5,232,470 | 291,937 |
| Income tax | - | - | - |
| **Total** | **236,752,172** | **236,010,405** | **741,767** |

Company's payables to related parties are presented in Note 10.8.

## 5 RECEIVABLES AND PAYABLES (continued)

On 17 May 2018, Alum concluded a loan in amounting to USD 20 million with Black Sea Trade and Development Bank and USD 5 million with Garanti Bank Romania S.A., respectively. The scope of these loan facilities are mainly investments, and they will be repaid in seven half-yearly instalments after a grace period of two years. On 31 December 2018 the amount drawn down from these loans was of USD 15 million.

The bank borrowings of the Company will mature in 2023. In 2018, the interest rates ranged between 5.62% and 6.39%.

According to the existing borrowing agreements the Company is subject to certain restrictive covenants. These covenants require the Company, among other things, to maintain a minimum or maximum level for certain financial ratios, including: financial debt to EBITDA and current ratio.

At 31 December 2018, the Company was compliant with all the financial loan covenants.

The Company borrowings are secured with accounts receivable amounting to RON 7,264 thousand, with current account opened with the banks, with property, plant and equipment (land, buildings, equipment) with a net book value of RON 109,585 thousand and with inventories of RON 153,585 thousand.

## 6 SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These individual financial statements are the responsibility of the Company's management and are prepared in compliance with the Order of Ministry of Public Finance no. 1802/2014 ("OMF no. 1802/2014"), with the subsequent amendments.

MoPFO no.1802/2014, as revised is harmonized with the stipulations of the following directives:

a) Directive 2013/34/EU of the European Parliament and of the Council regarding the annual individual financial statements, consolidated financial statements and related reports of certain types of companies, that modifies the Directive 2006/43/EC of the European Parliament and of the Council and annules the Directives 78/660/EEC and 83/349/EEC, published in the Official Journal of the European Union series L, no. 182 from June 29th 2013;
b) Directive 2014/95/EU of the European Parliament and of the Council from October 22nd 2014 amending the Directive 2013/34/EU regarding disclosure of non-financial information and information on diversity by some enterprises and large groups, published in the Official Journal of the European Union, Series L, no. 330 dated November 15th 2014 and differs from the International Financial Reporting Standards. As a result, these financial statements are not to be considered as being in accordance with the International Financial Reporting Standards.

These financial statements, prepared in accordance with MoPFO no. 1802/2014 as revised, are not to be used by third parties or users of the financial statements that are not familiar with MoPFO no. 1802/2014 as revised, applicable in Romania.

### Currency of presentation

These individual financial statements are presented in RON.

## 6 SIGNIFICANT ACCOUNTING POLICIES (continued)

### A. Accounting principles

These individual financial statements for the period ended December 31, 2018 have been prepared in accordance with the following accounting principles:

### Going concern

These individual financial statements are prepared based on the assumption that the company will continue normal operations for the foreseeable future, without becoming unable to continue its operations or significantly reduce the operating activity.

As of 31 December 2018 the Company recorded a profit of RON 54,135 thousands (2017: profit of RON 13,429 thousand) and net current assets of RON 220,020 thousands (2017: net current assets of RON 112,652 thousand). The profit before taxation as of 31 December 2018 consists of (1) an operating profit of RON 54,958 thousand and (2) financial profit of RON 11,144 thousand.

Management believes that the support provided by the Alro Group will be sufficient to allow the continuity of the activity and settlement of liabilities in due course of business, without the need to sell substantial assets, forced interruption of the activity generated by external factors, or other similar actions.

### Consistency

The same rules, methods, norms regarding the evaluation, registration and presentation in the accounting of the elements of patrimony are used, in order to ensure the comparability in time of the accounting information.

### Prudence

In the preparation of these individual financial statements, all value adjustments due to the depreciation of the assets' value have been taken into consideration, also all foreseeable obligations and potential losses which appeared during the financial year concluded or during any of the previous years.

### Cut-off

In the preparation of these individual financial statements, there have been considered all the incomes and expenses of the financial year, without considering the date of receipt or of making the payment.

### Separate valuation of asset and liabilities

In order to determine the total value corresponding to a balance sheet position, the value of each individual element of asset and liability was separately determined.

### Use of estimates

The preparation of the individual financial statements in accordance with the revised MoPFO 1802/2014 requires the management to make certain estimates and assumptions that affect the reported values of the assets and liabilities, the presentation of the contingent assets and liabilities as at the date of preparation of the individual financial statements and the income and expenses reported for the corresponding period. Although these estimates are made by management based on the best information available as at the date of these individual financial statements, actual results may differ from these estimates.

## 6 SIGNIFICANT ACCOUNTING POLICIES

### A. Accounting principles (continued)

These estimates are periodically revised and any necessary adjustments are recorded in the income statement in the period when they become known. Although these individual estimates present a degree of uncertainty, the cumulated effect of this on the individual financial statements is considered to be insignificant.

### Comparatives

For each caption of the individual balance sheet, individual income statement and, where applicable, individual statement of changes in shareholders' equity and individual statement of cash flows, it is presented the value pertaining to the corresponding caption of the prior financial year.

### Non-offsetting

The value of the captions representing assets have not been offset with the values of the captions representing liabilities, that is income with expenses, except for the offsetting between the assets and liabilities allowed by MoPFO 1802/2014, as revised.

### Substance over form

The information presented in the individual financial statements reflect the economic reality of the events and transactions, not only their legal form.

### Materiality

Any caption of a significant value is presented distinctly in the financial statements.

### B. Significant accounting policies

### Treatment of accounting errors

Any possible errors of the current period noted in the same period are adjusted before the individual financial statements are authorized to be issued. However, it is possible that certain significant errors are discovered subsequently to the period to which they refer. These errors pertaining to a prior period are retrospectively adjusted and recorded in the account "Retained earnings from the adjustment of errors".
Alum S.A. is the parent company of the Alum Group (Note 1) and the consolidated financial statements of Alum Group prepared in accordance with the International Financial Reporting Standards will be issued separately.

### Translation of foreign transactions

The Company's transactions expressed in a foreign currency are recorded as at the exchange rates of the date of the transactions. The earnings and losses resulted from the settlement of the transactions in a foreign currency and from the translation of the monetary assets and liabilities in a foreign currency are recognized in the income statement. Such balances are translated in RON at the exchange rates at the official exchange rate of the National Bank of Romania existent at the end of each month.

As at December 31, 2018, the official exchange rate used was USD 1 = RON 4.0736 and EUR 1 = RON 4.6639.

As at December 31, 2017, the official exchange rate used was USD 1 = RON 3.8915 and EUR 1 = RON 4.6597.

## 6 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

#### a. Cost

Property, plant and equipment are initially stated at cost. Subsequently, property, plant and equipment have been restated based on several government decisions, by adjusting the historic cost with indexes set by the respective government decisions, as well as by recording the results of the revaluation report as at December 31, 2012 of the independent appraiser, member of ANEVAR, S.C. CMF Consulting S.R.L. The increases in the book value of the property, plant and equipment resulted from the restatements made in the past which were initially credited in the revaluation reserves or share capital, in accordance with the provisions of the respective laws.

The maintenance and repairs to the fixed assets are charged against income as incurred.

Fixed assets in the form of inventory items, such as small tools, are charged against income at the put in function date and are not included in the book value of the tangible assets.

The tangible assets that are disposed of are written off the balance sheet together with the corresponding accumulated depreciation. Any profit or loss resulted from such an operation is included in the current profit and loss account. Significant upgrading are capitalized when they meet the defining criteria of the assets. The earnings and losses from the disposal of fixed assets are determined based on their book value and are included in the operating profit.

#### b. Depreciation

Depreciation is calculated at restated cost on a straight line basis. Depreciation is calculated throughout the estimated useful life of the assets, as follows:

| | Years |
|---|---|
| Buildings and special constructions | 2 - 52 |
| Technical installations and machinery | 1 - 25 |
| Equipments and vehicles | 1 - 25 |

Land is not depreciated as it is assumed that it has an indefinite service life.

The earnings and losses generated by the disposal of land and fixed assets are determined by comparison to their book value and are included in the determination of the operating profit.

### Impairment of property, plant and equipment

The Company should make sure that its assets are not recorded at a value that exceeds their recoverable value. An asset is recorded at a value higher than its recoverable value, if its book value exceeds the value recoverable from the use or disposal of the asset. The fixed assets held and used by an entity should be analyzed from the point of view of diminishing the value of such an asset whenever events occur that indicate the possibility of not recovering the book value of an asset from the future cash flows. In cases where the estimated future cash flows are insufficient to cover the book value of the asset, there needs to be applied an adjustment to reflect the impairment of the fixed assets.

As at December 31, 2018, there were no impairment indications identified for the Company, therefore no impairment test of the property, plant and equipment was performed.

## 6 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets

### Set-up expenses

Development expenses are capitalized and amortized on a straight line basis for a period from 3 to 5 years.

### Licenses and software

Usually, the costs associated with the development and maintaining the computer software are charged against income as incurred. Direct costs associated with computer software whose future economic benefits are probable and for a period of more than one year are recognized as intangible assets.

The expense with the purchased computer software is capitalized and amortized on a straight line basis throughout their useful life, without exceeding a period of 5 years. Intangible assets are not restated.

The book value of each intangible asset is verified annually and adjusted from the point of view of the permanent impairment, where necessary.

### Inventories

Inventories are recorded at the lower of evaluated cost and net realizable value, determined based on the FIFO ("first in, first out") method. The cost of the finished and semifinished products includes raw materials, direct salary expenses, other direct expenses and production overheads (based on the normal production capacity), but excludes the general administrative expenses, marketing expenses and financial expenses. Net realizable value is determined based on the sale price in normal conditions. Adjustments are recorded for the impairment of slowly moving, deteriorated and obsolete inventories.

### Trade receivables

Trade receivables are recorded at anticipated net realizable value. For doubtful receivables, an estimated adjustment is made based on an analysis of all amounts outstanding at year end. Non recoverable receivables are charged against income in the year when they are identified.

### Other receivables

Receivables are recorded at a value estimated to be recovered.

### Cash and cash equivalents

Cash and cash equivalents are recorded in the individual balance sheet at cost. For the individual cash flow statement, cash and cash equivalents include petty cash, current accounts and demand deposits with banks.

### Payables

Payables are recorded at nominal value.

## 6 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Provisions

Provisions are recognized as at the time when the Company has a legal or contractual obligation resulted from past events, when an outflow of resources embodying economic benefits is necessary to settle the obligation and when a reliable estimate can be made with regard to the value of the obligation.

### Contributions for employees

The Company pays contributions to the State Budget for the work insurance contribution and the employees pay contributions to the State Budget for social insurance and health insurance according to the levels established by the law and in effect during the year, calculated on the basis of the gross salaries. The value of these contributions is recorded in the income statement in the same period as the related salary expenses.

### Provision for decommissioning

Decommissioning costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

### Impairment of investments in subsidiaries

The Company’s investments in subsidiaries are accounted for at cost less the impairment. Impairment exists when the carrying value of an investment exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the Company’s budget and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

### Retirement and other post retirement benefits

In the normal course of its business, the Company makes payments to several institutions of the Romanian state on the account of the pensions of its employees. All the Company employees are members of the pensions plan of the Romanian state.
Starting with 01.04.2017, the Company paid a contribution to the voluntary pension fund for employees of the Company adhering to it, in amount of 200 EUR/year, tax deductible, representing 75 RON per employee monthly. Starting with 01.04.2018 the monthly contribution increased to 100 RON per employee.

Upon retirement, the Company offers its employees, according to the collective employment contract, a bonus ranging between 2 - 6 salaries, plus permanent bonuses for the last worked month, according to the length of service in the Company.
For these amounts, the Company records in the financial statements a provision revised annually by an actuarial calculation expert.

## 6 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowings

Short and long term borrowings are presented at the outstanding value as at the date of the individual balance sheet date. The current part of the long term loans and the accumulated interest as at the balance sheet date are classified as “Payables within one year”.

### Financial leases

Financial lease is the lease obligation that transfers, to a large extent, all the risks and benefits related to the ownership over the asset. The title can be eventually transferred or not.
Financial lease operations are recorded at the fair values of the leased item or by the updated value of the minimum lease installments, if the latter is lower. To calculate the discounted value of the minimum lease payments, the discount factor is considered the effective interest rate of the lease agreement.

### Share capital

Ordinary shares are included in equity.

The dividends pertaining to ordinary shares are recognized in equity in the period when they are declared.

### Income

The income from sales is recorded upon the delivery of the products and, when applicable, upon their receipt by the client, or upon the provision of services. Recording is made net of VAT, and any possible sale fees or commercial discounts.

The Company uses carbon dioxide certificates. According to the group policy, the certificates are recognized in the financial statements based on the net exposure/emission method. According to this method, it is recognized as a liability the value of the certificates for the emission that exceeds the equivalent of the certificates granted according to GD 780/2006 issued by the National Environment Authority.

The Company estimates the annual amount of emissions as at each balance sheet date and recognizes the supplementary liability at the market value of the additional certificates that need to be purchased or at the level of the penalties that need to be paid according to the laws in force. The additional liability is recognized in the income statement based on the production unit method. If the Company estimates the use of a lower number of certificates that the allocated level, the income resulted from the sale of the supplementary certificates is recognized only at the time of the actual sale.

### Income tax

Income tax is calculated based on the result of the year adjusted for various elements that are neither taxable nor deductible. It is calculated using the income tax rate in effect as at the balance sheet date.

### Financial instruments

The financial instruments recorded in the individual financial statements include cash and cash equivalents, receivables and trade receivables, other assets and long term liabilities. The particular methods of recognition adopted are presented in the individual accounting policies associated to each element.

## 6 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

The real value of the financial instruments represents the amount for which an instrument can be traded between willing and knowing parties in an arm's length transaction. This represents a general approximation of the possible value and it might never be realized.

The Company is subject to the fluctuation of various economic variables, as follows:
(a) The foreign exchange rate of the RON against the foreign currencies;
(b) The interest rates that influence the financial assets and liabilities;
(c) The increase/decrease in the purchasing power of the RON;

As a result the real market value of the financial instruments as at the date of closure of the INDIVIDUAL balance sheet is approximately in agreement with the value presented in the financial statements of the Company.

Cash and cash equivalents, receivables and other current monetary assets, trade payables and other obligations are reflected in the individual financial statements at fair value as a result of the short term due dates of these instruments.

## 7 SHARE CAPITAL

The share capital is in amount of RON 488,412,908 representing 82,086,203 shares having a par value of RON 5.95 per share. The share capital subscribed and paid in as at December 31, 2018 is in amount of RON 488,412,908.

| | Value |
|---|---|
| As at January 1, 2018 | 488,412,908 |
| Increases | - |
| **As at December 31, 2018** | **488,412,908** |

| | 2017 | | |
|---|---|---|---|
| | Number of shares | Nominal value | % |
| ALRO S.A. | 81,595,860 | 485,495,367 | 99.4026 |
| Individuals | 488,354 | 2,905,706 | 0.5949 |
| Legal entities | 1,989 | 11,835 | 0.0024 |
| **Total** | **82,086,203** | **488,412,908** | **100** |

| | 2018 | | |
|---|---|---|---|
| | Number of shares | Nominal value | % |
| ALRO S.A. | 81,595,860 | 485,495,367 | 99.4026 |
| Individuals | 487,778 | 2,902,279 | 0.5942 |
| Legal entities | 2,565 | 15,262 | 0.0031 |
| **Total** | **82,086,203** | **488,412,908** | **100** |

## 8 INFORMATION REGARDING THE EMPLOYEES, ADMINISTRATORS AND DIRECTORS

| | 2017 | 2018 |
|---|---|---|
| Average number of employees | 725 | 765 |

Remuneration per categories of personnel in 2017 was:

| | No. of employees | Salaries RON |
|---|---|---|
| Management | 16 | 3,754,908 |
| Administrative staff | 134 | 7,632,713 |
| Operatives | 575 | 22,123,192 |
| **TOTAL** | **725** | **33,510,813** |

Remuneration per categories of personnel in 2018 was:

| | No. of employees | Salaries RON |
|---|---|---|
| Management | 15 | 4,257,457 |
| Administrative staff | 145 | 11,276,143 |
| Operatives | 605 | 33,080,428 |
| **TOTAL** | **765** | **48,614,028** |

## 9 CALCULATION AND ANALYSIS OF THE MAIN FINANCIAL RATIOS

| Caption | 2017 | 2018 |
|---|---|---|
| **Liquidity ratios** | | |
| Current liquidity ratio (current capital ratio) | 1.48 | 2.58 |
| Quick liquidity ratio (acid test) | 0.19 | 0.14 |
| **Risk ratios** | | |
| Gearing | - | 19.89 |
| Interest cover ratio | 11.42 | 31.82 |
| **Activity ratios (management ratios)** | | |
| Turnover of inventories | 1.94 | 2.38 |
| Days in store | 187.82 | 153.32 |
| Turnover of trade receivables – days | 10.05 | 6.65 |
| Turnover of trade payables – days | 32.17 | 24.92 |
| Turnover of fixed assets | 3.86 | 4.89 |
| Turnover of total assets | 1.24 | 1.62 |
| **Profitability ratios** | | |
| Profitability of capital employed | 0.06 | 0.19 |
| Result per share RON | 0.16 | 0.66 |
| Gross margin from sales – % | 3.39 | 6.27 |

## 10 OTHER INFORMATION

### 10.1 Information regarding the presentation of the Company

The Company was initially incorporated in March 1972, ALUM S.A. Tulcea being the only manufacturer of calcined alumina in Romania.

The main business is the hydro-metallurgical processing of bauxite to obtain aluminum oxide, the raw material for obtaining aluminum.

Bayer method, which uses caustic soda to produce a solution, is used to extract the aluminum hydroxide from the processing of bauxite in order to obtain aluminum oxide, the raw material for the production of alumina. The production capacity of the refinery is of about 600,000 ton/year.

The Company's shares are allowed for trading on the alternative transactional system AeRO within Bucharest Stock Exchange. In 2018, the price per share was as follows:

| | **RON** |
|---|---|
| - minimum price | 1 |
| - maximum price | 2.98 |
| - average price | 1.99 |

### 10.2 Turnover

| | **Year ended December 31, 2017** | **Year ended December 31, 2018** |
|---|---|---|
| Sales of alumina | 578,185,488 | 751,332,604 |
| Sales of hydrate | 56,504,331 | 123,768,263 |
| Revenues from sales of scrap iron and wastes | 409,928 | 367,271 |
| Revenues from sales of utilities | 542,312 | 516,614 |
| Other revenues | 437,492 | 439,978 |
| **Total** | **636,079,551** | **876,424,730** |

### 10.3 Other material expenses

| | **Year ended December 31, 2017** | **Year ended December 31, 2018** |
|---|---|---|
| Natural gas expenses | 129,471,859 | 166,705,201 |
| Packaging materials expenses | 905,718 | 942,287 |
| Work protection materials | 599,892 | 587,511 |
| Small assets | 351,414 | 431,977 |
| **Total** | **131,328,884** | **168,666,975** |

## 10 OTHER INFORMATION (continued)

### 10.4 External services

| | Year ended December 31, 2017 | Year ended December 31, 2018 |
|---|---|---|
| Third parties repairs | 5,179,812 | 11,622,705 |
| Rent | 731,866 | 805,465 |
| Insurance | 716,655 | 760,806 |
| Transport | 622,378 | 2,017,127 |
| Audit and consultancy | 2,141,004 | 2,234,521 |
| Guard services | 3,118,345 | 3,090,192 |
| Other services | 7,249,688 | 11,285,927 |
| **Total** | **19,759,747** | **31,816,743** |

### 10.5 Petty cash and bank accounts

| | December 31, 2017 | December 31, 2018 |
|---|---|---|
| Bank accounts | 1,763,623 | 880,706 |
| Petty cash | 6,495 | 2,910 |
| Letters of credit | 6,483,808 | 3,204,568 |
| **Total** | **8,253,926** | **4,088,184** |

### 10.6 Inventories

Inventories are presented in the balance sheet after deducting the impairment adjustments.

| | December 31, 2017 | December 31, 2018 |
|---|---|---|
| Raw materials, materials and goods | 57,803,221 | 85,407,091 |
| Work in progress | 49,829,021 | 62,798,466 |
| Small tools | 672,007 | 607,745 |
| Semi finished products and finished goods | 2,856,055 | 7,031,909 |
| Packaging | 62,248 | 118,779 |
| Adjustments for the impairment of inventories | (101,361) | (17,017,658) |
| Advances for inventories | 192,527,012 | 203,358,859 |
| **Total** | **303,648,202** | **342,305,191** |

The value of inventories pledged for securing the Company's borrowings amounts RON 153,238 thousand (31 December 2017: nil).

## 10 OTHER INFORMATION (continued)

### 10.6 Inventories (continued)

The advances for inventories include payments for bauxite to SIERRA MINERALS HOLDING LTD, affiliate, in amount of RON 202,502,613 (see Note 10.8). According to the impairment test performed by CMF Consulting, an independent valuation company, as of December 31, 2018 there is a potential loss from advances for bauxite paid to SMHL in amount of RON 16,940 thousand (USD 4,158 thousand) (31 December 2017: nil).

| | Balance as at January 1, 2018 | Transfers | | Balance as at December 31, 2018 |
|---|---|---|---|---|
| | | to acc. | from acc. | |
| Adjustment for the impairment of raw materials | - | 16,939,507 | - | 16,939,507 |
| Adjustment for the impairment of materials | 101,361 | - | 23,210 | 78,151 |
| Adjustment for the impairment of work in progress | - | - | - | - |
| Adjustment for the impairment of finished goods | - | - | - | - |
| Adjustment for the impairment of semi finished products | - | - | - | - |
| **Total** | **101,361** | **16,939,507** | **23,210** | **17,017,658** |

### 10.7 Indicators regarding the result per share

The basic result per share is calculated by dividing the number of shareholders by the weighted average number of ordinary shares in circulation during the year, less the shares bought back by the Company during the year. There were no ordinary potentially diluted during the year.

| | 2017 | 2018 |
|---|---|---|
| Net profit for the year | 13,429,115 | 54,135,130 |
| Number of shares | 82,086,203 | 82,086,203 |
| Result per share, basic – RON | 1.16 | 0.66 |
| Average market price per share | 1.23 | 1.99 |

### 10.8 Transactions and balances with related parties

Affiliates are entities with direct or indirect common shareholders, common directors or management. A significant part of the Company transactions are conducted with related parties.

The nature of the relations with the related parties with which the Company conducted significant transactions or which have significant balances not settled as at the balance sheet date are detailed below. The relations were established in the normal course of the Company's activity. Management considers that the prices at which the transactions were conducted were in an arm's length.

## 10 OTHER INFORMATION (continued)

### 10.8 Transactions and balances with related parties (continued)

| Related party | Related party type | Transaction type |
|---|---|---|
| Alro S.A. | Shareholder | Sales/purchases of goods/services |
| Sierra Minerals Holding Ltd. | Subsidiary | Sales/purchases of goods/services |
| Global Aluminium Ltd * | Subsidiary | Assignment of receivables |
| Vimetco Management Romania S.R.L. | Common control | Purchases of goods and services |
| Vimetco Power | Common control | Sales of goods and services |
| Vimetco Extrusion | Common control | Sales/purchases of goods |
| Vimetco Ghana | Common control | Sales of goods and services |
| Conef Gaz S.R.L. | Common control | Purchases of goods |
| Centrul Rivergate | Common control | Sales/purchases of goods/services |
| Rivergate Fire | Common control | Sales/purchases of goods/services |

The transactions and balances with related parties are detailed below:

**(i) Sales**

| | December 31, 2017 | December 31, 2018 |
|---|---|---|
| ALRO Slatina | 526,549,345 | 602,842,674 |
| CENTRUL RIVERGATE | 35,461 | 36,110 |
| SIERRA MINERALS HOLDING LTD. | 3,251,684 | 88,168 |
| VIMETCO EXTRUSION | 1,922 | 1,880 |
| VIMETCO POWER | 1,251 | - |
| **Total** | **529,839,664** | **602,968,832** |

**(ii) Purchases**

| | December 31, 2017 | December 31, 2018 |
|---|---|---|
| ALRO Slatina | 19,200,063 | 29,097,623 |
| CENTRUL RIVERGATE | 4,235,959 | 3,110,194 |
| VIMETCO MANAGEMENT ROMANIA | 780,822 | 780,000 |
| RIVERGATE FIRE | - | 2,896,584 |
| CONEF GAZ | 129,471,859 | 166,705,201 |
| SIERRA MINERALS HOLDING LTD. | 191,411,645 | 240,273,430 |
| **Total** | **345,100,348** | **442,863,033** |

**(iii) Receivables**

| | December 31, 2017 | December 31, 2018 |
|---|---|---|
| SIERRA MINERALS HOLDING LTD. | 251,100,669 | 249,636,092 |
| GLOBAL ALUMINIUM LTD. (loan - see Note 5) | 28,518,182 | - |
| SMHL (loan - see Note 5) | 3,035,370 | 1,059,136 |
| CONEF GAZ | 81,839 | - |
| CENTRUL RIVERGATE | 3,579 | 3,584 |
| VIMETCO POWER | 3,153,001 | 3,153,001 |
| VIMETCO EXTRUSION | - | 274 |
| ALRO Slatina | 298,649 | 366,360 |
| **Total** | **286,191,289** | **254,218,447** |

## 10 OTHER INFORMATION (continued)

### 10.8 Transactions and balances with related parties (continued)

**(iv) Payables**

| | December 31, 2017 | December 31, 2018 |
|---|---|---|
| ALRO Slatina | 196,943,746 | 89,190,346 |
| CONEF GAZ | - | 478,692 |
| CENTRUL RIVERGATE | - | 306,444 |
| RIVERGATE FIRE | - | 287,245 |
| VIMETCO MANAGEMENT ROMANIA | - | - |
| VIMETCO EXTRUSION | - | - |
| **Total** | **196,943,746** | **90,262,726** |

In 2018, the following related party transactions were also conducted:

| | 2017 | 2018 |
|---|---|---|
| Interest income - Global Aluminium Ltd, | 1.711.825 | 680,774 |
| Interest income - Sierra Minerals Holding Ltd, | 243.547 | 139,835 |

The remuneration of directors and other members of key management personnel during the year was in amount of 2,047,227 RON (2017: RON 2,435,143).

### 10.9 Legal reserve

As at December 31, 2018, the legal reserve amounted to RON 12,308,887 (December 31, 2017: RON 9,003,763).

### 10.10 Information regarding the income tax

The Company records net income tax in accordance with the financial statements, in compliance with the laws in force regarding the income tax.
The Company did not record extraordinary income or expenses during the financial year ended December 31, 2018.

The reconciliation between the result of the year and the fiscal result for the year is presented below:

**Calculation of the income tax**

| | Year ended December 31, 2017 | Year ended December 31, 2018 |
|---|---|---|
| Total income | 662,263,462 | 946,226,280 |
| Total expenses | (648,834,347) | (880,123,799) |
| **Gross profit** | **13,429,115** | **66,102,480** |
| Allocation to the legal reserve | (671,456) | (3,305,124) |
| Elements similar to income | 2,319,363 | 2,388,259 |
| Non taxable income | (5,727,665) | (4,580,268) |
| Non deductible expenses | 5,124,390 | 24,610,500 |
| Prior years loss | (22,069,264) | (7,595,516) |
| **Fiscal profit/(loss)** | **(7,595,516)** | **77,620,331** |
| **Current income tax** | **-** | **11,924,475** |

## 10 OTHER INFORMATION (continued)

### 10.11 Guarantees and commitments

The Company has the following investment commitments as at December 31, 2018 for the year 2019:

| Description | th. USD |
|---|---|
| Increasing the storage capacity of the red mud pond by elevating the dikes throughout the perimeter | 40 |
| Purchasing press filters for disposal bauxite residue moisture decreasing | 162 |
| Red mud pipe, length 4,5 km (refinery to red mud pond) | 5 |
| Reducing emissions and increasing energy efficiency by installing a low NOx combustion system at boiler no. 4 | 328 |
| Filtering process control efficiency enhancing by acquiring and installing vertical filters | 1,721 |
| Acquisition and installation a disc filter for coarse seed | 585 |
| Investments for maintenance and improvement of equipment parameters - Alum (PPE) 2018 | 125 |
| Replacing the obsolete equipments, Endowments 2018 | 344 |
| New natural gas burners at Steam Boiler no 1 (low Nox) | 10 |
| Maintenance Capex (Digestion modernization - autoclaves registers and agitators for 2 Digestion and Evaporation batteries) | 70 |
| European funds EU1 | 33 |
| **Total** | **3,424** |

The Company has the following purchasing commitments as at December 31, 2018 for the year 2019:

| Description | | Amount |
|---|---|---|
| Contract with Sierra Mineral Holdings LTD for bauxite | 58,575,000 | USD |
| Contract with Oldendorff Carriers for bauxite freight | 18,150,000 | USD |
| Contracts for bauxite handling Constanta-Tulcea | 11,365,945 | EUR |
| Contract with Conef Gaz for natural gas | 49,478,132 | USD |
| Contract with ALRO Slatina for electricity | 6,429,425 | USD |
| Contract with Chimcomplex Suc. Rm. Valcea for caustic soda | 12,052,022 | EUR |
| Contract with Chimcomplex Borzesti for caustic soda | 18,612,000 | USD |
| Contract with Celco SA for industrial lime | 10,598,400 | RON |
| Contract with LAINYL, Belgia for filtercloth | 450,000 | EUR |
| Contract with NALCO- flocculants | 846,000 | EUR |
| Contract with FLOCHEM INDUSTRIES SRL Bucuresti – flocculants | 375,000 | EUR |
| Contract with CYTEC INDUSTRIES, The Netherlands – flocculants | 1,281,000 | EUR |
| Contracts for caustic soda transport | 8,187,341 | RON |

Under financing contract signed on 8 September 2016, Alum SA launched a project (SMIS 2014+) co-financed under the European Regional Development through Operational Program of Competitiveness 2014-2020 " Investing in Sustainable Development ".
The project is to be developed in 24 month (August 2016-August 2018) for a total value of RON 20.1 million, out of which RON 12.6 million eligible (RON 6.3 million are non-reimbursable) and main object is the acquisition of various equipment (hydrate drying equipment, grinding and ranking wet hydrate, etc.). In September 2018 was concluded an addendum that extended the project period with 6 months, until March 2019.

## 10 OTHER INFORMATION (continued)

### 10.11 Guarantees and commitments (continued)

In 2017-2018 there were signed the contracts for all three equipments, for a total value of 3,638 th. EUR, were paid the advances for all contracts in amount of 1,091 th. EUR and were opened letters of credit in amount of 2,547 th. EUR. As of November 2018 the construction works for all three equipments have been finalized and were started the activities for training the personnel and setting up the parameters.
In 2018 Alum received as non-refundable funds the amount of 3,244 th. RON (2017: 1,598 th. RON).

The only achievement indicator to be pursued by the end of the project is the number of staff in the R & D department that needs to grow by 16 people by March 8th, 2019.
Result indicators, i.e. turnover and market share, are reported annually after the project activities have been completed, only to inform the Managing Authority, but their achievement / failure is verified with the appropriate consequences only at the end of the sustainability period in 2023.

### 10.12 Contingencies

**Litigations**

As at December 31, 2018, the Company was subject to a number of disputes in court resulted from the normal course of its business.
SC Alum SA Tulcea opened a legal action against the debtor SC Prosidex Rom SRL Constanta, under which the Company was listed on the creditors table with the amount of RON 160,463.

The management considers that based on the lawyers opinion these actions will not have a significant effect on the individual economic results and individual financial position of the Company.
As at December 31, 2018, the Company had in the balance the amount of RON 231,493 RON for doubtful or litigating receivables (other than related parties), amount for which a provision has been recorded (Note 5).

**Taxation**

Taxation system in Romania is undergoing a phase of consolidation and harmonization with the European legislation. However, there are still different interpretations of the fiscal legislation. In certain cases, tax authorities can treat differently certain aspects, calculating supplementary tax and interests of 0.02 % per day plus penalties of 0.01% per day. Under this conditions, the annual interest level could reach 7.32% compared to the previous value of 10.95%.
Starting with January 1, 2016 the fiscal procedure Code has been modified by the MFO 3834/29.12.2015 and has been introduced a new penalty for not declaring. Thus, for the main tax obligations undeclared or incorrectly declared by the tax payers and determined by the fiscal inspectors through tax notices, the tax payers owe a penalty of 0.08% per day, from the day immediately following the due date until the settlement date for the due amount.

In the case of tax liabilities administered by local tax authorities, the rate of interest for delay is 1% of the principal outstanding unpaid tax liabilities calculated for each month or fraction of a month starting from the day immediately following the maturity date and until the date of settlement due, including.

## 10 OTHER INFORMATION (continued)

### 10.12 Contingencies (continued)

In Romania, the fiscal year remains open for fiscal verification for 5 years. Management considers that the tax obligations included in these financial statements are adequate.

In accordance with the provisions issued by the Ministry of Public Finance, which regulate the tax regime of the elements of equity that have not been subject to income tax as at the date of recording in the accounts, considering their nature, should the Company change the destination of the revaluation reserves in the future (to cover losses or to distribute to the shareholders), this will lead to supplementary income tax liabilities.

**Transfer price**

The fiscal legislation in Romania has included rules regarding the transfer prices between affiliates since the year 2000. The current legislative framework defines the principle of "market value", as well as the methods of establishing transfer prices. As a result, it is expected that the tax authorities should initiate thorough verifications in order to make sure that the fiscal results and/or the value in customs of the imported goods are not distorted by the effect of the prices used in the relations with the related parties.

The Company cannot quantify the result of such verifications, but the management considers that the related party transactions are in agreement with the fiscal legislation in Romania with regard to the transfer price and the necessary documentation regarding the transfer prices is available and can be presented to the authorities in case of a tax audit.

### 10.13 Financial Auditor's Fee

The fee for the financial audit of the financial statements for 2018 is in accordance with the service rendering agreement and is in amount of 203,070 RON (2017: 204,646 RON).

### 10.14 Risk management

**a. Foreign exchange ("FX") risk**

FX risk is the risk that the value of a financial instrument should fluctuate because of the variations in the FX rate.

The Company is exposed to the fluctuations in the FX rates in the commercial and financing transactions. FX risk results from the commercial assets and liabilities recognized, including borrowings, expressed in foreign currencies. Given the high associated costs, the Company's policy is not to use derivative financial instruments to mitigate this risk.

**b. Interest rate risk regarding the cash flow and fair value**

The interest rate risk regarding the cash flow is the risk that the future cash flows should fluctuate due to the variations in the market interest rates.

The interest rate risk at fair value is the risk that the value of a financial instrument should fluctuate due to the variation in the market interest rate. The financial instruments bear interest at market values and, as a result, it is considered that their fair values do not significantly differ from the book values.

## 10 OTHER INFORMATION (continued)

### 10.14 Risk management (continued)

#### c. Credit risk

Credit risk is the risk that one of the parties of a financial instrument should fail to meet the obligation assumed causing a financial loss to the other party.

The Company is subject to a credit risk due to its trade receivables and other types of receivables. The Company has policies meant to ensure that the sales are made to clients with proper references regarding their reliability.
The receivables are mainly related to Alro (over 90 %). The company is dependent operationally and financially on Alro.
The due date of the liabilities is carefully monitored and the amounts due after exceeding the term are promptly monitored. Trade receivables (clients) are presented net of the adjustments for doubtful receivables (Note 5). The Company develops policies that limit the value of the credit exposure against any financial institution.

#### d. Liquidity risk

Liquidity risk (also called financing risk) is the risk that an entity should encounter difficulties in meeting the commitments pertaining to the financial instruments. Liquidity risk may result from the incapacity to rapidly sell a financial asset at a value close to its fair value.

A prudent liquidity risk management involves maintaining sufficient cash and credit lines available, by continuously monitoring the estimated and real cash flow, by correlating the due dates of the financial assets and liabilities. Due to their nature, the Company aims at maintaining flexibility in the financing possibilities, including by the support of the majority shareholder.

#### e. Fair value of the financial instruments

Fair value is the amount for which a financial instrument can be traded between willing and knowing parties in an arm's length transaction.

Specific recognition methods are presented in the individual policies corresponding to each element. The Book values of the financial instruments as at the balance sheet date approximate their fair values, according to the mentions in the accounting policies of the Company and according to MoPFO 1802/2014 as revised.

The Company does not use financial instruments traded on active markets.

### 10.14 Subsidies

| | 2018 | 2017 |
|---|---|---|
| **Balance as at 1 January** | **1,769** | **-** |
| Increases during the year | 3,074 | 1,769 |
| Revenues recognized through income statement | - | - |
| **Balance as at 31 December** | **4,843** | **1,769** |
| Out of which: | | |
| Short term | 323 | - |
| Long term | 4,520 | 1,769 |

## 10 OTHER INFORMATION (continued)

### 10.15 Subsidies (continued)

Under financing contract signed on 8 September 2016, Alum SA launched a project (SMIS 2014+) co-financed under the European Regional Development through Operational Program of Competitiveness 2014-2020 " Investing in Sustainable Development ".

The project is to be developed in 24 month (August 2016-August 2018) for a total value of RON 20.1 million, out of which RON 12.6 million eligible subsidies (RON 6.3 million are non-reimbursable) and main object is the acquisition of various research and development equipment (hydrate drying equipment, grinding and ranking wet hydrate, etc.). In September 2018 was concluded an addendum that extended the project period with 6 months, until March 2019.

In 2017 there were signed the contracts for all three equipments, for a total value of EUR 3,638 thousand, were paid the advances for all contracts in amount of EUR 844 thousand and were opened letters of credit in amount of 1.391 th. EUR. As of November 2018 the construction works for all three equipments have been finalized and were started the activities for training the personnel and setting up the parameters.
In 2018 Alum received as non-refundable funds the amount of 3,244 th. RON (2017: 1,598 th. RON).

### 10.16 Subsequent events

In January 2019, Alum withdrawn the remaining amount of USD 10 million from the loans contracted in May 2018 with Black Sea Trade and Development Bank and Garanti Bank Romania

# Report of the directors
# and
# their discharge from liabilities

# - 2018 -

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# Report of the directors for 2018
# and their discharge from liabilities

### 1.1 Company orientation

The main goal of ALUM SA ("ALUM"/ "Company") is to continue its efforts to capitalize its human and material resources in order to be among the profitable and competitive companies on the alumina market. The Company aims to become a model of private plant, which will continue to bring important economical and social benefits both to Tulcea town and to the national economy.

**For this purpose the Company established the following main objectives:**

- Ongoing implementation of co-financed with UE funds investment project according with agreed schedule with ANCSI, investment project which will lead to an increasing of ALUM's efficiency and competitiveness;
- Conformation with provisions of Action Plan agreed with ANRE in order to fulfill the conditions imposed by the provisions of GD no. 495/2014 and installation of modern burning system at the boiler no. 4 to decrease the NOx emissions level under 100 mg/Nmc;
- Continuation to ensure safe red mud pond functioning and extension the life time period;
- Continuation of the modernization process in order to meet the new demands regarding the economical efficiency, environmental protection and social responsibility;
- Ensuring raw materials and energy resources on long term basis;
- Increasing the energetical efficiency for the entire production process;
- Active management of contractual and market risks (financial), taking into account the evolution of the domestic and international market;
- Continuous compliance with environmental rules;
- Developping new products and activities.

#### 1.1.1. The main development directions of ALUM

The future development projects which ALUM intends to implement these are the continuation of projects of previous years, in particular energy efficiency projects and environment projects presented briefly below:

1. Projects to ensure plant operational continuity and to increase red mud pond lifetime, consisting of :
   - Increasing the storage capacity of the red mud pond by elevating the dikes throughout the perimeter;
   - Purchasing press filters for disposal bauxite residue moisture decreasing;
   - Red mud pipe, length 4,5 km (refinery to red mud pond).
2. Projects for efficient and safe operation of industrial facilities:
   - Reducing emissions and increasing energy efficiency by installing a low NOx combustion system at boiler no. 4;
   - Burned gases fan for Steam Boiler no. 2;
   - Consolidation foundations of Precipitation tanks;
   - Filtering process control efficiency enhancing by acquiring and installing vertical filters;
   - Thermal energy recovery system from combustion gases of steam boilers;
   - Increasing energy efficiency by thermal isolation of vessels and technological paths;
   - Acquisition and installation a disc filter for coarse seed;
   - Investments for maintenance and improvement of equipment parameters - Alum (PPE);
   - Plant economic lightning;
   - Replacing the obsolete equipments, Endowments.
3. Projects to support ANRE proposals :
   - New natural gas burners at Steam Bolier no. 1 (low Nox);
   - Optimization of steam lines and installing steam traps in 2 Digestion batteries;
   - Maintenance Capex (Digestion modernization - autoclaves registers and agitators for 2 Digestion and Evaporation batteries);
   - Modernization 6 kV electrical installations (capacitors, electric cells, electric circuits);
   - Increasing energy efficiency by installing frequency converters.

4. Projects for new ALUM products :
   - Increasing competitiveness by installing equipment to obtain wet and dry hydrate;
   - Site arrangement and installation of hydrate drying, grinding and classification equipments.

### 1.1.2. Branch offices of ALUM

We mention that ALUM does not have fiscally registered branch offices.

## 1.2 Management and organizational culture

**The management team promotes the values that define the Company's organizational culture and mainly:**

- **Performance**

In Alum continues the implementation of an efficient performance management system based on establishing department goals, derived from Company's goals, quantifiable and agreed between the managers and their subordinates.

- **Competence**

Main performance competences will be identified in close relation with Company's strategic objectives, by means of real, financial, operational and behaviour indicators. The existing strong points that facilitate the implementation of this system consist in the good experience gathered in the field and in the human, financial and technical potential of the Company.

- **Rentability**, meaning the concern, on all decisional levels, for the increase of the profitability through measures that ensure the continuous improvement on technological, commercial ad financial level.
- **Ecological and social responsibility**, that presumes, among other things, the protection of the environment (compliance with the requirements from the Integrated Environmental Licence), the contribution to the local society development and for the general economic progress.

Alum's main goals regarding the environment are the following:

- Compliance with the environmental law adopted under the requierements of the European Directives and strictly respect all legal regulations applicable to the company;
- Continuous improvement of activities, processes, products and environmental performance;
- Preparation for emergencies situations and the ability to respond, organizing and conducting simulation exercises for incidents involving dangerous substances;
- Pollution prevention and combat the environmental factors through investments, organizational measures, maintenance and repairs and technological changes;
- Continuous monitoring of environmental aspects of production activity through weekly environmental programs.

Through its environmental policy, the Company creates the premises for the activity in the most demanding environmental standards set by the athorities.

In this respect, in 2018, have been acquired, installed and commissioned new process heat recovery installations which have led to the natural gas specific consumption reduction continuing progressive reduction of the CO2 emissions per ton of alumina produced.
Also, in 2018 was finalized the implementation of one investment project for NOx emissions reduction according with new norms and National Transition Plan through modernization of burning systems of the boiler CaAP nr. 1.

## 1.3 Corporate social responsibility

The concept of corporate social responsibility (CSR) refers to the involvement of the companies in solving some of the problems of the communities where it operates.
The advantages of implementing the social responsibility management system are:

- Demonstrated commitment to business ethics, socially responsible;
- Protecting the brand;
- Enhanced reputation as a responsible corporate citizen;
- Consumers confidence and a positive perception of investors;
- A better employee morale;

- A properly working environment, safe and fair;
- Improved working conditions;
- Commercial risk management;
- Differentiation from global competitors.

In order to implement CSR in Alum were made the following steps:

- The Company developed procedures for the relations with the media and organized an audience program; in this way the Company expresses its openness to listening and solving the community problems (employees, citizens, local authorities, companies collaborating, etc) and involvement in education and other activities of social utility.
- Were developed and distributed questionnaires about how the Company is perceived in various community organizations with which it comes into contact (public administration, financial and banking institutions, cultural organizations and sports, religious, educational, environment protection, etc). In the feed-back received from collaborating organizations showed that Alum is actively involved in the local community life, with a positive and important influence.

In this respect, in 2018 Alum, as an active partner of the local community, activated on social plan on multiple directions, by:

- Ensuring, through the offered work conditions, the compliance with the human rights, the equality and the welfare of its employees. In this regard, the recruitment, the selection and the hiring of the work force are made, mainly, from Tulcea county. Also, the percentage of women employees increased from 10% in 2010 to 16, 82% in the present.
- Sponsorships for supporting events and actions in fields such as: health, social-humanitarian, social-cultural, education and schools, sports;
- Financial support for various projects initiated by non-profit associations in activities aimed at involving children in socio-cultural activities (such as "The Light Festival 2018", ”Run for a reason 2018”, national volleyball championship);
- Sponsorship for the Green Guerilla event – an annual event for ecological education through discussions related to the smart cities, recycling and collecting aluminum doses, alternative education through theatre. The event was also focused on Alum’s anniversary of 45 years of activity in the alumina industry presenting and reinstating the Company commitment for the environment protection;
- Financial support for the non-profit organization "From the heart to the smile" in the benefit of children with autism and other people in distress;
- Sponsorship for the “Rowmania FEST” event- International Rowing Boat Festival organized by the non-profit association “Ivan Patzaichin – Mila 23”;
- Financial support for Romanian Red Cross National Society - Tulcea Branch for supporting people with incurable diseases;
- Sponsorship for the School from Valea Nucarilor for equipping the computer science laboratory with computers;
- Financial support for Tulcea County Emergency Hospital in order to endow the Neonatology Section;
- Collecting funds for gifts offered during the winter and Easter holidays to the old people from the elderly persons' home in Tulcea;
- Collecting clothes, toys, food for the low-income families with several children;
- Continuing a partnership with a local instructor to offer free swimming lessons for Alum’s employees children and supporting their participation in sports competitions (swimming, triathlon, etc).

### .1.4 Internal control

Company's internal control aimes at ensuring:

- Compliance with the existing law;
- Implementation of decisions taken by the Company’s management;
- Proper functioning of the internal affairs of the Company;
- Reliability of financial information;
- The effectiveness of its operations;
- Efficient use of resources;
- Prevention and control of risks of not achieving the objectives set.

As a result, the main objectives of the internal control procedures:

- on one hand, the Company's business registration and tracking behavior of staff within the framework defined by applicable laws, values, rules and internal rules of society;
- on the other hand, checking whether the accounting, financial and business management information communicated accurately reflect the situation of society.

Control activities are an integral part of the process by which the entity seeks to achieve management objectives. Control concerns the application of rules and internal control procedures at all levels: approval, authorization, verification, assessment of operational performance, asset security, separation of functions.

## 1.5 Financial risk management policies

### a) Currency risk

The Company is exposed to foreign exchange risk because the predominant part of its sales of alumina is denominated in or linked to the USD while the vast majority of its operating costs (such as power costs, wages, etc.) are denominated in or linked to the RON. The currency exposure is related to the fact that most of the Company's receivables are linked to USD of EUR while the liabilities are denominated in RON. The Company is therefore exposed to the risk that movements in the RON/USD exchange rates will affect both its net income and financial position, as expressed in RON.

### b) Interest rate risk on cash flow and fair value

Interest rate risk on cash flow is a risk that future cash flows will fluctuate because of changes in market interest rates.
The interest rate risk is the risk that the value of a financial instrument would fluctuate as a result of the variation of the interest rates on market. Financial instruments are bearing interest at market rate, therefore it is considered that their fair values do not differ significantly from book values.

On 17 May 2018, Alum concluded a loan in amounting to USD 20 million with Black Sea Trade and Development Bank and USD 5 million with Garanti Bank Romania S.A., respectively. The scope of these loan facilities are mainly investments, and they will be repaid in seven half-yearly instalments after a grace period of two years. On 31 December 2018 the amount drawn down from these loans was of USD 15,000 thousand.

Also, in 2017, the Company has two ongoing finance lease agreements for backhoes for a period of three years. The net book value of leased assets at Company level as of December 31, 2018 was of RON 821,933 (31 December 2017: RON 1,151,637).

In 2016 the Company entered into a operating lease contract for vehicles, with lease terms of up to 5 years. The operating lease expense amounted in 2018 to RON 174,339 RON (in 2017: 94,531 RON).

### c) Credit risk

The credit risk represents the risk that one of the parties participating in the financial instrument will fail to fulfill an obligation, thus causing a financial loss to the other party.
Financial assets that expose the Company to the potential credit risk concentrations comprise mainly receivables from the main activity. The Company has policies to ensure that sales are to customers with appropriate references on their creditworthiness. Date of maturity of debt is carefully monitored and the overdue amounts are promptly pursued. These are presented at the net adjusting value for uncertain receivables.

### d) Liquidity risk

The liquidity risk, also named financing risk, is the risk that a plant has difficulties in accumulating funds in order to fulfill the obligations related to the financial instruments. The liquidity risk can arise from the inability to sell quickly a financial asset at a value close to its actual value.

Prudent liquidity risk management implies maintaining sufficient cash and available credit lines, through continuous monitoring of estimated and real cash flows and matching the estimated maturities of financial assets and liabilities. Due to the nature of the business, the Company seeks to maintain flexibility in funding opportunities, including majority shareholder support.

### 1.6 Market

In 2018 Alum had a turnover in amount of 876,425 th RON structured as follows:

| | | |
|---|---|---|
| ✓ Sales of alumina | 751,333 | th RON |
| ✓ Sales of hydrate | 123,768 | th RON |
| ✓ Revenues from sales of scrap iron and wastes | 367 | th RON |
| ✓ Revenues from sales of utilities | 517 | th RON |
| ✓ Other revenues | 440 | th RON |

### 1.7 Competition

The competition on the alumina market is given by the sale price and quality of products. In order to get an as big as possible market share, each producer supports the marketing strategy with investments in technology and continuous modernization of the production process.

Under the circumstances of a more and more competitive global market, ALUM must continue the strategy for reducing the production cost by means of reducing consumptions (development of new ecological technologies), investing in human capital and development of new, competitive and high added value products.

In this respect, under the financing contract signed on 8 September 2016, Alum SA launched a project (SMIS 2014+) co-financed under the European Regional Development through Operational Program of Competitiveness 2014-2020 " Investing in Sustainable Development ".

The project was developed in 24 month (August 2016-August 2018) for a total value of RON 20.1 million, out of which RON 12.6 million eligible subsidies (RON 6.3 million are non-reimbursable) and main object is the acquisition of various research and development equipment (hydrate drying equipment, grinding and ranking wet hydrate, etc.). In September 2018 was concluded an addendum that extended the project period with 6 months, until March 2019.

In 2017-2018 there were signed the contracts for all three equipments, for a total value of EUR 3,638 thousand, were paid the advances for all contracts in amount of EUR 1,091 thousand and were opened letters of credit in amount of 2,547 th. EUR. As of November 2018 the construction works for all three equipments have been finalized and were started the activities for training the personnel and setting up the parameters.

In 2018 the Company received as non-refundable funds the amount of RON 3,244 thousand (2017: RON 1,598 thousand).

### 1.8 Shareholding structure and share capital

| SHAREHOLDERS | Number of shares | Owned percentage (%) |
|---|---|---|
| ALRO SA SLATINA | 81,595,860 | 99.4026 |
| Other shareholders – natural persons | 487,778 | 0.5942 |
| Other shareholders – legal persons | 2,565 | 0.0031 |
| **TOTAL** | **82,086,203** | **100** |

On 31.12.2018, the share capital is of 488,412,908 RON and the number of issued shares 82,086,203.

## 2.1 Status of synthetic indicators defining company's activity as compared to the income and expenditure budget

| SYNTHETIC INDICATORS | Actual 2017 | Budget 2018 | Actual 2018 | Difference as compared to Budget | % | Difference as compared to 2017 | % |
|---|---|---|---|---|---|---|---|
| | RON | RON | RON | RON | | RON | |
| **TURNOVER** | **636,079,551** | **763,571,319** | **876,424,730** | **112,853,411** | **115** | **240,345,179** | **138** |
| **TOTAL OPERATING REVENUES** | **636,549,992** | **763,659,348** | **895,976,082** | **132,316,734** | **117** | **259,426,090** | **141** |
| **TOTAL OPERATING EXPENSES** | **614,964,996** | **738,534,414** | **841,017,713** | **102,483,298** | **114** | **226,052,717** | **137** |
| of which:- raw material and material expenses | 381,336,712 | 478,937,001 | 517,760,232 | 38,823,231 | 108 | 136,423,520 | 136 |
| - other expenses (inventory objects) | 1,857,024 | 259,584 | 1,961,774 | 1,702,190 | 756 | 104,750 | 106 |
| - energy. gas and water expenses | 148,817,556 | 169,203,909 | 195,845,288 | 26,641,379 | 116 | 47,027,732 | 132 |
| - staff expenses | 44,349,013 | 47,000,237 | 53,612,918 | 6,612,681 | 114 | 9,263,905 | 121 |
| - depreciation expenses | 17,573,308 | 16,494,325 | 18,845,068 | 2,350,743 | 114 | 1,271,760 | 107 |
| - third parties services | 21,210,512 | 26,639,358 | 33,328,170 | 6,688,812 | 125 | 12,117,659 | 157 |
| - merchandise expenses | 129,972 | - | 90,761 | 90,761 | | (39,211) | 70 |
| - other expenses (penalties. disposal of fixed assets) | 4,359,171 | - | 3,256,825 | 3,256,825 | | (1,102,346) | 75 |
| - value adjustments | (4,668,273) | | 16,316,675 | 16,316,675 | | 20,984,948 | (350) |
| **Operating result** | **21,584,997** | **25,124,934** | **54,958,369** | **29,833,435** | **219** | 33,373,373 | **255** |
| **FINANCIAL REVENUES** | 25,713,470 | 1,981,043 | 50,250,198 | 48,269,155 | 2,537 | 24,536,727 | 195 |
| **FINANCIAL EXPENSES** | 33,869,351 | 722,083 | 39,106,087 | 38,384,004 | 5,416 | 5,236,735 | 115 |
| **Financial result** | **(8,155,881)** | **1,258,960** | **11,144,111** | **9,885,151** | **885** | **19,299,992** | **(137)** |
| **TOTAL REVENUES** | 662,263,462 | 765,640,391 | 946,226,280 | 180,585,889 | 124 | 283,962,817 | 143 |
| **TOTAL EXPENSES** | 648,834,347 | 739,256,497 | 880,123,799 | 140,867,302 | 119 | 231,289,452 | 136 |
| **GROSS PROFIT** | **13,429,115** | **26,383,894** | **66,102,480** | **39,718,586** | **251** | **52,673,365** | **492** |
| **PROFIT TAX** | - | 2,767,582 | 11,924,475 | 9,156,893 | | 11,924,475 | |
| **SPECIFIC TAX** | - | 42,875 | 42,875 | - | | 42,875 | |
| **NET PROFIT** | **13,429,115** | **23,573,437** | **54,135,130** | **30,561,694** | **230** | **40,706,015** | **403** |

The turnover has been higher than the budgeted value mainly due to the increase of the sales of calcined alumina and hydrate, the main variations being as follows:

| | | Value: | |
|---|---|---|---|
| - turnover | + | 112,853 | th RON |
| The difference from forecasts was mainly determined by: | | | |
| - alumina sales | + | 52,657 | th RON |
| - hydrate sales | + | 59,049 | th RON |
| - revenues from scrap sales | + | 367 | th RON |
| - revenues from utilities sales | + | 517 | th RON |
| - other operating revenues | + | 440 | th RON |
| - revenues from stored production | + | 17,145 | th RON |

Operational expenses have been higher than the budget by RON 10,248 thousand due, mainly, to the increase of the alumina production with 49,772 mt compared to the budget, the main variations being as follows:

| | | Value: | |
|---|---|---|---|
| - raw materials and materials expenses | + | 38,823 | th RON |
| - raw materials expenses | + | 35,773 | th RON |
| - other material expenses (fuel, spare parts, auxiliary materials) | + | 3,050 | th RON |
| - energy and water expenses | - | 861 | th RON |
| - natural gas expenses | + | 25,780 | th RON |
| - goods expenses | + | 91 | th RON |
| - staff expenses | + | 6,613 | th RON |
| - value adjustments (provisions) | - | 16,317 | th RON |
| - depreciation expenses | + | 2,351 | th RON |
| - other operating expenses (sponsorships,,taxes, social aids, work protection) | + | 36 | th RON |
| - other expenses (penalties, ceased assets, other operating expenses) | + | 3,257 | th RON |
| - third parties services (commissions, insurrances, transport, processing, advertising, import – export services, etc.). | + | 6,725 | th RON |

There were no impairment indications identified for the company, therefore no impairment test of the property, plant and equipment was performed as at 31 December 2018.
According to the impairment test performed by CMF Consulting, an independent valuation company, as of December 31, 2018 there is a potential loss from receivables from SMHL in amount of RON 47,133 thousand (USD 11,570 thousand) lower than the provision recorded by the Company as of December 31, 2017 in amount of RON 51,278 thousand (USD 13,177 thousand).
According to the impairment test performed by CMF Consulting, an independent valuation company, as of December 31, 2018 there is also a potential loss from advances for bauxite paid to SMHL in amount of RON 16,940 thousand (USD 4,158 thousand) (31 December 2017: nil).

- As for the financial revenues, they were excedeed by 48,269 th RON, being due to:

| | Value: | |
|---|---|---|
| ✓ revenues from exchange rate differences | + 34,652 | th RON |
| ✓ revenues from dividends | + 14,541 | th RON |
| ✓ revenues from interests | - 924 | th RON |

- Financial expenses were exceded by 38,384 th RON and factorially, they were due to:

| | Value: | |
|---|---|---|
| ✓ expenses with exchange rate differences | + 36,961 | th RON |
| ✓ expenses with interests | + 1, 423 | th RON |

Concluding, at the end of 2018 ALUM registered a profit of 54,135 th RON compared to the budgeted profit of 23,573 th ron.

❖ **Fiscally non-deductible expenses**

The fiscally non-deductible expenses amount to 24.61 million RON of which the most important are the following:
- expenses with fiscally non-deductible value adjustments in the amount of 20.90 million RON out of which:
  - 16.94 million RON value adjustment for potential loss in raw materials and consumables;
  - 3.01 million RON value adjustment for potential loss in remunerating the employees in accordance with the provisions of the Collective Labour Contract;
  - 0.90 million RON value adjustment for pensions and similar obligations;
  - 0.04 million RON value adjustment for tangible assets depreciation;
- depreciation expenses for fixed assets revalued in 2009 in amount of 0.43 million RON;
- depreciation expenses for fixed assets revalued in 2012 in amount of 0.36 million RON;
- depreciation expenses for spare parts treated as fixed assets 0.06 million RON;

- depreciation for the value adjustment for the estimated expenses to close the red mud lake 1.02 million RON;
- other fiscally non-deductible expenses (compensations, amortization of fixed assets written off, interest for the value adjustment for the estimated expenses to close the red mud lake, fines, penalties, fuel) in the amount of 1.35 million RON.

❖ **Investments**

ALUM had forecasted and approved for 2018 an investment program in amount of 14,419 th USD.

The status of 2018 investments achievements is as follows:

| No. | Investment project | Budget (th. USD) | Actual (th. USD) | Difference (th. USD) |
|---|---|---|---|---|
| 1 | Increasing the storage capacity of the red mud pond by elevating the dikes throughout the perimeter | 950 | 335 | (575) |
| 2 | Purchasing press filters for disposal bauxite residue moisture decreasing | 650 | 0 | (488) |
| 3 | Red mud pipe, length 4,5 km (refinery to red mud pond) | 585 | 580 | 0 |
| 4 | Reducing emissions and increasing energy efficiency by installing a low NOx combustion system at boiler no. 4 | 800 | 975 | 504 |
| 5 | Burned gases fan for Steam Boiler no 2 | 300 | 0 | (300) |
| 6 | Consolidation foundations Precipitation tanks | 100 | 100 | 0 |
| 7 | Filtering process control efficiency enhancing by acquiring and installing vertical filters | 100 | 511 | 2,132 |
| 8 | Thermal energy recovery system from combustion gases of steam boilers | 50 | 0 | (50) |
| 9 | Increasing energy efficiency by thermal isolation of vessels and technological paths | 350 | 0 | (350) |
| 10 | Acquisition and installation a disc filter for coarse seed | 540 | 147 | 192 |
| 11 | Investments for maintenance and improvement of equipment parameters - Alum (PPE) 2018 | 2,124 | 2,720 | 722 |
| 12 | Plant economic lightning | 100 | 46 | (54) |
| 13 | Replacing the obsolete equipments, Endowments 2018 | 150 | 2,255 | 491 |
| 14 | New natural gas burners at Steam Boiler no 1 (low Nox) | 2,108 | 200 | 5 |
| 15 | Optimization of steam lines and installing steam traps in 2 Digestion batteries | 205 | 16 | (334) |
| 16 | Maintenance Capex (Digestion modernization - autoclaves registers and agitators for 2 Digestion and Evaporation batteries) | 350 | 394 | (136) |
| 17 | Modernization 6 kV electrical installations (capacitors, electric cells, electric circuits) | 600 | 374 | 74 |
| 18 | Increasing energy efficiency by installing frequency converters | 300 | 106 | (144) |
| 19 | Alum Increasing competitiveness by installing equipment to obtain wet and dry hydrate:<br>- Drying hydrate equipment<br>- Hydrate grinding and classifying equipment<br>- Wet hydrate classifying equipment | 3,100 | 3,049 | (18) |
| 20 | Site arrangement and installation of hydrate drying, grinding and classification equipment | 857 | 849 | (8) |
| **TOTAL** | | **14,419** | **12,657** | **(1,662)** |

❖ **Litigations status**

On 31,12,2018 ALUM is involved in some litigations as a result of its normal activity.
On the basis of the legal consulting provided by the Company's lawyers, the management considers that those litigations won't have negative effects on the results or on the financial postion of the Company,
On December 31, 2018 the Company had in its balance the amount of 231,493 RON for uncertain clients or under litigation, amount for which value adjustment is registered.

**2.2 Economic indicators chart**

| Caption | 2017 | 2018 |
|---|---|---|
| **Liquidity ratios** | | |
| Current liquidity ratio (current capital ratio) | 1.48 | 2.58 |
| Quick liquidity ratio (acid test) | 0.19 | 0.14 |
| **Risk ratios** | | |
| Gearing | - | 19.89 |
| Interest cover ratio | 11.42 | 31.82 |
| **Activity ratios (management ratios)** | | |
| Turnover of inventories | 1.94 | 2.38 |
| Days in store | 187.82 | 153.32 |
| Turnover of trade receivables – days | 10.05 | 6.65 |
| Turnover of trade payables – days | 32.17 | 24.92 |
| Turnover of fixed assets | 3.86 | 4.89 |
| Turnover of total assets | 1.24 | 1.62 |
| **Profitability ratios** | | |
| Profitability of capital employed | 0.06 | 0.19 |
| Gross margin from sales – % | 3.39 | 6.27 |
| Result per share RON | 0.16 | 0.66 |

Analyzing the economic – financial indicators, the following conclusions may be drawn:

- the inventory turnover increased as compared to the previous year due to the increase of cost of sales more than the increase of stocks.
- as regards the receivables recovery period, respectively the period for reimbursing the debts, ALUM collects its receivables at 7 days and pays its commercial debts at 25 days.
- regarding the fixed assets turnover, it increased due to the increase of turnover more than the increase of the fixed assets.
- the turnover of the total assets increased due to the increase of the turnover more than the increase of total assets.

**2.3 Profit and loss account**

Considering all the above. we submit to the approval of the General Shareholders Meeting the following:

- profit and loss account
- balance sheet
- statement of changes in equity
- statement of cashflows
- notes to financial statements
- approval of net profit distribution

**2.4 Discharging from liabilities of the Board of Directors for 2018**

For the period 01.01.2018 – 31.12.2018 based on the Decision of the Ordinary Shareholders Meeting no. 37/14.08.2015, the Board of Directors consisted of:

| | | |
|---|---|---|
| 1.Dobra Gheorghe | - | Chairman |
| 2.Barabanov Aleksandr | - | Vice Chairman |
| 3.Cilianu Marin | - | Member |
| 4.Popa Ioan | - | Member |
| 5.Duralia Mihaela | - | Member |

We propose the discharge from liabilities of the Board of Directors of ALUM SA Tulcea for 2018.

**CHAIRMAN OF THE BOARD OF DIRECTORS**
**PhD Eng Gheorghe Dobra**