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alro

# Financial Results for FY2019 – ALRO Group (BSE: ALR)

27 March 2020



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*Note: in this presentation, whenever we refer to ALRO Group we present consolidated figures and when we refer to ALRO we present stand-alone figures*

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# Agenda

Topics	Presenter
• Overview & Market Outlook	 <p><b>Marian NĂSTASE</b> <i>Chairman of the Board of Directors</i></p>
• Operational Highlights	 <p><b>Gheorghe DOBRA</b> <i>Chief Executive Officer</i></p>
• Financial Highlights	 <p><b>Genoveva NĂSTASE</b> <i>Chief Financial Officer</i></p>

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# Overview – ALRO Group

## In FY2019 compared to FY2018:

- **Production of flat-rolled products (“FRP”)** increased by 8% YoY and by 13% in 4Q 2019 versus 4Q 2018, while primary products output slightly decreased by less than 1% YoY and by 5% in 4Q 2019 YoY. Lower output levels YoY were registered for extruded products, alumina and bauxite.
- **Total volumes of aluminium products delivered** showed slightly increased levels YoY. In 2019, both deliveries of primary and processed products gained 1% YoY, with increased levels of value-added flat rolled product deliveries (+4% YoY). **Revenues from sales of aluminium products in RON decreased** by 3% YoY on a weak LME (-15% YoY in 2019 and -11% YoY in Q4 2019). For the other **upstream products**, the focus remained in 4Q, too, on covering the Group’s internal needs; however the bauxite segment increased its deliveries to third party significantly in 2019 (+88% YoY and +130% QoQ), while for alumina and hydrate the market continued to be a tough one after Alunorte embargo lifting in May 2019.
- **EBITDA** decreased by 49% YoY, on higher COGS mainly due to prohibitive electricity costs registered on the Romanian market that continued in Q4 to exercise a strong pressure on operations. As a direct result the overall result for 2019 is a loss of RON 67 million compared to a profit of RON 235 million in 2018.
- Aluminium sector continued in Q4 the same turbulent period as shown in 1-3Q 2019. However, aluminium remains one of the strongest vectors for decarbonisation of the economy.

	2019	2018	YoY	4Q 2019	4Q 2018	YoY	QoQ
LME aluminium price (USD/tonne)	1,791	2,110	-15.1%	1,752	1,971	-11.1%	-0.5%
Electrolytic aluminium production (tonnes)	199,928	210,522	-5.0%	48,951	52,873	-7.4%	-3.7%
Liquid aluminium production (tonnes)	29,444	30,941	-4.8%	3,572	8,234	-56.6%	-58.2%
Primary aluminium production (tonnes)	280,326	282,810	-0.9%	65,486	69,106	-5.2%	-9.3%
Processed aluminium production (tonnes)	104,614	100,501	4.1%	25,450	23,179	9.8%	3.5%
Alumina production (tonnes)	460,911	571,772	-19.4%	103,625	148,139	-30.0%	-20.7%
Bauxite production (tonnes)	1,883,863	1,938,461	-2.8%	356,175	367,774	-3.2%	-13.2%
Sales (RON '000)	2,777,801	2,982,501	-6.9%	615,448	686,133	-10.3%	-6.2%
EBITDA <sup>1</sup> (RON '000)	247,206	485,694	-49.1%	13,543	83,937	-83.9%	-1031.4%
EBITDA margin (ppt)	9	16	-7.4%	2.2	12.2	-10.0%	2.4%
Adjusted net profit/(loss) <sup>2</sup> (RON '000)	(53,336)	249,078	-121.4%	(34,577)	15,981	-316.4%	-63.6%
Net profit/(loss) (RON '000)	(67,237)	235,327	-128.6%	(45,618)	11,792	-486.9%	-55.5%

The information presented in this slide relates to ALRO consolidated results, is prepared in accordance with IFRS and is audited (other than the non-IFRS measures of EBITDA, EBITDA margin and Adjusted Net Result)

<sup>1</sup> EBITDA: earnings before interest, taxes, depreciation, amortization and impairment

<sup>2</sup> Adjusted net result: the Company's net result plus/(minus) non-current assets impairment, plus/(minus) the loss/(gain) from derivative financial for which hedge accounting was not applied, plus/(minus) deferred tax

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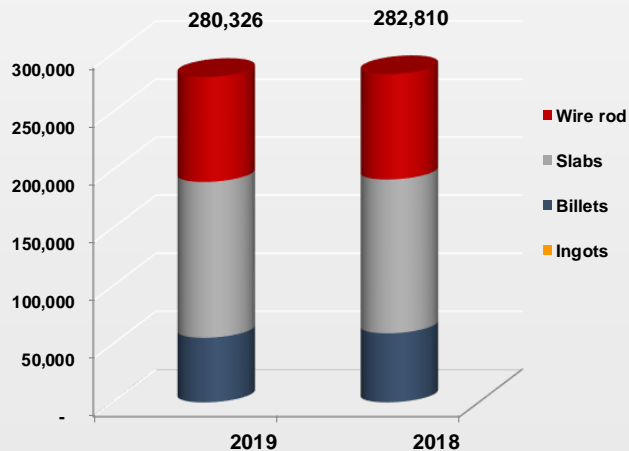
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# Operational Highlights – Production

## Aluminium flat rolled & primary products – stable results in a challenging environment

Primary aluminium production (tonnes)

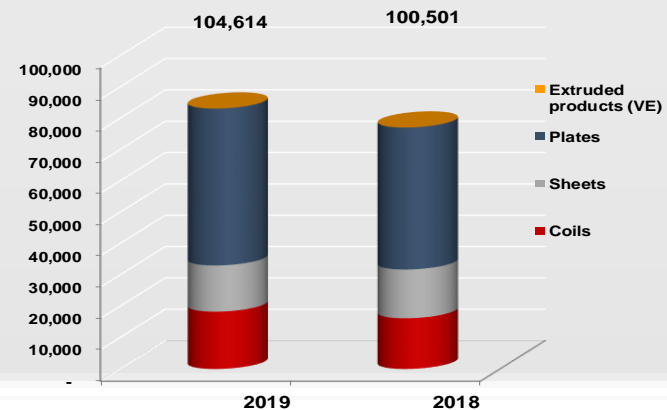


■ In **2019**, primary aluminium production decreased slightly, by 0.9% YoY, mainly due to billets as this market was affected by oversupply, mostly offset by the slabs output increase. In **4Q 2019** alone, the primary aluminium output decreased by 9% QoQ and by 5% YoY as we experienced a deteriorated market starting September and the end-users consumed from the accumulated stocks in the last quarter.

■ Regarding, ALRO's production of electrolytic and liquid aluminium (from aluminium scrap), both decreased by 5% YoY mainly due to **4Q figures** which were affected by a slowdown in demand which was further reflected in the overall output levels.

- In **2019**, the flat rolled products output increased by 8% versus 2018 and by 6% in **4Q 2019** QoQ. Of the flat rolled products, the output of plates and coils increased YoY (+11% and +13%, respectively) partially offset by the reduction in the production of sheets (-5% YoY). However, the economic slowdown in Europe (mainly derived from Germany) and the worldwide turmoil continue to put pressure on the entire industry both on supply and demand;
- Vimetco Extrusion's ("VE") output registered a 8% drop YoY in 2019, while the figures QoQ showed a 6% decrease. This trend was due to the very poor performance of the automotive and construction industries; these, together with the concern about future economic growth made the extrusion sector the most affected one. However, VE has managed to increase since 2018 its higher value-added special profiles, but these require a longer production process, and at the same time come with higher premiums.

Processed aluminium production (tonnes)



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# Operational Highlights – Production

**Alumina and Bauxite – 2019 results were in line with the overall market evolution**

## Bauxite – SMHL, Sierra Leone

- In 2019, **SMHL's production of commercial bauxite** was slightly lower by 3% YoY and by 13% lower in 4Q 2019 QoQ;
- **Sales of bauxite** decreased by 7% YoY in 2019 in volume terms, but the drop comes mainly from 1Q (-11%) and 3Q (-20%), partially offset by 2Q sales (+0.3%) and by 4Q sales (+6%) YoY. Sales to Alum decreased YoY (-17%) and decreased QoQ in 4Q 2019 by 42% due to the adverse environment faced by ALUM which had to diminish its production. Therefore, sales to third parties increased by 88% YoY with a similar trend QoQ, too.
- **Bauxite sales value** slightly decreased in RON due to lower overall sales and due to a weaker RON versus USD during the reporting period. However, in 4Q 2019, sales revenues in RON increased YoY (+12%).
- SMHL contributed in 2019 to **ALRO Group's EBITDA** with RON 32 million, 18% higher YoY.

## Alumina – ALUM, Romania

- **ALUM's output** decreased by 19% YoY in 2019 and by 21% QoQ in 4Q 2019, in line with the drop in sales, as a direct consequence of lower alumina prices in 2019 (i.e. according to benchmark indexes these decreased by about 30% compared to 2018 due to an oversupplied market and declining alumina quotations);
- **Sales value in 2019** to third parties decreased by 48.6% YoY and alumina delivered to ALRO increased by 7% YoY in 2019;
- ALUM contributed in 2019 to **ALRO Group's EBITDA** with RON 55 million, 27% less YoY.

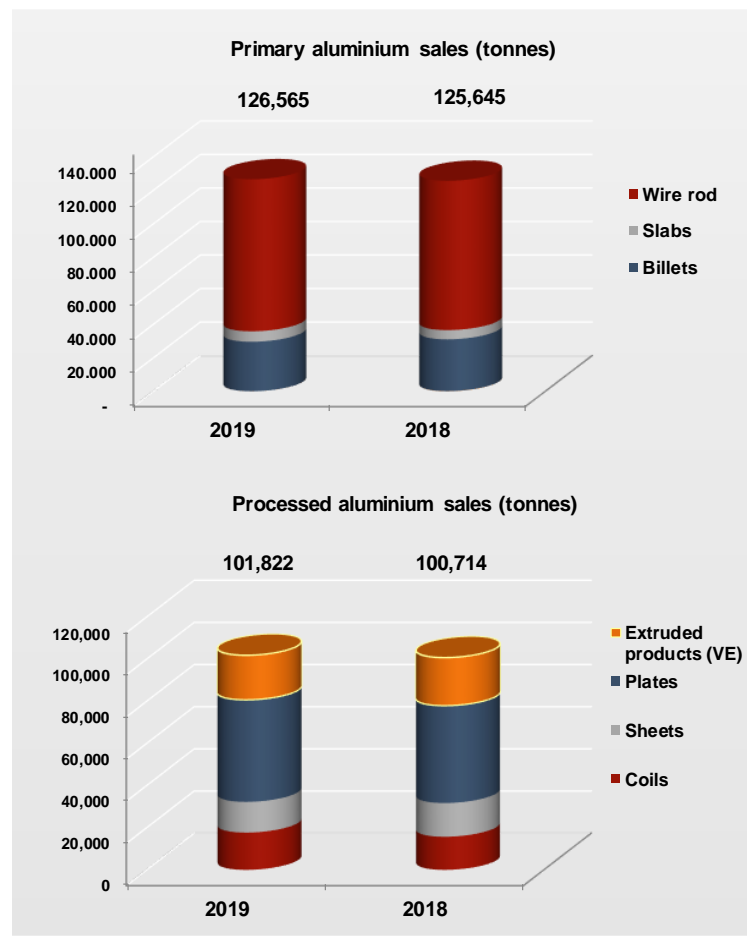
Indicator	2019	2018	YoY (%)	Q4 2019	Q4 2018	YoY (%)	Indicator	2019	2018	YoY (%)	Q4 2019	Q4 2018	YoY (%)
Production of bauxite, net (tonnes)	1,883,863	1,938,461	-3%	356,175	367,774	-3%	Production of alumina (tonnes)	460,911	571,772	-19%	103,625	148,139	-30%
Sales bauxite (USD '000)	63,743	67,413	-5%	11,985	11,291	6%	Sales of alumina & hydrate (RON '000)	782,433	875,278	-11%	178,879	242,109	-26%
Sales bauxite (RON '000)	273,092	274,346	-0.5%	51,585	46,107	12%	- of which, intercompany (RON '000)	642,405	602,761	7%	152,872	178,340	-14%

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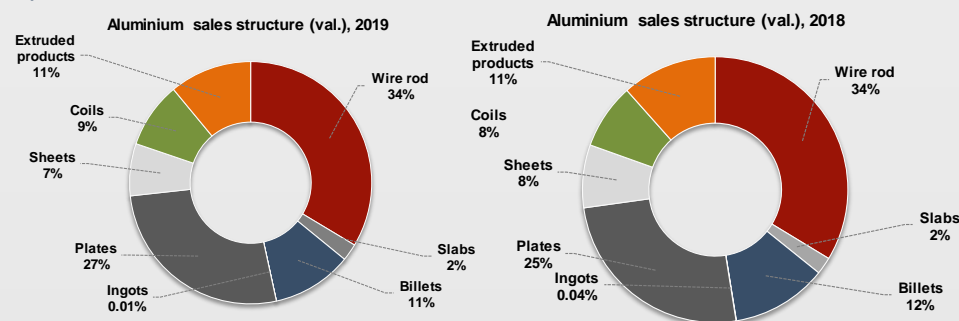
# Operational Highlights – Sales

*Aluminium – FRP remains the key direction for mitigating reduced LME levels*



In 2019, ALRO Group's sales of **primary products** slightly increased by 1% YoY in volume terms and by 6% QoQ due to slabs and wire rod sales YoY (+13% and 2%, respectively) as some of the clients resumed their projects towards the end of the year, partially offset by weaker sales of billets (-4.4% YoY) mainly due to a decline in orders for extruded products in 4Q 2019 as a direct consequence of the poor performance of the automotive and construction industries.

In **value terms**, sales of **primary products** decreased by 5% YoY in 2019, mainly due to a weaker LME, that could not be offset by an increased premia.



**Processed product** sales volume increased by 1.1% YoY in 2019. Of these, **flat rolled product sales (FRP)** increased by 3.6% YoY, on higher plates (+4.8%) and coils (+12.6%), in volume terms. **Extruded** products sales decreased by 7.3% YoY in 2019.

In **value terms**, sales of **processed products** slightly decreased by 1.62% YoY in 2019, as the significant drop in LME was compensated by favourable FX rate in 2019.

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# Market Outlook (1/3)

## **General overview – 2019 was a tough one and 4Q came with even more challenges**

❑ **COVID-19:** At the end of 2019, China announced that it faced a new type of virus, initially called “the novel coronavirus” and later officially named “Covid-19”. It appeared originally in the city of Wuhan, China, and affects the respiratory system of humans. Being extremely easily transmitted it quickly led to an epidemics all around the world. As of now, over 400,000 cases were reported worldwide and 20,000 deaths, which determined worldwide governments to take extraordinary measures such as limiting the movement of persons and even restricting businesses. The current unprecedented situation might have some negative outcomes due to the economic slowdown caused by the temporary closure of businesses and freezing of activities in the most affected countries. Concerning the aluminium industry, a drop of the aluminium price was registered in 2020: from an average of 1,791 USD/tonne (LME cash seller in December 2019) to 1,772 USD/tonne in January 2020 and further to 1,686 USD/tonne in February 2020. Nevertheless, the aluminium market has seen even lower quotations in the past and such volatility is normal to the industry.

### ❑ International environment:

- **Primary:** wire rod experienced a tough year especially because starting with January the sanctions on Rusal were removed and this has increased the pressure on European wire rod producers for the first quarters; however in 4Q a recovery was experienced, especially derived from the cable sector performance where demand significantly increased. For billets, demand was stable until September, when the market started to decline and showed a reduced demand as clients reported high stocks. The same situation was shown by the demand for extruded products;
- **FRP:** at the end of 2019, the European aluminium rolled products markets remained under serious downward pressure due to an economic slowdown in Germany which continued to expand its effects across Europe. With few signs of a breakthrough in US-China trade discussions and continued uncertainty around Brexit matter, an escalating trade conflict between the US and Europe followed by and the ongoing flow of Chinese sheet and plate into Europe, and the recent signs of economic slowdown due to Covid-19 pandemics, the outlook for German and European growth in demand for rolled products remains under a question mark at the moment;

Even though the LME quotations maintained their decreasing trend in 2019 and a general slowdown of the world economy is expected due to the involvement of a multitude of factors as mentioned above, a global positive growth trend is expected for the next years;

- **Depressed LME in 2019** – LME quotation continued to drop in the analyzed period and reported values by 15% lower YoY in 2019 and by 0.5% QoQ in 4Q 2019.

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# Market Outlook (2/3)

## **General overview (continued) – Romanian energy market and indirect carbon costs**

- in 2019, the energy supply in Romania remained a challenge as nearly 40% of the national electricity consumption was covered by the supply from transactions on the day-ahead market leading to price distortions. The energy market is highly volatile and thus, the spot prices reached very high levels during the past years and especially in 2019 which led to a direct negative impact on final consumers, in general, and on energy-intensive users, such as ALRO, in particular;
- The ETS Directive provides State aids for certain undertakings to compensate for increases in electricity prices resulting from the inclusion of the costs of greenhouse gas emissions due to the EU ETS, commonly referred to as “indirect emission costs” which further increased the price of electricity for large industrial consumers. Higher electricity prices mean bottom end reduced competitiveness of the electricity-intensive industries in Romania operating in internationally traded goods markets, as compared with other countries that do not capture carbon costs within the same industries and are actively supported by the countries in which they activate;
- At the end of December 2019, the Romanian Government committed to implementing a State aid scheme to compensate the companies significantly impacted by the EU-ETS Directive for a share of their indirect emission costs. The State aid scheme is a transposition of the provisions resulting from the EU ETS Guidelines 2012/C 158/ 04. Such European support schemes have been in force since 2012 and already applied in 12 European states – Germany, France, Spain, Norway, Finland, Hungary, Greece, Latvia – states in which ALRO has strong competitors. The scheme offers a direct subsidy for the compensation of costs relating to greenhouse gas emissions passed on in the electricity price for the economic agents from various fields of activity, to preserve their competitiveness. The European Guidelines are defining also the list of industrial sectors which qualify for the direct subsidy as well as the formula of implementation, in the smallest details.
- For ALRO, as well as for companies from other 15 Romanian industrial sectors and 8 subsectors these compensations have the role of counteracting the high energy price on the overall cost. Moreover, the source of funds for the actual compensation comes from the auctioning of the greenhouse gas emission certificates attributed freely by the European Union to Romania. Therefore, the scheme is supported directly from this mechanism implemented across the European Union and is not affecting the rest of the Romanian consumers.

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# Market Outlook (3/3)

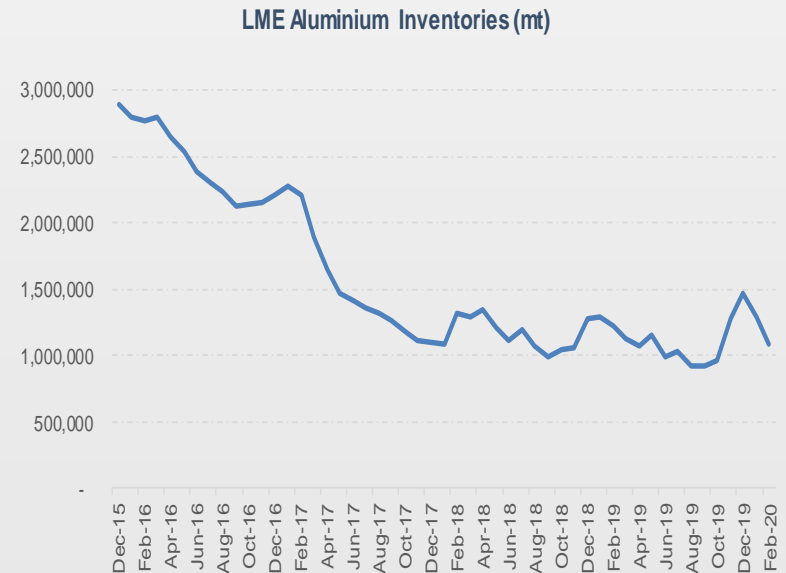
## General overview (continued) – Supply and ESG nowadays

- LME inventories started to show an ascending trend in 4Q 2019

Holdings of aluminium in London Metal Exchange warehouses grew by almost 60% in 4Q 2019; however, it seems like a peak was registered at the end of 2019 most probably linked to some financial transactions, as the level at the end of February 2020 decreased again by 30% compared to December 2019.

- Aluminium = vector for decarbonisation in the context of the New Green Deal

Aluminium represents one of the strongest means of decarbonisation of the economy with an increasing role in mobility solutions (i.e. electric cars), cargo and freight (i.e. aluminium railway cars), in deployment of wider solutions for renewables (i.e. aluminium frames for solar panels) and lighter, energy-friendly buildings. In the context of the New Green Deal, which will position Europe as a global leader for the fight against climate change, based on the impact studies which are either in progress or about to be launched at the European and member state level, will reaffirm the importance of aluminium as vector of decarbonisation and one of the key elements to achieve both the 2030 and 2050 targets.



Source: Bloomberg

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# Financial Performance – ALRO Group

## Anti-crisis program implemented in an adverse market

### Income Statement

RON '000	2019	2018	4Q 2019	4Q 2018	YoY change	QoQ change
Sales	2,777,801	2,982,501	615,448	686,133	-10.3%	-6.2%
Cost of goods sold	-2,550,785	-2,312,624	-587,647	-552,536	6.4%	-5.3%
<b>Gross profit</b>	<b>227,016</b>	<b>669,877</b>	<b>27,801</b>	<b>133,597</b>	<b>-79.2%</b>	<b>-22%</b>
Gross profit margin	8.2%	22.5%	4.5%	19.5%	-15.0%	-0.9%
G&A and selling expenses	-280,238	-310,921	-71,462	-83,152	-14.1%	39.4%
Other operating income	167,755	11,376	19,221	4,714	307.7%	397.1%
Other operating expense	-15,292	-8,492	-2,347	-1,577	48.8%	-71.8%
<b>Operating result (EBIT)</b>	<b>99,241</b>	<b>361,840</b>	<b>-26,787</b>	<b>53,582</b>	<b>-150.0%</b>	<b>-34%</b>
Interest expenses	-77,334	-47,309	-19,647	-12,882	52.5%	3.1%
Gains/(losses) from derivative financial instruments, net	-3,598	35,161	2,562	8,221	-68.8%	-137.3%
Other financial costs, net	-16,505	-14,961	-3,572	-3,872	-7.7%	-3.1%
Net FX gains / (losses)	-34,589	-19,637	16,071	-7,325	-319.4%	-144.3%
<b>Result before income taxes</b>	<b>-32,785</b>	<b>315,094</b>	<b>-31,373</b>	<b>37,724</b>	<b>-183.2%</b>	<b>-70%</b>
Income tax	-34,452	-79,767	-13,143	-25,932	-49.3%	-447.3%
<b>Result for the period</b>	<b>-67,237</b>	<b>235,327</b>	<b>-44,516</b>	<b>11,792</b>	<b>-477.5%</b>	<b>-57%</b>
Adjusted net result	-53,336	249,078	-34,648	15,981	-316.8%	-63.6%
EBITDA	247,206	485,694	13,543	83,937	-83.9%	-1031.4%

In 2019 and 4Q 2019, the Company faced adverse circumstances as LME showed a 15% decrease in 2019 compared to 2018 (and by -11% in 4Q 2019 YoY), the excess output led to downward selling prices, and moreover, the Group had to face higher utility prices (energy and gas) YoY. Therefore, the Group's gross margin decreased in 2019 to 8.2% from 22.5% in 2018. However, the anti-crisis program started in H2 2019 containing cost reductions and cash flow optimization measures such as: postpone the investments except the maintenance CAPEX and of those compulsory from an environmental and energy efficiency point of view; lowering the inventories level; minimising the scrap acquisitions in line with the FRPs demand; reducing the raw materials level; limiting the aluminium electrolytic production by decreasing the energy intensity and delaying some capital repairs for the pots, concomitantly with a change in sales mix structure by raising the quantities of high value-added products managed to minimize the losses level to RON 67 million for 2019.

**Sales:** In 2019, 90% of total Group sales (87% in 2018) were made by ALRO's third-party sales and the processed aluminium products contribution to total sales both by ALRO and Vimetco Extrusion was of 49% of total in 2019 vs. 46% in 2018.

**Other operating income:** includes amounts coming from the sale of emissions certificates and from provision reversals.

**Interest expenses:** higher amounts due to additional loans contracted in 2019 and due to higher LIBOR and ROBOR rates.

**FX gain/(loss):** the RON depreciated against the USD in 2019.

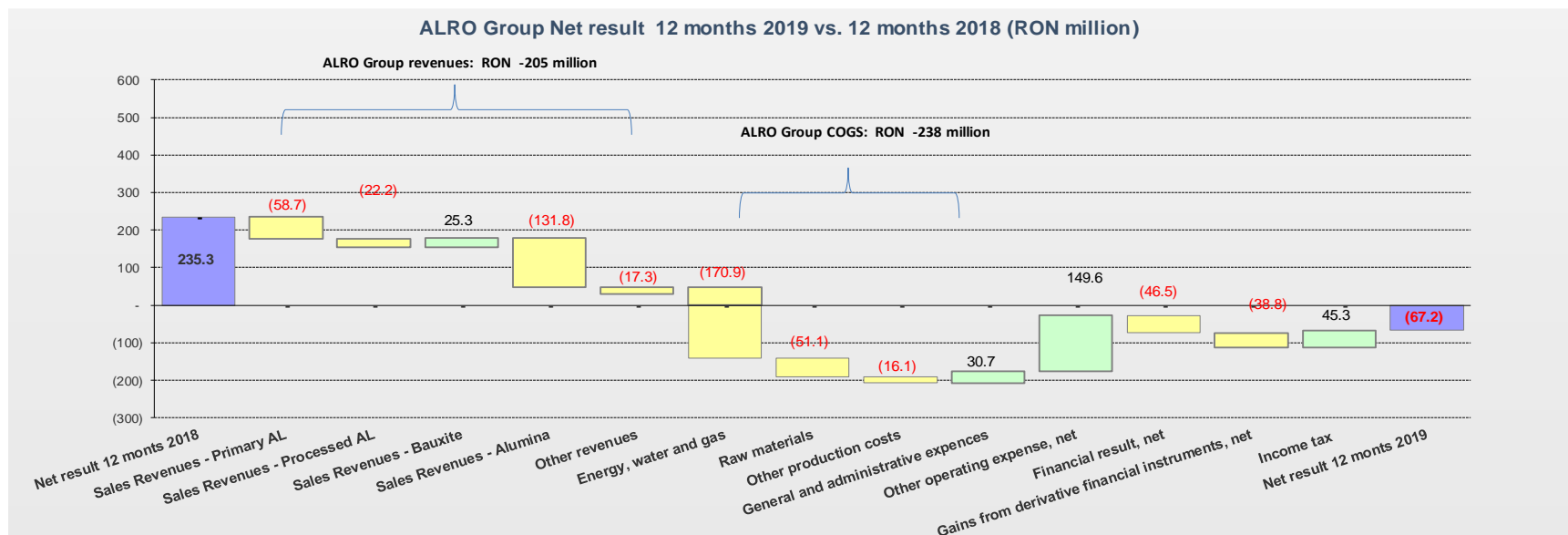
**Note:** Adjusted net result: the Company's net result plus/(minus) non-current assets impairment, plus/(minus) the loss/(gain) from derivative financial instruments that do not qualify for hedge accounting, plus/(minus) deferred tax; please find detailed calculation of Adjusted Net Result under Appendix 'Supporting information'

EBITDA: earnings before interest, taxes, depreciation, amortization and impairment

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# Financial Performance – ALRO Group

## *FY2019 Net result evolution versus FY2018*



**Revenues:** positive contribution from bauxite on higher unit prices and weaker RON versus USD.

**Energy, water and gas:** electricity unit price increased in 2019 versus 2018 (by 22% in RON terms). Natural gas unit price increased by 24.2% increasing even more the pressure on Alum's refining costs.

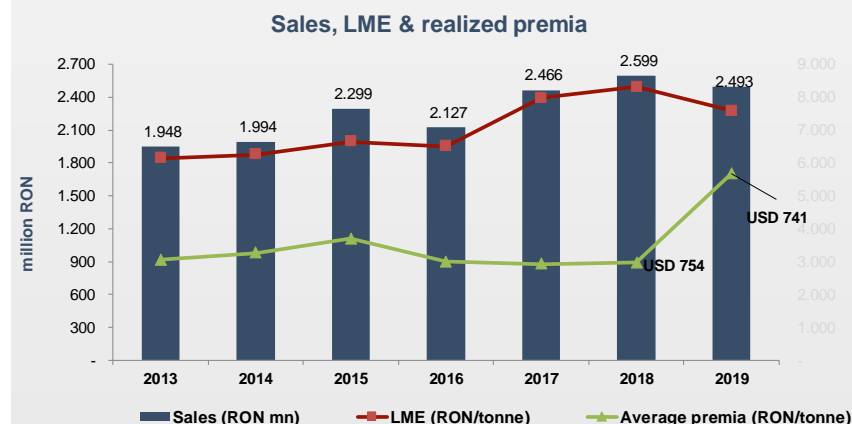
**Raw materials & other production costs:** negative contribution mainly due to higher unit cost of petroleum coke, coal tar pitch and magnesium.

**Other operating expense, net of other operating revenues:** positive impact from sale of emissions certificates.

**Gains from derivative financial instruments, net:** in 2019 ALRO registered a loss from the foreign exchange options vs. a gain resulting from the commodity options exercised during 2018.

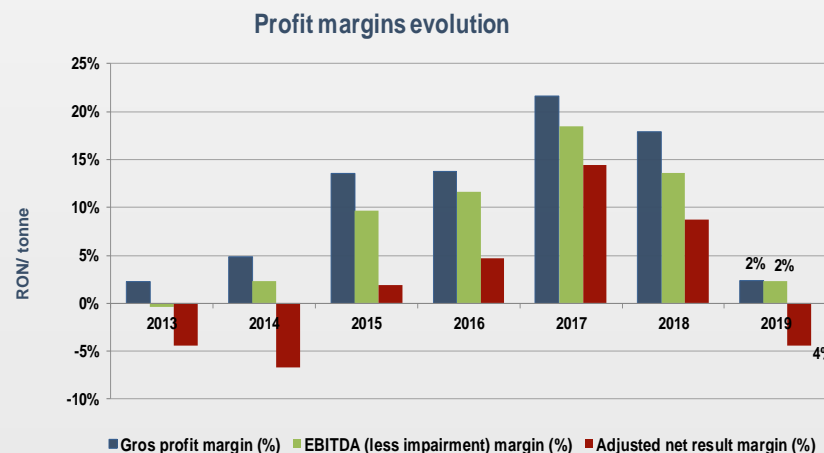
# ALRO stand alone summary

*Lower results, but in line with the national and international adverse environment*



ALRO's **sales revenues** decreased, by 4% YoY in 2019 due to lower LME quotations, with the drop of primary aluminium sales volumes partially offset by higher premia for primary products, a supportive FX rate and higher flat rolled product sales volumes versus 2018.

In 2019, premia for primary products increased by 0.98% YoY in USD terms and by 8.8% YoY in RON, premia for flat rolled products decreased by 5% in USD and increased by 2.3% in RON terms.



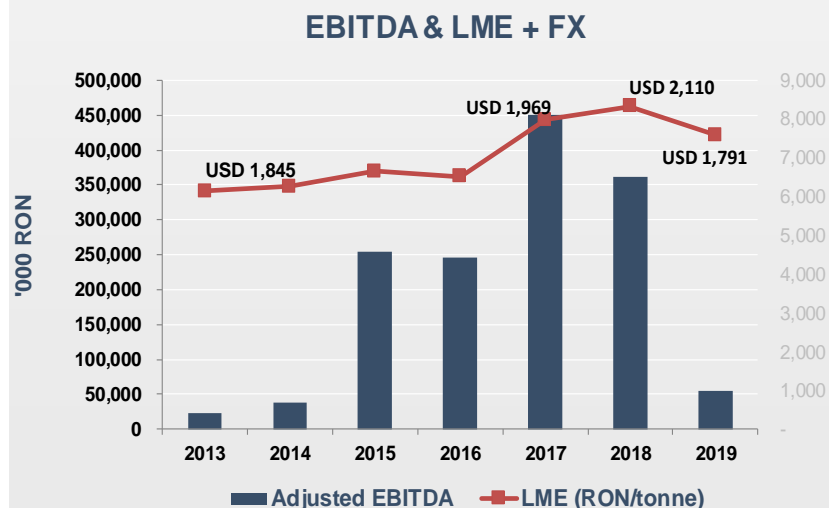
NB: Adjusted net result: the Company's net result plus/(minus) non-current assets impairment, plus/(minus) the loss/(gain) from derivative financial instruments that do not qualify for hedge accounting, plus/(minus) deferred tax;

Profitability in 2019 remained lower versus a year ago, due to the macro-economic current status (i.e. US tariffs, Brexit negotiations, China overcapacity, Alunorte being fully operational etc.) and with the particularities of the Romanian energy market (prohibitive energy prices in Romania which increased by 50% in the last three years which is quite unusual for other CEE countries). However, these negative aspects could only be just partially mitigated by decreased prices of some of the raw materials, such as coal tar pitch and petroleum coke.

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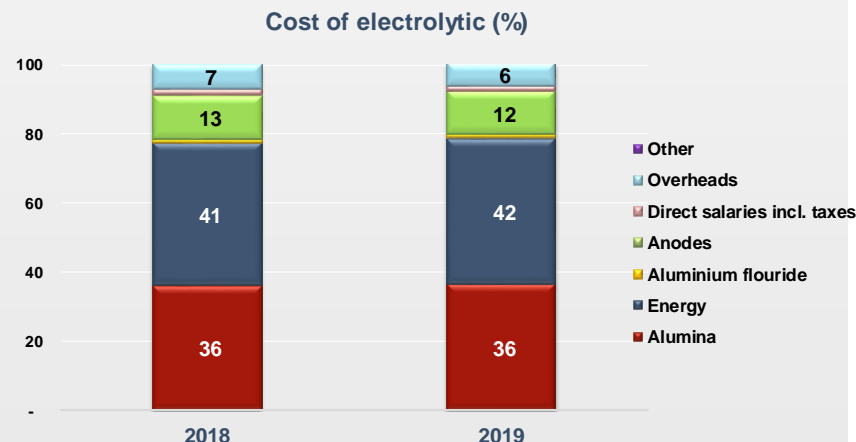
# Alro stand alone summary

## Lower EBITDA mainly due to depressed LME



In 2019, ALRO's stand alone EBITDA adjusted for one-offs was lower YoY, on lower LME and very high utilities and material costs, which put severe pressure on company's margins.

*Note: Adjusted EBITDA: earnings before interest, taxes, depreciation, amortization and impairment, plus/(minus) the loss/(gain) from derivative financial for which hedge accounting was not applied, adjusted for extraordinary cost or revenues items; please find detailed calculation of adjusted EBITDA under Appendix 'Supporting information'*



In 2019 the cost of electrolytic aluminium kept its structure with small changes in the share of anodes which slightly decreased – i.e. 12% compared to 13% in 2018 and costs of alumina (i.e. 6% vs. 7% in 2018), while the energy cost per tonne of electrolytic increased to 42%.

As for the ecotaxes, their % of EBITDA before eco-taxes was 53% in 2019 (12% in 2018 and 36% in 1-3Q 2019), mainly on lower EBITDA and on increase in green certificate costs plus cogeneration tax. In absolute terms, in 2019 eco-taxes increased by 31% YoY.

ALRO registered in 2019 RON 66 million for eco-taxes (RON 50.4 million in 2018) and approx. RON 906 million since 2010.

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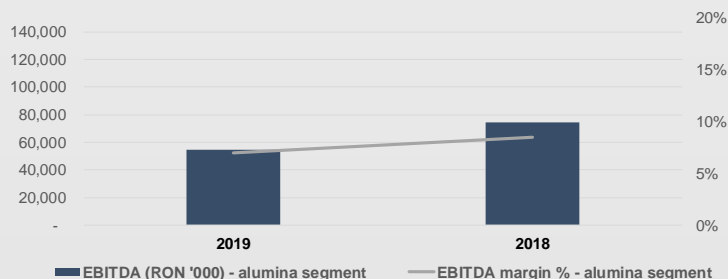


# BAUXITE and ALUMINA segments

## ALUM – still good results in a challenging environment

- In 2019, ALUM sold alumina and hydrate in amount of RON 782 million, lower by 11% YoY than the level registered in 2018. Due to market conditions (i.e. lower alumina sales prices mainly due to oversupply on the international market with Alunorte starting at full capacity in May 2019), the sales to external customers were reduced – by 49% YoY vs. 2018 as it was more economically viable to support mainly the Group's needs during the analyzed period.
- In 2019 alumina segment's EBITDA contributed to the Group's EBITDA by 22% vs. 15% in 2018. EBITDA margin was 7% in 2019 vs. 9% in 2018.

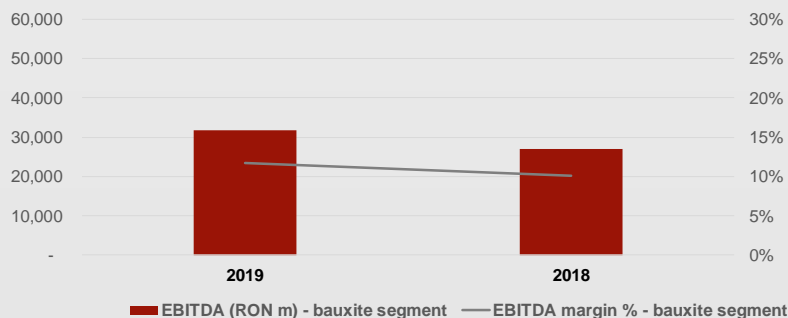
Alumina segment's EBITDA\* in 2019



## SMHL – stable results in 2019

- In 2019, SMHL **sold** bauxite in amount of RON 270 million, 2% higher than in 2018. Sales to external clients almost doubled in the same analyzed period, the company taking advantage of the favourable market conditions.
- In 2019 bauxite segment's EBITDA contributed to the Group's EBITDA by 13% vs. 6% in 2018. EBITDA margin was 12% in 2019 vs. 10% in 2018.

Bauxite segment's EBITDA\* in 2019



**Note** \*: Sales and EBITDA on this slide are calculated considering the inter-segment transfers of the bauxite and alumina segments at complete cost.

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# Financial Performance – Alro Group

## Statement of Financial Position (1 of 2)

RON '000	Dec/19	Dec/18	YoY change
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1,169,009	1,190,373	-1.8%
Investment properties	696	-	n/m
Intangible assets	9,611	6,934	38.6%
Goodwill	94,284	90,837	3.8%
Right-of-use assets	13,258	-	n/m
Deferred tax asset	37,294	50,354	-25.9%
Other non-current assets	3,866	52,634	-92.7%
<b>Total non-current assets</b>	<b>1,328,018</b>	<b>1,391,132</b>	<b>-4.5%</b>
<b>Current assets</b>			
Inventories	828,948	835,029	-0.7%
Trade receivables, net	76,352	70,126	8.9%
Current income tax receivable	6,225	-	n/m
Other current assets	93,137	431,178	-78.4%
Restricted cash	46,164	8,370	451.5%
Cash and cash equivalents	83,182	203,609	-59.1%
<b>Total current assets</b>	<b>1,134,008</b>	<b>1,548,312</b>	<b>-26.8%</b>
<b>Total assets</b>	<b>2,462,026</b>	<b>2,939,444</b>	<b>-16.2%</b>

**P,P&E and intangibles:** In 2019, ALRO Group acquired PP&E worth RON 133.5 million compared to RON 305 million in 2018 as it implemented since H2 2019 an anti-crisis program and the Group has postponed a major part of its the investments except the maintenance CAPEX and of those compulsory from an environmental and energy efficiency point of view. Of this total amount, 46% was spent by ALRO.

**Other non-current assets:** Starting 1 January 2019 the Group has applied *IFRS 16 Leases* and recognized as non-current assets the right to use the underlying asset during the lease term amounting to RON 14.9 million. The carrying value of the right of use assets at 31 December 2019 was RON 13 million.

**Restricted cash:** the Group and the Company have RON 45.2 million representing cash placed with a bank until November 2020 for a revolving loan and a non-cash facility contracted by the Company (i.e. this amount was included in *Other non-current assets* position at the end of 2018 due to the maturity of the deposits).

# Financial Performance – Alro Group

## Statement of Financial Position (2 of 2)

RON '000	Dec/19	Dec/18	YoY change
<b>Shareholders' Equity</b>			
Share capital	370,037	370,037	0.0%
Share premium	86,351	86,351	0.0%
Other reserves	342,667	344,333	-0.5%
Retained earnings	36,446	135,358	-73.1%
Result for the period	(67,734)	235,006	-128.8%
<b>Equity attributable to shareholders of Alro</b>	<b>767,767</b>	<b>1,171,085</b>	<b>-34.4%</b>
Non-controlling interest	2,185	1,739	25.6%
<b>TOTAL EQUITY</b>	<b>769,952</b>	<b>1,172,824</b>	<b>-34.4%</b>
<b>Non-current liabilities</b>			
Bank and other loans, non-current	374,271	870,781	-57.0%
Lease, non-current	6,161	3,550	73.5%
Provisions, non-current	36,704	32,854	11.7%
Post-employment benefit obligations	46,637	42,610	9.5%
Government grants, non-current portion	47,970	49,956	-4.0%
Other non-current liabilities	890	3,601	-75.3%
<b>Total non-current liabilities</b>	<b>512,633</b>	<b>1,003,352</b>	<b>-48.9%</b>
<b>Current liabilities</b>			
Bank and other loans, current	869,667	73,563	1082.2%
Lease, current	4,321	2,500	72.8%
Provisions, current	2,793	31,233	-91.1%
Trade and other payables	206,386	210,750	-2.1%
Current income taxes payable	2,551	14,300	-82.2%
Government grants, current portion	4,267	1,914	122.9%
Other current liabilities	89,456	429,008	-79.1%
<b>Total current liabilities</b>	<b>1,179,441</b>	<b>763,268</b>	<b>54.5%</b>
<b>Total liabilities</b>	<b>1,692,074</b>	<b>1,766,620</b>	<b>-4.2%</b>
<b>Total shareholders' equity and liabilities</b>	<b>2,462,026</b>	<b>2,939,444</b>	<b>-16.2%</b>

**Bank loans:** At 31 December 2019 the Group classified an amount of RON 695 million representing loans with maturity in November 2020, from *Bank and other loans, non-current*, where they were included at 31 December 2018, to *Bank and other loans, current*.

**Leases:** Following the adoption of IFRS 16 at 1 January 2019, the Group recognized additional lease liabilities of RON 7.3 million and the Company recognized additional lease liabilities of RON 5.7 million.

**Government grants:** no noteworthy changes in 4Q 2019.

**Other current liabilities:** at 31 December 2018, the balance included RON 326.6 million for the dividends distributed by ALRO. Most of the amount was paid to the shareholders in 2019.

# Financial Performance – Alro Group

## Cash-flow optimization measures implemented in 4Q 2019

RON '000	2019	2018	4Q 2019	4Q 2018
<b>Cash flow from operating activities</b>				
Net cash generated by/(used in) operating activities	97,541	319,191	(269)	16,147
<b>Cash flow from investing activities</b>				
Purchase of PPE and intangible assets, net	(159,056)	(292,365)	(46,234)	(47,323)
Government grants received	4,411	24,312	(484)	-
Proceeds from sale of property, plant and equipment	1,003	2,679	61	1,033
Proceeds from disposal of own shares	-	80,705	-	80,705
Change in restricted cash	7,407	58,639	8,447	(1,513)
Change in loans to related parties	-	55,067	-	12,566
Interest received	4,866	7,476	1,162	3,266
<b>Net cash used in investing activities</b>	<b>(141,369)</b>	<b>(63,487)</b>	<b>(37,048)</b>	<b>48,734</b>
<b>Cash flow from financing activities</b>				
Proceeds from loans and leasing	408,617	62,638	35,208	873
Repayment of loans	(160,490)	(70,216)	(125,684)	(29,024)
Dividends paid	(324,779)	(365,415)	(130)	(36,148)
<b>Net cash provided by/(used in) financing activities</b>	<b>(76,652)</b>	<b>(372,993)</b>	<b>(90,606)</b>	<b>(64,299)</b>
<b>Net change in cash and cash equivalents</b>	<b>(120,480)</b>	<b>(117,289)</b>	<b>(127,923)</b>	<b>582</b>
Cash and cash equivalents at beginning of period	203,609	320,828	211,175	203,018
Effect of FX rate on cash and cash equivalents	53	70	(70)	9
<b>Cash and cash equivalents at end of period</b>	<b>83,182</b>	<b>203,609</b>	<b>83,182</b>	<b>203,609</b>

ALRO Group closed the year ended on 31 December 2019 with a **cash balance** of RON 83 million cash and RON 46 million restricted cash (31 December 2018: RON 204 million - cash and RON 8.4 million – restricted cash).

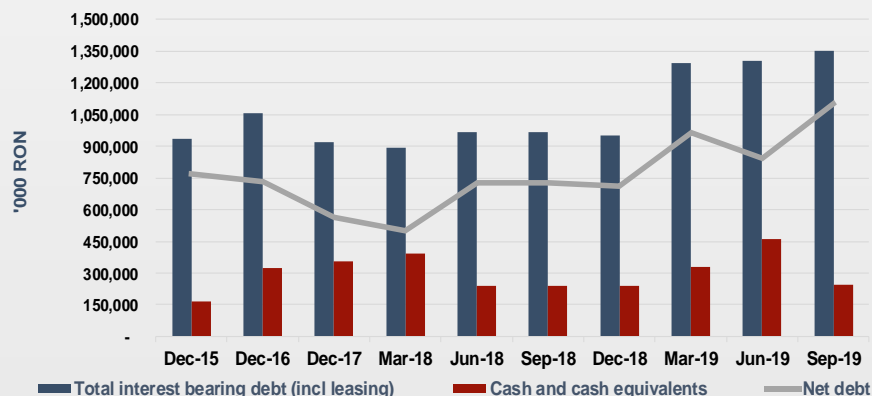
In 2019, ALRO Group's cash generated from **operations** was positive (nearly RON 100 million) even if lower by 69% versus 2018. The anti-crisis measures implemented starting with H2 2019 for cash-flow optimization played a key role considering the severe international and national context the Group had to face – depressed LME, lower alumina prices, prohibitive energy costs in Romania – in this way the Group and the Company managed to mitigate facing cash bottlenecks.

Net cash used in **investing** activities increased YoY in 2019; however the CAPEX spending was significantly decelerated due to the implementation of the anti-crisis plan as mentioned above.

Cash flows from **financing**: in 2019 ALRO obtained two new loans, one for CAPEX with a cap of USD 50 million and one for working capital of USD 20 million, while Alum drew down the remaining USD 10 million from its loans and Vimetco Extrusion signed a EUR 9 million overdraft facility for working capital in 2Q 2019.

# ALRO Group – Debt and treasury

ALRO Group's debt evolution



In 2019, ALRO Group's **bank loans** increased by 32% versus December 2018, mainly due to ALRO's USD 70 million additional financing attracted during 1Q 2019, Alum's draw-down of the remaining USD 10 million from its loans and Vimetco Extrusion's financing attracted in 2Q 2019. The latter explains the change in debt structure by currency, as it was drawn in euro. ALRO's bank debt accounts for 85% of ALRO Group's bank debt (94% at 31 December 2018).

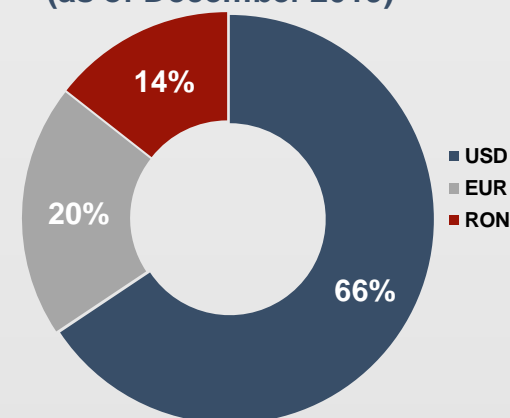
**Net debt** increased by 60% in 2019 vs. 2018, mainly due to FX impact as the RON depreciated against USD (31 December 2019: 4.2608 RON/USD vs. 31 December 2018: 4.0736 RON/USD).

On 13 December 2018, ALRO's shareholders approved the distribution of **dividends** amounting to RON 326.6 million 2018. In 2019, the Group and the Company paid RON 325 million from the dividends declared for 2018.

**FX hedging.** In February 2019, the Group entered into European and Asian zero cost option collars, with settlement during March – December 2019, for a notional of USD 150 million.

ALRO registered a *loss* from marking-to-market of these options at 31 December 2019 of RON 3.6 million.

Debt structure  
(as of December 2019)



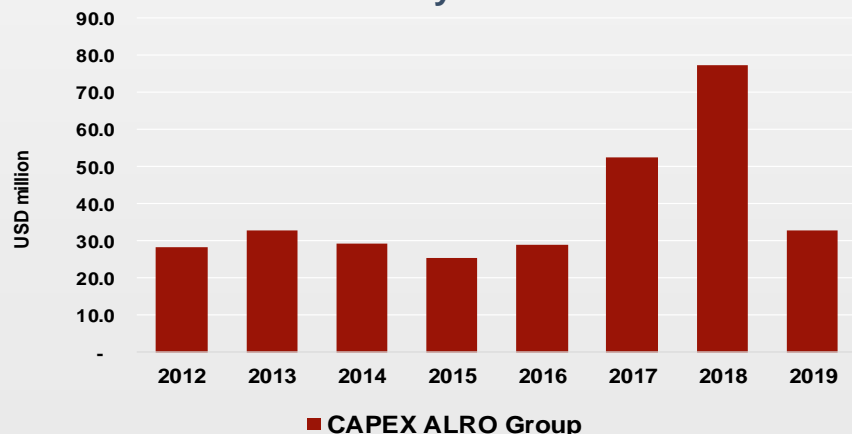
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# ALRO Group – Capex and key projects

**CAPEX kept at minimum level to optimize cash outflows**

CAPEX dynamics



In 2019 **Group's CAPEX\*** amounted to USD 33 million (RON 139 million), down from USD 75 million (RON 305.5 million) in 2018.

Of this, in 2019 **ALRO's CAPEX** was of USD 15.6 million (RON 66.6 million) which continued to focus on its main strategic goals, namely to reduce its energy dependency, raising energy efficiency and strengthening its clients' portfolio for enhancing the competitiveness and the quality of the VHVAPs products, particularly:

- Primary represents approx. 78% and FRP approx. 22% of ALRO's CAPEX PPE
- USD 9 million on pots refurbishing (including AP12LE technology).

*\*Note: CAPEX refers to additions to PPE& intangibles, which can differ from PPE purchases from the Cash Flow).*

## AP12LE PROJECT

**– advanced low energy technology for electrolysis –**

- one of the most notable projects on-going in 2019 of ALRO Group's strategy to become a **green factory, innovative and sustainable with near to zero emissions' and waste;**
- **AP12LE (Aluminium Pechiney Low Energy)** represents a **state of the art technology, the latest innovative measures** that could be implemented in respect of energy efficiency and environmental protection within the electrolysis sector;
- the contract signed with Rio Tinto Aluminium Pechiney at the end of 2018 led in 2019 to **have commissioned 25 electrolysis pots based on AP12LE technology;**
- ALRO is committed to continuing this project in the following years until all **the pots are relined according to the new technology (approx. 8-9 years)** and an important positive impact on the quantity of energy consumed is expected;
- According to the research studies done by the Rio Tinto Aluminium Pechiney after the implementation of this project, **ALRO will be a top-four performer from an energy efficiency of the electrolysis area perspective within its European peers;**
- AP12LE technology means more operating cycles of the pots and is essential for the manufacturing of less energy-intensive assets made of electrolytic aluminium, which is used in certain applications or mixed with other elements to produce alloys demanded in highly specialized industrial applications.

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# ALRO Group entities

Company	Parent	Shareholding (%)
Alro S.A.	Vimetco NV	54.19
Alum S.A.	Alro S.A.	99.40
Conef S.A.	Alro S.A.	99.97
Vimetco Extrusion SRL	Alro S.A.	100.00
Global Aluminium Ltd.	Alum S.A.	100.00
Bauxite Marketing Ltd.	Global Aluminium Ltd.	100.00
Sierra Mineral Holdings Ltd.	Global Aluminium Ltd.	100.00

The major shareholder of ALRO is Vimetco N.V., which holds 54.19% of the Company's share capital. Vimetco N.V. is a private capital company with activities in Romania, China and Sierra Leone.

ALRO Group includes the following companies: ALRO - manufacturer of aluminium (a company listed on the Bucharest Stock Exchange, BSE: ALR), Alum - producer of alumina (a company listed on BSE, ATS market, AeRO category) SMHL – bauxite mining, Vimetco Extrusion – processor of extruded products, Conef, Global Aluminium Ltd. and Bauxite Marketing Ltd. In this way, the Group has managed to provide an integrated production chain.

The Group is vertically-integrated, organized in four segments: *Bauxite*, *Alumina*, *Primary Aluminium* and *Processed Aluminium*.

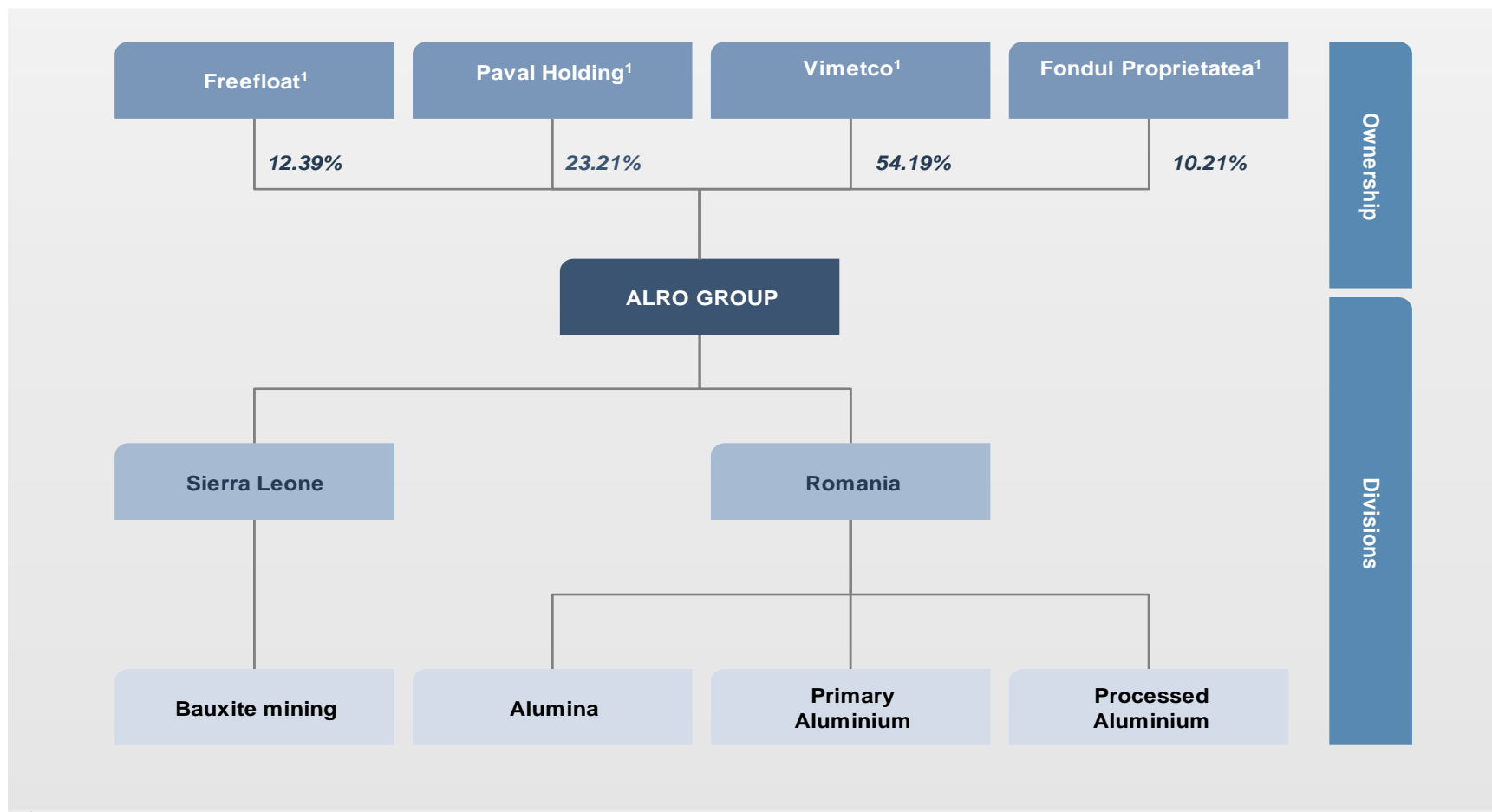
The Bauxite segment is located in Sierra Leone (Africa). The alumina segment uses bauxite to produce alumina, the main raw material for aluminium smelting. The Primary aluminium segment manufactures products such as wire rod, billets and slabs. The Processed Aluminium segment develops and sells flat rolled products, such as coils, sheets, plates and extruded products.

Both smelting and processing mills are located in Slatina, Romania while the alumina refinery is located in Tulcea, Romania.



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## Current operational and shareholding structure



<sup>1)</sup> At the end of 2018, ALRO has successfully closed the largest private placement of stocks on the Bucharest Stock Exchange in 2018 and thus, a new and fresh shareholders structure was in place at 31 December 2018 - Vimetco N.V. continues to be the majority shareholder holding 54.19%, Paval Holding became the second largest investor with a holding of 23.21%, Fondul Proprietatea continues to hold 10.21% and the other minority shareholders holding represents 12.39%.

# Supporting information

## Adjusted Net Result calculation (ALRO Group)

### ALRO Group – Adjusted Net Result

RON '000	2019	2018	4Q 2019	4Q 2018
<b>Net result</b>	<b>(67,237)</b>	<b>235,327</b>	<b>(45,618)</b>	<b>11,792</b>
Impairment of non-current assets	(4,790)	(1,261)	-	-
Derivative financial instruments that do not qualify for hedge accounting	3,598	(35,161)	-2,562	-8,221
Deferred income tax	15,093	50,173	13,603	12,410
<b>Adjusted net result</b>	<b>(53,336)</b>	<b>249,078</b>	<b>(34,577)</b>	<b>15,981</b>

*Note: Adjusted net result: the Group's net result plus/(minus) non-current assets impairment, plus/(minus) the loss/(gain) from derivative financial instruments that do not qualify for hedge accounting, plus/(minus) deferred tax;*



# Supporting information

## Adjusted EBITDA calculation (ALRO Stand-Alone)

### ALRO Stand-alone – Adjusted EBITDA

RON '000	2014	2015	2016	2017	2018	2019
<b>EBITDA</b>	<b>114,700</b>	<b>223,501</b>	<b>246,627</b>	<b>455,611</b>	<b>354,740</b>	<b>57,433</b>
EBITDA Margin (%)	5.8%	9.7%	11.6%	18.5%	13.7%	2.3%
<i>EBITDA adjustments:</i>						
- Competition Council fine	-	21,239	-	-	-	-
- business insurance indemnity	-	(6,425)	-	-	-	-
- one-off consulting and marketing expenses	-	13,300	-	-	-	-
- reversal of provision for litigation	-	-	(4,972)	-	-	-
- business indemnity from suppliers	-	-	-	(4,557)	-	(7,574)
- embedded - energy cost	(76,807)	3,100	4,577	-	-	-
- one-off the loss on disposal of fixed assets	-	-	-	-	-	4,468
- expenses related to SPO	-	-	-	-	6,110	-
<b>EBITDA adjusted</b>	<b>37,893</b>	<b>254,715</b>	<b>246,232</b>	<b>451,054</b>	<b>360,850</b>	<b>54,327</b>

**Note:** Adjusted EBITDA: earnings before interest, taxes, depreciation, amortization and impairment, plus/(minus) the loss/(gain) from derivative financial instruments that do not qualify for hedge accounting, adjusted for extraordinary cost or revenues items

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