ALUM GROUP

Directors' Consolidated Report

- 2017 -

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Management Consolidated Report for 2017

Introduction

The ALUM GROUP component entities and the respective shareholding as at 31.12.2017 are presented in the table below:

No.	Company	Parent company	Shareholding
1.	Alro SA Slatina	-	-
2.	Alum SA Tulcea	ALRO SA Slatina	99.40 %
3.	Global Aluminium Ltd.	ALUM SA Tulcea	100 %
4.	Bauxite Marketing Ltd.	Global Aluminium Ltd.	100 %
5.	Sierra Mineral Holdings 1, Ltd.	Global Aluminium Ltd.	100 %

1.1. ALUM GROUP orientation

The main goal of ALUM GROUP 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.

For this purpose ALUM GROUP 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;
- Beginning the implementation of one new co-financed with UE funds investment project designed to assure operational continuity by increasing the red mud pond life period and increasing the possibilities of red mud valorification.
- 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;
- Ensurring 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.

Financial Highlights

Consolidated Financial Statements		2017	2016
Sales	RON million	710	588
EBITDA[1]	RON million	99	26
EBITDA margin	RON million	13.98%	4.4%
Total assets	RON million	556	475
Shareholder's equity	RON million	233	155
Net debt[2]	RON million	2	33
Earning per share	RON	1.06	(0.07)
Equity per share	RON	2.84	1.89

1.1. ALUM GROUP orientation (continued)

Financial Highlights (continued)

Production			
Alumina production	metric tonnes	472,606	467,031
Bauxite production	metric tonnes	1,787,716	1,368,531
Average number of employees		1,193	1,164

[1]EBITDA: profit before tax, net finance items, other gains and losses, depreciation, amortization and impairement

[2]Net debt: total of short and long-term loans, loans from related parties and lease obligations less cash and cash equivalents

Main development directions of ALUM GROUP

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 the 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 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.

On 3 May 2011 Alum acquired from Vimetco N,V, 100% of an investment company Global Aluminium Ltd (GAL), Global Aluminium assets included 100% shareholding in a bauxite mine in Sierra Leone, Sierra Mineral Holdings 1, Ltd., and 100% shareholding in Bauxite Marketing Ltd.

1.1. ALUM GROUP orientation (continued)

Main development directions of ALUM GROUP (continued)

GAL

GAL's main subsidiary Sierra Mineral Holdings 1, Ltd. (SMHL), owns an operating bauxite mine under a mining lease with the Government of Sierra Leone, which occupies 322 square kilometres in the south of Sierra Leone. SMHL represents one component of the Group's production chain, being at the base of it: mining of bauxite. The bauxite obtained by SMHL is sold to Alum to be refined into the production of calcinated alumina, which serves in the aluminium production at Alro.

The executive board of SMHL consist of Alex Ivanov (CEO) and Abdul Bangura (CFO). The Board of Directors include three members, as follows: Pavel Machitski (Member), Steluta Despa (Member) and Roman Bulat (Member).

In 2017, SMHL produced a record production of 1,787,716 tonnes of bauxite compared to 1,368,531 tonnes in 2016. In terms of sales, in 2017, SMHL also achieved significant increase in sales which amounted to 1,687,213 tons compared with 1,465,531 tons in 2016. With increased production SMHL managed to take advantage of introducing its bauxite to the third parties in the market, the total quantity of sales to third parties being four times higher in 2017 compared to the similar period of 2016.
Moreover, the efforts made during the last years through a number of investments made to impove the efficiency of its operations as also reflected in 2017 by registering a profit of over USD 7 million, a level 46% higher than the one reported during the similar period of 2016, while EBITDA increased by 52% compared to 2016 and in 2015 SMHL registered a negative level of EBITDA.

Some of the main factors that contributed to the increase in the company's performance in 2017 are listed below:

- a better organization of the production processes through outsourcing of the excavation and transportation activities;
- increasing the operational effectiveness through implementation of a regular program of repairs and maintenance for the used equipment which directly results in reduction of production losses;
- making investments for modernisation of equipments used in exploration, mining, beneficiation and transshipping operations;
- improving the bauxite quality specifications by performing an optimal blend of mined and processed ores;
- implementing a new reorganization program of the company's activities and maintaining qualified personnel necessary to achieve quantitative and qualitative production parameters.

The positive results achieved in 2017 continued the same upward trajectory started in 2015 and the management makes effort to consolidate and maintain them in the coming years, as well. SMHL continues to implement costs reduction measures in all its operational areas – excavation and transportation; optimization of the number of active mines; activity effectiveness through a correct sizing of employees number and properly training them; improving the operational efficiency of river transportation, such as the loading rates and a more effective management of the existing fleet. Moreover, the Group's management is closely monitoring the activity in Sierra Leone, in order to take necessary measures to improve performance in real time.

Locally, SMHL is an active member within the communities in Sierra Leone, a special attention is being paid to the environmental protection, considering the footprint of mining activity, while sustaining programs for social and community development

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 exercices 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 2017, de to improvement works on the installations for heat recovery and optimal selection of the production parameters of the plant considering the row materials quality, it was continued the reduction of the CO2 emissions per ton of alumina produced.
In 2017 was put in operation a new forced circulation cooling tower in the White Filtration section that reduced the consumption of industrial water with approx.150 cm/h.
Also, in 2018 will be finalized a project for the modernization of the steam boiler C2AP no. 1 in order to reduce the Nox emissions

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.

1.3 Corporate social responsibility (continued)

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 2017 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 16.50% in the present;
- Sponsorship to support events and actions in areas such as health, socio-humanitarian, socio-cultural, education and sport; (such as "The Light Festival 2017", "Interfun 2017");
- Involvement in the project initiated by the Red Cross "With grandparents to the dentist" having as main objective the provision of free dental services for the elderly assisted in the "Saint Nectarie" Hospice in Tulcea;
- Collecting funds for providing food and clothes on Christmas or Easter holidays for families with low incomes and many children and for the people from the Nursing Home for Elderly in Tulcea;
- Financial support of the non-profit organization "From the heart to the smile" for the purchase of 20 pieces of glycemic sensors for children with diabetes;
- Financial support of Tulcea County Emergency Hospital for the purchase of a multidisciplinary ultrasound device;
- Promoting various actions taken by local community by displaying on visible spots, free of charge, posters which invites peoples to participate to events (such as: "Zilele Tulcei" – Tulcea's Days; "Raliul Deltei"-Danube Delta Rally; "Sărbătoarea Borșului pescăresc" – Fish Borsh Fest etc.);
- Continuing the 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. Risk management

Taxation

Income tax expense represents the sum of current and deferred income tax.

The tax rate used is the corporate tax rate payable by each company of the Group on taxable profits under the tax law applicable in the jurisdictions where they operate (i.e., Romania: 16%, Sierra Leone: 30%)

Deferred tax from fiscal loss relates to the Parent Company and Sierra Mineral Holdings I, Ltd. and the management believes there will be sufficient taxable profits in the future against which these fiscal losses could be used. The losses can be carried forward and used against future taxable profits for a period of maximum 7 years in Romania and 10 years in Sierra Leone (losses used cannot exceed 50% of the taxable profits for the year in Sierra Leone).

At Sierra Mineral Holdings I, Ltd., the future taxable profits were based on financial forecasts estimated by the directors at 31 December 2017 and cover a five-year period. The cash flows beyond the five-year period have been extrapolated until the year 2027, when the estimated reserves (measured, indicated and inferred) will be depleted at a 2% growth rate in line with the forecast inflation, except for the terminal year when a reduced production is foreseen at the level of the remaining reserves. The main assumptions used in the forecast are the average sales growth of 3.16% per annum, average EBITDA margin of 19.86% and a profit before tax margin of 14.85% per annum.

1.4. Risk management (continued)

Taxation (continued)

As the result of the forecast, the management expects to use an amount of RON 156,886 thousand from total RON 253,901 of prior years' accumulated tax losses to offset its future taxable profits by the end of the respective carry forward period. The forecasts are most sensitive to the average growth rate and EBITDA margin. A decrease in the forecasted average growth rate by 1.0% would reduce the deferred tax assets by RON 4,600 thousand and a decrease in the forecasted EBITDA margin by 1.0% would reduce the deferred tax assets by RON 3,100 thousand.

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group does not use derivatives to cover the above mentioned risks.

Risk management is carried out by the treasury function under policies approved by the Board of Directors. Treasury function identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital,

The capital structure of the Group consists of debt, which includes the borrowings, cash and cash equivalents and equity attributable to the owners of the Entity, comprising issued capital, reserves and accumulated deficit. The Group's management reviews the capital structure on a regular basis. As a part of this review, management considers the cost of capital and the risks associated with each class of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratio at December 31, 2017 and December 31, 2016 was as follows:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Total borrowings	12,412	34,707
Less: cash and cash equivalents	(10,447)	(1,475)
Net debt	**1,965**	**33,232**
Total equity	233,398	155,246
Total capital	**235,363**	**188,478**
Gearing ratio	**0.83%**	**17.63%**

1.4. Risk management (continued)

Foreign currency risk management

The Group is exposed to foreign exchange risk because the predominant part of its sales of calcined alumina and bauxite are 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 Group 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.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	December 31, 2017		December 31, 2016	
	Euro denominated	US Dollars denominated	Euro denominated	US Dollars denominated
	' 000 RON	'000 RON	' 000 RON	'000 RON
Total current assets	15,411	9,039	1,083	9,045
Total non-current assets	-	53,344	-	52,036
Total assets	**15,411**	**63,383**	**1,083**	**61,081**
Total short-term liabilities	10,101	39,717	3,161	41,824
Total long-term liabilities	10,704	-	10,035	-
Total liabilities	**20,805**	**39,717**	**13,196**	**41,824**

Foreign currency sensitivity

The Group is mainly exposed to the European Currency and the US Dollars. The following table details the Group's sensitivity to a 10% increase or decrease in the Romanian Lei against the relevant foreign currencies. Ten per cent is the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible yearly change in foreign exchange rates.

	December 31, 2017		December 31, 2016	
	Euro	US Dollars	Euro	US Dollars
	'000 RON	'000 RON	'000 RON	'000 RON
Profit or loss	539	(2,367)	1,211	(1,926)
Equity	453	(1,968)	1,017	(1,618)

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their conversion at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency. A positive number indicates a positive gain in profit or loss and other equity where the functional currency strengthens against the relevant foreign currency.

Interest rate risk management

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The interest rate on its existing credit facilities are based on the London Interbank Offered Rate (LIBOR) for US Dollars borrowings, on EURIBOR for borrowings in Euro and on ROBOR for the loans denominated in RON.

1.4. Risk management (continued)

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates on EUR and US Dollars denominated borrowings at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the next reporting period in the case of borrowings linked to floating rates.

If interest rates would be higher/lower by 1 % and all other variables would be constant, the Entity's profit would increase/decrease by RON 104 thousand (2016: RON 305 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable interest rate USD, RON and EUR denominated borrowings.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group carries out a very prudential policy for the commercial credit risk and covers credit risk by selling against letters of credit, bank guarantees or by non-recourse factoring.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group's treasury function maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Group's liquidity reserve on the regular basis.

In the following tables are presented the financial liabilities of the company based on contractual maturities. The amounts represent undiscounted cash flows based on the earliest period required for the company to make the payments.

Year ended 31 December 2017

	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total
Interest-bearing loans and borrowings	-	1,488	10,924	-	-	12,412
Accounts payable and accrued liabilities	34,237	49,523	-	-	-	83,760
Total	**34,237**	**51,011**	**10,924**	**-**	**-**	**96,172**

Year ended 31 December 2016

	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total
Interest-bearing loans and borrowings	-	23,774	10,933	-	-	34,707
Accounts payable and accrued liabilities	39,626	44,319	-	-	-	83,945
Total	**39,626**	**68,093**	**10,933**	**-**	**-**	**118,652**

1.4. Risk management (continued)

Fair value of financial assets and liabilities

The fair values of financial assets and financial liabilities are determined as follows:

• The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
• The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
• The fair value of derivative instruments is calculated using quoted prices.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

• Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
• Level 2 fair value measurements are those derived from valuation techniques containing inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
• Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Management consider that the fair values of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their carrying amounts largely due to the short term maturities, low transaction costs of these instruments as of financial position date, and for the long-term borrowings due to the fact that thery were recently contracted.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables;
- Other current financial assets;
- Cash and cash equivalents;
- Trade and other payables;
- Borrowings.

Financial assets and liabilities

	December 31, 2017	Level 1	Level 2	Level 3
Financial assets				
Trade receivables	14,130	-	-	14,130
Other current assets	6,657	-	-	6,657
Cash and cash equivalents	10,447	10,447	-	-
TOTAL FINANCIAL ASSETS	**31,234**	**10,447**	**-**	**20,787**
Financial liabilities				
Borrowings, long term	10,924	-	-	10,924
Trade and other payables	83,760	-	-	83,760
Borrowings, short term	1,488	-	-	1,488
TOTAL FINANCIAL LIABILITIES	**96,172**	**-**	**-**	**96,172**

1.4. Risk management (continued)

Financial assets and liabilities (continued)

	December 31, 2016	Level 1	Level 2	Level 3
Financial assets				
Trade receivables	11,369	-	-	11,369
Other current assets	5,200	-	-	5,200
Cash and cash equivalents	1,475	1,475	-	-
TOTAL FINANCIAL ASSETS	**18,044**	**1,475**	**-**	**16,569**
Financial liabilities				
Borrowings, long term	10,933	-	-	10,933
Trade and other payables	83,945	-	-	83,945
Borrowings, short term	23,774	-	-	23,774
TOTAL FINANCIAL LIABILITIES	**118,652**	**-**	**-**	**118,652**

Internal control system

The Group's internal control system aims to ensure conformity with the laws in force, a good operation of the Group's internal activity in accordance with the decisions made by the management and also contributes to the effectiveness of the Group's operations, the efficient use of the resources, prevention and control of the risk of failing to reach the objectives set.

Internal control is applicable throughout the operations conducted by the Group prior to and during the performance of the operations and after their completion.

Internal control is performed by accounting and financial internal control, according to the accounting policies manual, the procedures regarding the application of the manual, monitoring through the periodical control program the compliance with these accounting procedures and policies, the conformity with the accounting rules, the knowing and observance of the financial-accounting laws, ensuring the fairness and completeness of the accounting records, monitoring the obtaining and presenting in the annual financial statements of quality information to the satisfaction of the users' needs.

1.5. Market

In 2017 Alum and subsidiaries recorded in the Financial Statements a turnover in amount of RON 709,851 th, structured as follows:

✓ Sales of alumina	578,185	th RON
✓ Sales of hydrate	56,504	th RON
✓ Revenues from sales of scrap iron and wastes	410	th RON
✓ Revenues from sales of bauxite	53,508	th RON
✓ Other revenues	21,244	th RON

The following table shows the distribution of the Group's consolidated sales of alumina, hydrate and bauxite by geographical market, regardless of where the goods were produced:

	Year ended December 31, 2017	Year ended December 31, 2016
Romania	532,504	491,646
European Union	31,921	30,455
Non-European Countries	66,431	22,402
Other	78,995	43,161
Total	**709,851**	**587,664**

1.6. 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 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 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. In 2017 the Company received as non-refundable funds the amount of RON 1,598 thousand.

The Group will continue to give a special attention to monitoring the activity and evolution of bauxite, alumina and aluminum prices on the international markets, so that the management could receive timely and relevant information in order to make the most beneficial decisions.

1.7. The shareholding structure and the Registered share capital

At December 31, 2017 the shareholding structure of ALUM is as follows:

	Statutory figures					
	December 31, 2017			December 31, 2016		
	Number of shares	Nominal Value RON (thousand)	%	Number of shares	Nominal Value RON (thousand)	%
ALRO SA	81,595,860	485,495	99.4026	81,595,860	485,495	99.40
Individuals	488,354	2,906	0.5949	481,756	2,867	0.59
Companies	1,989	12	0.0024	8,587	51	0.01
Total	**82,086,203**	**488,413**	**100%**	**82,086,203**	**488,413**	**100%**

On May 1, 2011 Alum acquired from Vimetco N.V, 100% of an investment company Global Aluminum Ltd. Global Aluminum Ltd, assets included 100% shareholding in a bauxite mine in Sierra Leone, Sierra Mineral Holdings 1, Ltd., and 100% shareholding in Bauxite Marketing Ltd.

The main companies in Alum Group at December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017		December 31, 2016	
Subsidiary	**Shareholding**	**Votes**	**Shareholding**	**Votes**
Global Aluminum Ltd.	100.00%	100.00%	100.00%	100.00%
Bauxite Marketing Ltd.	100.00%	100.00%	100.00%	100.00%
Sierra Mineral Holdings 1, Ltd.	100.00%	100.00%	100.00%	100.00%

1.8. Contingencies and Commitments

Contingencies

Legal cases

As at December 31, 2017 and December 31, 2016, the Group was subject to a number of lawsuits resulted from the normal course of business. Management believes that these actions, except for those already provided as of those dates, will not have a negative impact on the consolidated financial performance and consolidated financial position of the Group.

Taxation

The taxation system in Romania is undergoing a continuous development phase and is subject to various interpretations and constant changes which may sometimes be retroactive. Although the actual tax due for a certain transaction can be minimal, penalties can be significant, as they can be calculated at the value of the transaction. 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.
The Romanian fiscal year remains open for tax audit for a period of 5 years. The management considers that the tax liabilities included in the consolidated financial statements are adequate.

In accordance with the requirements issued by the Ministry of Public Finance, which relates to the fiscal treatment of the elements of equity that have not been subject to the calculation of the income tax as at the date of their recording in the accounts, due to their nature, should the entities members of the Group change in the future the destination of the statutory revaluation reserves (to cover losses or to distribute to the shareholders), this will lead to additional income tax liabilities.

Commitments

As of December 31, 2017 the Group has investment commitments for the year 2018 in amount of USD 3,511 thousand (December 31, 2016: USD 1,456 thousand).

The Group has various contracts concluded as of December 31, 2017 for the acquisition in 2018 of raw materials, electricity and other materials and consumables in the amount of EUR 11,903 thousand, USD 148,497 thousand and RON 14,544 thousand, respectively (December 31, 2016: EUR 17,797 thousand, USD 105,043 thousand and RON 13,975 thousand, respectively).

In 2017 the Group has ongoing operating lease contract for vehicles, with lease terms of up to 5 years. The operating lease expense amounted in 2017 to RON 10,970 thousand (in 2016: RON 5,825 thousand).

2.1. Consolidated Balance Sheet for year ending 2017

	December 31, 2017	December 31, 2016	Variance 2017/2016
ASSETS			
Non-current assets			
Property, plant and equipment	208,548	192,503	16,045
Intangible assets	691	378	313
Goodwill	71,650	79,232	(7,582)
Loans receivable, long term	54,345	52,035	2,310
Deferred tax	54,671	10,417	44,254
Total non-current assets	**389,905**	**334,565**	**55,340**
Current assets			
Inventories	135,208	120,987	14,222
Trade receivables	14,130	11,369	2,761
Other current assets	6,657	5,200	1,457
Income tax receivable	-	1,595	(1,595)
Cash and cash equivalents	10,447	1,475	8,972
Total current assets	**166,442**	**140,626**	**25,817**
Total assets	**556,348**	**475,191**	**81,157**
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	488,413	488,413	-
Reserves	47,782	51,897	(4,115)
Accumulated deficit	(302,797)	(385,064)	82,267
Equity attributable to owners of the Entity	**233,398**	**155,246**	**78,152**
Total equity	**233,398**	**155,246**	**78,152**
Non-current liabilities			
Borrowings	10,632	10,608	24
Finance lease liabilities, non-current	292	325	(33)
Retirement benefit obligation	5,496	4,618	878
Deferred tax liabilities	-	-	-
Provisions, long term	29,530	32,329	(2,798)
Government grants, non-current portion	1,769	-	1,769
Other non-current liabilities	449	250	199
Total non-current liabilities	**48,168**	**48,131**	**38**
Current liabilities			
Trade and other payables	83,760	83,945	(185)
Borrowings	1,018	23,485	(22,467)
Finance lease liabilities, current	470	289	181
Current income tax	5,636	-	5,636
Government grants, current portion	-	-	-
Other current liabilities	183,897	164,095	19,802
Total current liabilities	**274,782**	**271,814**	**2,968**
Total liabilities	**322,950**	**319,945**	**3,005**
Total equity and liabilities	**556,348**	**475,191**	**81,157**

2.2. Consolidated Statement of Comprehensive Income for year ending 2017

At the end of 2017, Alum Group recorded a profit in amount of 87,203 KRON.

	2017	2016	Variance 2017/2016
Revenues	709,851	587,664	122,187
Cost of sales	(588,028)	(548,182)	(39,846)
Gross profit	121,823	39,482	82,341
Other operating income	4,926	3,965	961
Impairment of property plant and equipment	3	(111)	114
Administrative expenses	(65,263)	(55,312)	(9,951)
Other operating expenses	(1,561)	(2,717)	1,156
Other gains/(losses)	(8,768)	8,496	(17,264)
Finance revenue	4,157	3,052	1,105
Finance cost	(5,376)	(7,753)	2,377
Finance result, net	(1,219)	(4,701)	3,482
Profit before income taxes	49,941	(10,898)	60,839
Income tax expense	37,262	5,387	31,875
(Loss)/profit for the period	**87,203**	**(5,511)**	**92,714**
(Loss)/profit per share	**1.06**	**(0.77)**	

President of the Board of Directors
D. Sc eng. Dobra Gheorghe

ALUM S.A. TULCEA 2 ROMANIA

General Director
D. Sc eng. Dobra Gheorghe

Finance Director
Ec. Duralia Mihaela