

**ALUM S.A.
SEPARATE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
DECEMBER 31, 2019**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ADOPTED BY
THE EUROPEAN UNION
(Together with the Independent Auditor's Report)**

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RAPORTUL AUDITORULUI INDEPENDENT INDEPENDENT AUDITOR'S REPORT

Catre actionarii Alum S.A.
To the Shareholders of Alum S.A.

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

Opinia
Opinion

Am auditat situatiile financiare ale societatii ALUM SA („Societatea”) cu sediul social in Tulcea, strada Isacsei nr. 82, identificata prin codul unic de inregistrare fiscala 2360405, care cuprind situatia pozitiei financiare la data de 31 decembrie 2019, situatia rezultatului global, situatia modificarilor in capitalurile proprii 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 financial statements of ALUM SA (the Company) with official head office in Tulcea, Isacsei Str. nr. 82, identified by sole fiscal registration number 2360405, which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, 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 2019, cat si a performantei financiare si a fluxurilor de trezorerie ale acesteia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Standardele Internationale de Raportare Financiara adoptate de catre Uniunea Europeana.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Bazele opiniei
Basis for opinion

Noi am efectuat auditul conform Standardelor Internationale de Audit (ISA). 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 International de etica al profesionistilor contabili (inclusiv standardele internationale de independenta) emis de Consiliul pentru Standarde Internationale de Etica pentru Contabili (codul IESBA) si conform cerintelor etice care sunt relevante pentru auditul situatiilor financiare in Romania 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). 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 Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, 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.

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 deprecierei investitiei in filiale si de recuperabilitatea creantelor si avansurilor de la Sierra Mineral Holdings Ltd. (“SMHL”)	
Informațiile privind creanțele comerciale de la Sierra Mineral Holding Ltd. și investițiile în filiale, inclusiv deprecierea aferentă, sunt prezentate în Notele 10, 11 și 28, respectiv Nota 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 contabila bruta a investitiei in filiala in valoare de 82.581 mii RON (valoarea contabila neta este zero), valoarea contabila bruta a creantelor detinute de Societate de la SMHL in valoare de 49.487 mii RON (valoarea contabila neta este 649 mii RON) si valoarea contabila bruta a avansurilor acordate SMHL in valoare de 212.370 mii	<p>Procedurile noastre de audit au inclus, printre altele, implicarea 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 investitiilor in filiale si de recuperabilitate a creantelor si avansurilor de la SMHL.</p> <p>In mod specific, procedurile noastre, au inclus, dar nu s-au limitat la:</p> <ul style="list-style-type: none"> - evaluarea competentei, capabilitatilor si obiectivitatii evaluatorului extern; - validarea ratei de actualizare utilizata in model, inclusiv a elementelor utilizate pentru

RON (valoarea contabilă netă este 189.800 mii RON).

Evaluarea de către conducere a indicatorilor de depreciere pentru investiția deținută în filiale implică luarea în considerare a diverselor surse de informații, inclusiv a factorilor de mediu economic.

În anii anteriori, industria aluminiului a înregistrat o scădere cíclică în perioada 2013 - 2016, ceea ce a condus la închiderea de capacități și amânarea de către mulți jucători a investițiilor în această industrie. Acești factori au avut un efect semnificativ asupra valorii contabile a investiției deținute de Societate în Global Aluminium Ltd și asupra creanțelor și avansurilor recuperabile de la SMHL, așa cum este reflectat de cheltuielile de depreciere înregistrate în situațiile financiare ale exercitiului financiar precedent.

La 31 decembrie 2019 conducerea Societății a actualizat testul de depreciere a investiției deținute și de recuperabilitate a creanțelor și avansurilor de la filiale, din care a rezultat o ajustare de depreciere suplimentară în valoare de 7.335 mii RON cu privire la creanțele și avansurile recuperabile de la SMHL.

Testul anual de depreciere a investiției deținute în filiale și recuperabilitate a creanțelor și avansurilor este semnificativ pentru auditul nostru, întrucât procesul de evaluare este complex, necesită estimări semnificative din partea conducerii și este bazat pe ipoteze care sunt fundamentate pe evoluția viitoare a pretului bauxitei (o marfă globală) și a condițiilor de operare din Sierra Leone.

determinarea acestora, cum ar fi rata fără risc, rata de risc a ratii, gradul de îndatorare și costul capitalurilor împrumutate;

- analiza principalelor ipoteze luate în calcul la estimarea fluxurilor viitoare de numerar (cum ar fi evoluția viitoare a prețurilor de vânzare, volumul producției, costuri și cheltuieli, modificări în capitalul circulant, etc) prin analiza consecvenței ipotezelor cu evoluția mediului economic general și specific industriei, cu informațiile relevante de piață disponibile și cu planul de afaceri al Grupului;
- 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;
- analiza sensibilității valorilor recuperabile, pentru a înțelege impactul potențial al modificărilor rezonabile în ipotezele semnificative ale modelului;
- am evaluat acuratețea bugetelor și previziunilor precedente ale managementului prin comparație cu performanța actuală înregistrată în anul curent față de cea prognozată anterior;
- am testat acuratețea matematică a modelului de depreciere utilizat precum și conformitatea acestuia cu cerințele standardelor de evaluare.

De asemenea, am evaluat măsura în care informațiile prezentate de Societate cu privire la testul de depreciere a investiției deținute în filiale și recuperabilitate a creanțelor și avansurilor de la acestea sunt adecvate.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="193 454 767 517">Impairment testing of investment in subsidiaries and recoverability analysis for trade receivables and advances from Sierra Mineral Holdings Ltd. (“SMHL”)</p> <p data-bbox="193 546 767 640">Alum’s disclosures of trade receivables from Sierra Mineral Holding Ltd. and the investment in subsidiaries, including the related impairment, are presented in Note 10, 11 and 28 and Note 6, respectively.</p> <p data-bbox="193 656 767 1066">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 carrying value of RON 82,581 thousand (net carrying amount is nil) for the investment in subsidiary, gross carrying value of RON 49,487 thousand for the trade receivable (net carrying value is RON 649 thousand) and gross carrying value of RON 212,370 thousand for advances granted to SMHL (net carrying value is 189,800 mii RON).</p> <p data-bbox="193 1099 767 1256">The management assessment of impairment indicators for investments involves consideration of various sources of information, including the economic environment factors.</p> <p data-bbox="193 1290 767 1637">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. These factors had a significant effect on the carrying value of the Company’s investment in Global Aluminium Ltd and on the receivables and advances receivable from SMHL as reflected by the impairment charges recorded in the prior year’s financial statements.</p> <p data-bbox="193 1671 767 1928">As of 31 December 2019, the management has updated the impairment test for the investment and the recoverability analysis for trade receivables and advances from subsidiaries, which resulted in an additional impairment adjustment of RON 7,335 thousand in relation to trade receivables and advances receivable from SMHL.</p> <p data-bbox="193 1962 767 2056">The annual impairment test for the investment and the recoverability of trade receivables and advances are significant to</p>	<p data-bbox="767 454 1434 891">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 the recoverability of trade receivables and advances from SMHL.</p> <p data-bbox="767 925 1434 987">Specifically, our work included, but was not limited to, the following procedures:</p> <ul data-bbox="831 999 1434 2056" style="list-style-type: none"> • assessed the competence, capabilities and objectivity of the external valuation expert; • 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; • 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; • 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; • analysed the sensitivity of the recoverable amounts, to understand the potential impact to reasonable changes in the significant assumptions; • assessed the historical accuracy of management’s budgets and forecasts by comparing them to actual performance and to prior year; • tested the mathematical accuracy of the impairment model used and its conformity

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.

with the requirements of the valuation standards.

We further assessed the adequacy of the Company's disclosures about impairment testing of investment in subsidiaries and recoverability of trade receivables and advances 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 Directors' Report, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

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. Nu avem nimic de raportat in acest sens.

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. We have nothing to report in this regard.

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 Standardele Internationale de Raportare Financiara adoptate de catre Uniunea Europeana, 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 International Financial Reporting Standards as adopted by the European Union, 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 întocmirea situațiilor financiare, conducerea este responsabilă să evalueze abilitatea Societății de a-și desfășura activitatea conform principiului continuității activității și să prezinte, dacă este cazul, aspectele referitoare la continuitatea activității și folosirea principiului continuității activității, mai puțin în cazul în care conducerea intenționează să lichideze Societatea sau să înceteze activitatea sau nu are nicio alternativă reală decât să 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.

Persoanele responsabile cu guvernanta au responsabilitatea supravegherii procesului de raportare financiară a Societății.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsabilitățile auditorului pentru auditul situațiilor financiare Auditor's Responsibilities for the Audit of the Financial Statements

Obiectivele noastre constau în obținerea unei asigurări rezonabile privind măsura în care situațiile financiare, luate în ansamblu, nu conțin denaturări semnificative cauzate de eroare sau fraudă și de a emite un raport de audit care să includă opinia noastră. Asigurarea rezonabilă reprezintă un nivel ridicat de asigurare, însă nu este o garanție că un audit desfășurat în conformitate cu standardele ISA va detecta întotdeauna o denaturare semnificativă, dacă aceasta există. Denaturările pot fi cauzate fie de fraudă fie de eroare și sunt considerate semnificative dacă se poate preconiza, în mod rezonabil, că acestea, atât la nivel individual sau luate în ansamblu, vor influența deciziile economice ale utilizatorilor luate în baza acestor situații 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 în conformitate cu standardele ISA, ne exercităm raționamentul profesional și ne menținem scepticismul profesional pe întreg 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:

- Identificăm și evaluăm riscurile de denaturare semnificativă a situațiilor financiare, cauzate fie de fraudă fie de eroare, stabilim și efectuăm proceduri de audit care să răspundă acestor riscuri și obținem probe de audit suficiente și adecvate pentru a constitui o bază pentru opinia noastră. Riscul de nedetectare a unei denaturări semnificative cauzate de fraudă este mai ridicat decât cel de nedetectare a unei denaturări semnificative cauzate de eroare, deoarece fraudă poate include complicitate, falsuri, omisiuni intenționate, declarații 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.

- 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.

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.

Descriem aceste aspecte in raportul nostru de audit, cu exceptia cazului in care legislatia sau reglementarile impiedica prezentarea publica a aspectului respectiv sau a cazului in care, in circumstante extrem de rare, determinam ca un aspect nu ar trebui comunicat in raportul nostru deoarece se preconizeaza in mod rezonabil ca efectele negative ale acestei comunicari depasesc beneficiile interesului public al comunicarii respectivului aspect.

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.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 Asociat: Ariadna Oslobeanu
Name of the Auditor/ Partner: Ariadna Oslobeanu
Inregistrat in Registrul Public electronic cu nr. 2199
Registered in the electronic Public Register under No. 2199

Bucuresti, Romania
Bucharest, Romania
25 martie 2020
25 March 2020

ALUM S.A.
SEPARATE STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
ASSETS			
Non-current assets			
Property, plant and equipment	4	180,317	171,705
Intangible assets	5	44	24
Investments in subsidiaries	6	-	-
Deferred tax asset	7	12,017	10,265
Right-of-use assets	8	2,660	-
Total non-current assets		195,037	181,994
Current assets			
Inventories	9	205,188	153,160
Trade receivables	10	22,855	11,135
Other receivables	11	191,474	190,444
Restricted cash	12	924	3,246
Cash and cash equivalents	12	588	844
Total current assets		421,029	358,829
Total assets		616,066	540,823
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	488,413	488,413
Reserves	13	47,545	46,959
Accumulated deficit		(151,601)	(227,899)
Total equity		384,357	307,473
Non-current liabilities			
Borrowings, long term	15	75,089	59,953
Lease liabilities	15	1,787	99
Retirement benefit obligation	16	4,843	4,033
Provisions	17	22,112	19,468
Government grants, non-current portion	18	4,956	4,520
Other non-current liabilities		517	1,405
Total non-current liabilities		109,304	89,478

Attached notes are part of the separate financial statements.
This is a free translation from the official Romanian version

ALUM S.A.
SEPARATE STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current liabilities			
Trade and other payables	19	25,851	51,912
Borrowings	15	62,940	300
Financial lease liabilities	15	736	193
Provisions	17	-	3,009
Government grants, current portion	18	379	323
Current income tax liability		2,389	4,727
Other current liabilities	20	30,109	83,408
Total current liabilities		122,404	143,872
Total liabilities		231,708	233,350
Total equity and liabilities		616,065	540,823

These separate financial statements were authorized for issue by the management on March 25, 2020.

Gheorghe Dobra
General Director

Mihaela Duralia
Financial Director

ALUM S.A.
SEPARATE STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

	Note	Year ended December 31, 2019	Year ended December 31, 2018
Revenue from contracts with customer	21	783,644	875,818
Cost of sales	22	(714,002)	(774,625)
Gross profit		69,642	101,193
Administrative expenses	24	(40,730)	(46,612)
Other operating income	23	79,992	2,193
Other operating expenses	25	(5,919)	(3,018)
Other operational gains and losses	26	(15)	392
Operating result		102,970	54,148
Financial income		221	15,574
Financial expenses		(8,703)	(4,216)
Net foreign exchange gains / (losses)*		(3,292)	(3,826)
Finance costs, net	27	(11,774)	7,532
Profit/(Loss) before tax		91,196	61,680
Income tax	7	(13,885)	(9,354)
Profit for the year		77,311	52,326
Other comprehensive income/(loss), net of tax			
Remeasurement gains/(losses) on defined benefit plans**		(507)	(307)
Income tax effect		81	49
Other comprehensive income for the year, net of tax		(426)	(258)
Total comprehensive income/(loss) for the year		76,885	52,068

*) the net foreign exchange gains/losses (2019: RON 3,292 thousand, 2018: RON 3,826 thousand) were included in the financial statements of the previous year in the category "Other operational gains and losses". In the current financial year these are presented after the operating result.

**) items that will not be reclassified into Statement of Comprehensive Income in the future

These separate financial statements were authorized for issue by the management on March 25, 2020.

Gheorghe Dobra
General Director

Mihaela Duralia
Financial Director

ALUM S.A.
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

	<u>Share Capital</u>	<u>Reserves</u>	<u>Retained Earnings</u>	<u>Result for the period</u>	<u>Total</u>
Balance at January 1, 2018	488,413	47,782	(294,809)	14,020	255,405
Profit for the year	-	-	-	52,326	52,326
Remeasurement of post-employment benefits, net of tax	-	-	(258)	-	(258)
Total Comprehensive income	-	-	(258)	52,326	52,068
Transfer to legal reserve	-	3,305	(3,305)	-	-
Transfer of realized revaluation reserve	-	(4,128)	4,128	-	-
Appropriation of prior year result	-	-	14,020	(14,020)	-
Balance at December 31, 2018	488,413	46,959	(280,225)	52,326	307,473
Balance at January 1, 2019	488,413	46,959	(280,225)	52,326	307,473
Profit for the period	-	-	-	77,311	77,311
Remeasurement of post-employment benefits, net of tax	-	-	(426)	-	(426)
Total Comprehensive income	-	-	(426)	77,311	76,885
Transfer to legal reserve	-	4,591	(4,591)	-	-
Transfer of realized revaluation reserve	-	(4,005)	4,005	-	-
Appropriation of prior year result	-	-	52,326	(52,326)	-
Balance at December 31, 2019	488,413	47,545	(228,912)	77,311	384,357

These separate financial statements were authorized for issue by the management on March 25, 2020.

Gheorghe Dobra
General Director

Mihaela Duralia
Financial Director

Attached notes are part of the separate financial statements.
This is a free translation from the official Romanian version

ALUM S.A.
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

	<u>Note</u>	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax		91,196	61,680
<i>Adjustments for:</i>			
Unrealised foreign exchange differences		2,324	819
Amortization and depreciation expense	3,4,8	22,635	18,059
Net loss on sale of property, plant and equipment	26	15	(392)
Allowance for impairment of receivables	24	7,870	12,719
Impairment allowance for property, plant and equipment	4	(36)	(6)
Movement in provision for employee compensation	17	(3,009)	3,009
Allowance for slow moving and obsolete inventory	9	(15)	(23)
Increase in retirement benefit obligation	16	104	77
Interest income	27	(221)	(936)
Interest expense	27	8,405	3,507
Dividend income	27	-	(14,541)
Operating (loss)/profit before working capital changes		129,269	83,972
<i>Movements in working capital:</i>			
(Increase) in receivables		(21,172)	(2,065)
(Increase) in inventories		(52,014)	(40,213)
(Decrease) in payables		(75,357)	(92,298)
Cash generated from/(used in) operations		(19,274)	(51,604)
Income tax paid		(17,893)	(7,241)
Interest paid		(6,542)	(6,335)
Interest received		220	1,741
Net cash generated from/(used in) operating activities		(43,489)	(63,439)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment and intangible assets		(33,512)	(48,502)
Government grants received	18	839	3,244
Dividends received		-	14,541
Collection of outstanding loans		888	30,031
Restricted cash	12	2,322	3,273
Payments for leasing		(769)	(465)
Net cash from/(used in) investing activities		(30,233)	2,122
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	15	73,466	60,426
Net cash (used in)/generated by financing activities		73,466	60,426

Attached notes are part of the separate financial statements.
This is a free translation from the official Romanian version

ALUM S.A.
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

	<u>Note</u>	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
(Decrease)/increase in cash and cash equivalents		(256)	(891)
Cash and cash equivalents at the beginning of the year	12	844	1,735
Cash and cash equivalents at the end of the year	12	588	844

These separate financial statements were authorized for issue by the management on March 25, 2020.

Gheorghe Dobra
General Director

Mihaela Duralia
Financial Director

ALUM S.A.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts in RON thousand, unless otherwise stated

1. GENERAL INFORMATION

ALUM S.A. (the "Company", the "Entity") is a joint-stock company set up under the Romanian law. The Company was initially established in March 1972, ALUM S.A. Tulcea being the largest producer of calcined alumina in Romania.

The major shareholder of Alum S.A. is Alro S.A. owned by Vimetco N.V. Netherlands which in its turn is owned by ViHolding N.V. (Netherland Antilles) a company controlled by MAXON LIMITED.

The main activity is hydro metallurgical processing of bauxite to obtain aluminium oxide, the main raw material for obtaining aluminium. Company's production processes and products have been certified in accordance with international standards for quality assurance.

The address of the Company's registered office is 82 Isaccei Street, Tulcea, Tulcea County, Romania.

Alum is listed on Bucharest Stock Exchange, AeRO segment. Its price per share could be analysed as follows:

	<u>2019</u>	<u>2018</u>
- minimum price (RON)	1.02	1
- maximum price (RON)	4.86	2.98
- average price (RON)	2.94	1.99

The evolution of average number of the Company's employees was as follows:

	<u>2019</u>	<u>2018</u>
Average number of employees	791	765

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements provide comparative information in respect of the previous period.

Following below are the new standards, amendments and interpretations to existing standards adopted starting 1 January 2019 and their effect in the preparation of the Company financial statements for the year ended 31 December 2019.

Standards and interpretations effective in 2019 that the Company has applied to these financial statements:

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2019:

IFRS 16 Leases

IFRS 16 Leases, issued on 13 January 2016 is effective for annual periods beginning on or after 1 January 2019 (early application was permitted, but not before an entity applies IFRS 15). IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17.

ALUM S.A.
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and interpretations effective in 2019 that the Company has applied to these financial statements (continued)

a) Nature of the effect of adoption of IFRS 16

Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously classified as finance leases

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

In adopting IFRS 16, at 1 January 2019 right-of-use assets of RON 3,159 thousand were recognized (out of which RON 414 thousand represent reclassification of financial lease contracts and RON 2,745 thousand represent additional right-of-use assets recognized for operating lease contracts), being presented in the statement of financial position in Other non-current assets. At 1 January 2019, additional lease liabilities of RON 2,745 thousand were recognized by the Company.

b) Summary of new accounting policies in adopting IFRS 16

The Company applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach. The Company applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

ALUM S.A.
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and interpretations effective in 2019 that the Company has applied to these financial statements (continued)

The Company recognizes new assets and liabilities for its operating leases of special constructions, vehicles and equipments. A depreciation charge for right-of-use assets and interest expense on lease liabilities are also recognized. Right-of-use assets for property leases is measured on transition as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

The Company has lease contracts for various items of machinery, vehicles and other equipment used in its operations with lease terms between 3 and 5 years. Generally, the Company is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options. Using their professional judgement and experience, the Company's management considered the lease term to be equal with the projections of Company's business plans (5 years) for contracts for which they had reasonable assurance that the extension option would be exercised at the end of the contract.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	2019
Assets	
Right-of-use assets	3,159
Property, plant and equipment	(414)
Total assets	2,745
Liabilities	
Interest-bearing loans and borrowings	2,745
Total liabilities	2,745
Total adjustments on equity	-
Retained earnings	-
Non-controlling interests	-

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Operating lease commitments as at 31 December 2018	923
Weighted average incremental borrowing rate as at 1 January 2019	5.57%
Discounted operating lease commitments as at 1 January 2019	3,072
Less:	
Commitments relating to short-term leases	29
Add:	
Commitments relating to leases previously classified as finance leases	-
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	-
Lease liabilities as at 1 January 2019	3,043

ALUM S.A.
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and interpretations effective in 2019 that the Company has applied to these financial statements (continued)

- Amendments to IFRS 9 Prepayment features with negative compensation were issued on 18 May 2018 (effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted). The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The amendments do not have an impact on the Company's financial statements.

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, issued on 7 February 2018. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The amendments do not have an impact on the Company's financial statements.

- Amendments to IAS 28: Long-term interests in associates and joint ventures (issued on 12 October 2018). The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These amendments are not applicable to the Company.

- IFRIC 23 Uncertainty over income tax treatments. Interpretation was issued on 7 June 2017, is applicable for annual periods beginning on or after 1 January 2019 and earlier application is permitted. Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The amendment did not have an impact on the Company's financial statements.

- Annual Improvements to IFRS Standards 2015 – 2017 Cycle (effective for annual periods beginning on or after 1 January 2019), issued on 12 December 2017. The improvements are not expected to have a material impact on the Company's financial statements. These annual improvements are a collection of amendments to IFRSs:

-IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

-IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

-IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

ALUM S.A.
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards issued but not yet effective and not early adopted

- *Conceptual Framework in IFRS standards.* The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2019. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. It's objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- IFRS 17 Insurance Contracts. The standard, issued on 18 May 2019, is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. The standard has not been yet endorsed by the EU. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. This standard is not applicable to the Company.

- Amendment to IFRS 3 Business Combinations, issued on 22 October 2019 (not yet adopted by EU) intended to improve the definition of a business and assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments apply prospectively to transactions or other events that occur on or after the date of first application.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The directors do not anticipate that the application of the standard in the future will have an impact on the Company's consolidated financial statements.

ALUM S.A.
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards issued but not yet effective and not early adopted (continued)

- Amendments to IAS 1 and IAS 8: Definition of Material, issued on 31 October 2019 (not yet adopted by EU). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS. The new definition states that 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. Although the amendments to the definition of material is not expected to have a significant impact on financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how the information is organised in the financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform, issued on 26 September 2019. The Amendments relate to the issues affecting financial reporting in the periods before replacement of an existing interest rate benchmark with an alternative interest rate. The Amendments provide relief from the highly probable and prospective assessments required by IFRS 9 and IAS 39 for hedging relationships that are affected by the uncertainties of the inter-bank offered rates ('IBORs') reform. With the same objective, the Amendments provide relief from the retrospective assessment under IAS 39. The exceptions described in the Amendments apply only to those hedging relationships directly affected by uncertainties of the IBOR reform including cross-currency interest rate swaps (for the interest component affected). The Amendments will become effective for the annual periods beginning on or after 1 January 2020, with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis of preparation

The separate financial statements have been prepared on the historical cost basis except for certain items of property, plant and equipment that are measured at fair value as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

At the first application of IFRS, the Company has chosen to apply the deemed cost exemption for land and buildings as well as for equipment. The fair value was considered by the Company as deemed cost on transition to IFRS on January 1, 2005 considering the revaluation as 31 December 2004 as a good measure of the fair value.

Going concern

These separate financial statements have been prepared on a going concern basis, which assumes that the Entity will be able to realize its assets and discharge its liabilities in the normal course of business.

The principal accounting policies are set out below.

ALUM S.A.
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Group accounting

The Company has participating interests in other companies, in which it has control over the financial and operational policies. These investments are recorded at cost less impairment allowance, in the separate financial statements. In accordance with International Accounting Standard 27 „Consolidated and separate financial statements”, the Entity has to prepare consolidated financial statements. The Entity issues also consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. A list of investments in subsidiaries is presented in Note 6.

Foreign currencies

The functional currency of the Company is the Romanian Leu (RON).

In preparing the separate financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date and included as foreign exchange difference. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below the hedging accounting policies);

Closing exchange rates for EUR and USD were 4.7793 RON and 4.2608 RON as at December 31, 2019 (December 31, 2018: 4.6639 RON and 4.0736 RON respectively).

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Depreciation is recognized so as to write off the cost less their residual values over the following useful lives, using the straight-line method:

Buildings and other constructions	2 – 52 years
Plant and machinery	1 – 25 years
Equipment and vehicles	1 – 25 years

ALUM S.A.
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowings costs are recognized in profit or loss in the period in which they are incurred.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in consolidated profit or loss at the date of the derecognition.

Emission rights

The Company recognizes emission CO2 rights in its separate financial statements based on the net liability method. Under this method only those liabilities that are expected to result from exceeding the emission credit quotas, granted to the Company under Government decision no. 204/2013 by the Romanian National Environmental Authority, are recognized.

The Company estimates its annual emission volumes at each balance sheet date and recognizes the total estimated additional liability for the expected excess of emission volumes at the fair value of additional units to be purchased or penalties to be incurred under the national legislation. The additional net liability is recognized in profit or loss based on unit of production method.

In case the Company estimates utilization of less than the allocated emission certificates any potential income from the sale of unused emission certificates is recognized in profit or loss only on actual sale of those certificates.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

De-recognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in consolidated profit or loss when the asset is derecognized.

Intangible assets are amortized over a period of 3 years (for software).

Impairment of tangible and intangible assets excluding goodwill

At the balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount of an asset or cash-generating unit is the higher of fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

For purposes of subsequent measurement financial assets are classified into the following specified categories: amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss (FVTPL).

- *Debt instruments at amortised cost* for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely payments of principal and interest (SPPI) criterion. This category includes the Company's Trade and other receivables and Long-term loans receivable.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

- *Financial assets at FVPL* include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Investments in subsidiaries

In the separate financial statements investments in subsidiaries are stated at historical cost less accumulated impairment losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and statement of cash flows comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Impairment of financial assets

The Company recognise an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company apply a simplified approach in calculating ECLs. Therefore, the Company do not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Company have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Derecognition of financial assets

The Company derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when they transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, the Company recognise their retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retain substantially all the risks and rewards of ownership of a transferred financial asset, they continue to recognise the financial asset and also recognise a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Gains (losses) from derivative financial instruments, net' or "Other financial gains/(losses), net". Fair value is determined in the manner described in Note 31.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowings costs are recognized in profit or loss in the period in which they are incurred.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Company are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

Derecognition of financial liabilities

The Company derecognise financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis;
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing cost, determined on weighted average basis.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

- i) Ordinary shares are classified as equity.
- ii) External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds;
- iii) Dividends on ordinary shares are recognized in equity in the period in which they are declared.

Legal reserve

Legal reserves are computed based on the legislation in force and are deducted from the profit of the current financial year by allocating minimum 5% from the profit, until it reaches at least the 20% of the share capital.

Related parties

Parties are considered related when other party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly control or significantly influence the other party.

Government grants

Government grants are recognised once there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. They are recognised in the profit or loss over the periods necessary to match them with the related costs which they are intended to compensate, and are disclosed under "other income". Government grants that are receivable as a compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Employee benefits

The Company, in the normal course of business, makes payments to the Romanian State on behalf of its employees for pensions, health care and unemployment cover. The cost of these payments is charged to profit or loss in the same period as the related salary cost.

All employees of the Company are members of the Romanian State pension plan.

The Company awards its employees with several retirement benefits according to the Collective Labour Agreement. For this defined benefit retirement plan, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date.

Defined benefit costs are categorized as follows:

- Service costs (comprising current service cost, past service cost, as well as gain and losses on curtailments and settlements), included in profit or loss line item "Cost of sales" or "Administrative expenses" within personnel costs.
- Net interest expense, included in profit or loss line item "Finance costs, net" within interest expenses
- Remeasurement.

Remeasurement, comprising actuarial gains and losses, is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

Leases

The Company as lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as licenses, small items of office equipments, etc.). For these leases, the Company recognise the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company use their incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasure the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in The assessment of exercise of a purchase option, in which case The lease liability is remeasured by discounting The revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expect to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The depreciation periods considered for each category of right-of-use assets are as follows:

	<u>2019</u>
Buildings and special constructions	5 years
Equipment and vehicles	between 3 and 5 years

The right-of-use assets are presented as Other non-current assets in the statement of financial position.

The Company applies IAS 36 Impairment of assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made regarding the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Decommissioning and rehabilitation liability

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

Sales of goods

Under IFRS 15, revenue is recognized when a customer obtains control of the goods. The Company deliver goods (mainly calcined alumina and aluminium hydroxide) under contractual terms based on internationally accepted delivery conditions (INCOTERMS). The Company recognize revenue at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Variable consideration

Some contracts with customers provide volume rebates, financial discounts, price concessions or a right of return for quality claims. Prior to the adoption of IFRS 15, the revenue from these sales was recognized based on the price specified in the contract, net of returns and allowances, trade discounts and volume rebates booked on an accrual basis when a reasonable estimate of the revenue adjustments could be made.

Under IFRS 15, variable consideration is required to be estimated at contract inception. Revenue is recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Company are unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. To estimate the variable consideration to which it will be entitled, the Company applied the expected value method. At the same time, the cases of quality claims (rights of return) are isolated and historically immaterial in such a way that the Company cannot make a reasonable estimate of such reversal of revenue at year end.

Principal versus agent considerations

Under IFRS 15, the assessment is based on whether the Company control the specific goods before transferring them to the end customer, rather than whether they have exposure to significant risks and rewards associated with the sale of goods.

The Company have concluded that they are the principal in all of their revenue arrangements since they are the primary obligor in all the revenue arrangements, have pricing latitude and are also exposed to inventory.

Recognition of revenue from distinct performance obligations

The Company have analysed its contracts with customers to determine all its performance obligations and it has not identified any new performance obligation that should be accounted for separately in accordance with IFRS 15.

Rendering of services

The Company perform sundry services occasionally and as a non core business. Revenue is measured at the expected value of the consideration received or receivable. Under IFRS 15, the total consideration in the service contracts is allocated to all services based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Company sell the services in separate transactions. Based on the Company's assessment, the allocated value based on the stand-alone selling prices of the services, and the stand-alone prices of the services are broadly similar.

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business.

Amounts received from customers in advance of goods delivery or service performance are recognized by the Group and the Company as liabilities on the Statement of Financial Position as "Advances from customers" until the Group or the Company actually transfers control of the goods delivered to the client or performs the contracted service.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Taxation

Income tax expense comprises current and deferred tax. The current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Statutory income tax rate for the year ended December 31, 2019 was 16% (December 31, 2018: 16%).

Currently the fiscal losses can be carried forward in Romania for 7 years.

Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share (continued)

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise items such as convertible notes and share options granted to employees.

Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Company measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- When receivables and payables are stated with the amount of sales tax included

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are presented below. The Company based their assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The following are the critical judgements and estimations that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the separate financial statements.

i) Impairment of tangible and intangible assets

Impairment exists when the carrying value of an asset or cash generating unit 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 budget prepared by the Company 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.

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 2019 and December 2018. (Note 4).

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

ii) 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. The key assumptions used to determine the recoverable amount for the investments are disclosed and further explained in Note 6.

iii) Retirement benefit obligations

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and longevity. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Additional information is disclosed in Note 16.

iv) Tax uncertainties and Deferred taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, when necessary, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Company and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in that context.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Detailed information is disclosed in Note 7.

v) Provision for decommissioning.

Decommissioning costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. In order to determine the value of the provisions, estimates were made and hypotheses were considered regarding the discount rate, the inflation rate, the costs with the rehabilitation and when they will have to be borne.

Detailed information is disclosed in Note 17.

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4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings and special constructions	Plant and machinery	Equipment and vehicles	Capital assets in progress	Advances for fixed assets	Total
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
At January 1, 2018	20,057	183,278	363,544	25,312	23,763	2,732	618,687
Additions	-	230	-	422	49,609	321	50,582
Transfer between categories	-	3,749	10,351	3,617	(17,717)	-	-
Disposals	-	(55)	(845)	(595)	-	-	(1,495)
Closing balance at December 31, 2018	20,057	187,202	373,050	28,756	55,656	3,053	667,774
Additions	-	1,809	-	-	32,102	(3,053)	30,859
Transfer between categories	-	10,194	45,622	381	(56,198)	-	-
Transfer to other categories*	-	-	-	(578)	-	-	(578)
Disposals	-	(60)	(430)	(80)	-	-	(570)
Closing balance at December 31, 2019	20,057	199,145	418,243	28,479	31,561	-	697,484

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Accumulated depreciation	<u>Land</u>	<u>Buildings and special constructions</u>	<u>Plant and machinery</u>	<u>Equipment and vehicles</u>	<u>Capital assets in progress</u>	<u>Advances for fixed assets</u>	<u>Total</u>
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
At January 1, 2018	-	132,902	328,457	14,756	-	-	476,115
Charge for the year	-	6,797	10,437	805	-	-	18,039
Transfer between categories	-	-	-	-	-	-	-
Accumulated depreciation of disposals	-	(55)	(803)	(181)	-	-	(1,039)
Closing balance at December 31, 2018	-	139,644	338,091	15,381	-	-	493,116
Charge for the year	-	7,460	13,297	1,096	-	-	21,853
Transfer between categories	-	-	-	-	-	-	-
Transfer to other categories*	-	-	-	(164)	-	-	(164)
Accumulated depreciation of disposal	-	(60)	(415)	(80)	-	-	(556)
Closing balance at December 31, 2019	-	147,044	350,973	16,233	-	-	514,250

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

Allowances for impairment	<u>Land</u>	<u>Buildings and special constructions</u>	<u>Plant and machinery</u>	<u>Equipment and vehicles</u>	<u>Capital Assets in progress</u>	<u>Advances for fixed assets</u>	<u>Total</u>
	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON	'000 RON
At January 1, 2018	-	119	121	926	1,792	-	2,959
Impairment charge for the period	-	21	-	-	-	-	21
Reversal of impairment	-	-	(27)	-	-	-	(27)
At December 31, 2018	-	140	94	926	1,792	-	2,952
Impairment charge for the period	-	-	-	-	-	-	-
Reversal of impairment	-	(21)	(15)	-	-	-	(36)
At December 31, 2019	-	119	79	926	1,792	-	2,917
Net book value							
At December 31, 2018	20,057	47,418	34,865	12,448	53,864	3,053	171,705
At December 31, 2019	20,057	51,982	67,190	11,320	29,769	-	180,317

The Company recorded full provision for the future cost of rehabilitating the red mud lake waste dump on a discounted basis. The change in the year increased the value of the fixed asset as of December 31, 2019 by RON 1,809 thousand (2018: + RON 230 thousand) (see Note 17). 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.

The gross book value of the Property, plant and equipment of the Company includes the amount of RON 902 thousand representing borrowing costs capitalized in 2018 in accordance with IAS 23 Borrowing costs as revised. The borrowing costs consist of interest and transaction costs that the Company incur in relation to the contracted loans. In 2018 at the Company level there were interest expenses capitalized of RON 799 thousand at an average interest rate of 5.87% p.a. . No borrowing costs were capitalized in 2019.

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4. PROPERTY, PLANT AND EQUIPMENT (continued)

*As a result of adopting IFRS 16, at 1 January 2019 the Company reclassified Property, plant and equipment with a net book value of RON 414 thousand to Other non-current assets. The transfer is related to machines under financial lease previously recognized in the Property, plant and equipment as per requirements of IAS 17. See also Note 2 and Note 8.

The gross book value of the fully amortized fixed assets in use as of December 31, 2019 is in amount of RON 160,876 thousand (2018: RON 148,798 thousand).

As of December 31, 2019 property, plant and equipment of Alum S.A. have been pledged to secure the borrowing contracted by the company with a carrying amount of RON 147,761 thousand (December 31, 2018: RON 110,407 thousand) (Note 15).

In the category of capital assets in progress is included, mainly, the value of Gaudfrin vertical filters, disc filter for coarse seed (Bokela) and water cooling tower in Precipitation that will be put in function in 2020.

In 2019, equipment purchased under the investment project intended for researching technologies for obtaining dry and wet aluminum hydroxide was put into operation.

Impairment tests for property, plant and equipment

The company analyzed the net book value recorded at the balance sheet date for the depreciable property, plant and equipment, in order to evaluate the possibility of their depreciation, which could lead to the recording of an adjustment for depreciation.

There were no impairment indications identified, therefore there was no need to perform an impairment test of the property, plant and equipment as at 31 December 2019 and 31 December 2018.

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5. INTANGIBLE ASSETS

Cost	Development expenses	Other intangibles	Advances for intangibles	Total intangibles
	'000 RON	'000 RON	'000 RON	'000 RON
At January 1, 2018	4,367	334	-	4,702
Additions	-	24	-	24
Transfer to fixed assets.	-	-	-	-
Disposals	-	-	-	-
As at December 31, 2018	4,367	358	-	4,725
Additions	-	48	-	48
Transfer to tangible assets	-	-	-	-
Disposals	-	-	-	-
As at December 31, 2019	4,367	407	-	4,774
Accumulated depreciation	Development expenses	Other intangibles	Advances for intangibles	Total intangibles
	'000 RON	'000 RON	'000 RON	'000 RON
At January 1, 2018	4,367	316	-	4,683
Charge for the year	-	19	-	19
Disposals	-	-	-	-
As at December 31, 2018	4,367	335	-	4,702
Charge for the year	-	29	-	29
Disposals	-	-	-	-
As at December 31, 2019	4,367	364	-	4,730
Net book value at December 31, 2018	-	24	-	24
Net book value at December 31, 2019	-	44	-	44

Development expenses include projects and studies related to the silicon removal processes and technological plant sizing, increase of the vertical kiln capacity, technical and technological rehabilitation. The capitalized expenses for the development activities are amortized over a period of 5 years.

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6. INVESTMENT IN SUBSIDIARIES

	Year ended December 31, 2019	Year ended December 31, 2018
At January 1	82,581	82,581
Additions	-	-
Impairment of investment	(82,581)	(82,581)
At December 31	-	-

On May 1, 2011 Alum acquired from Vimetco N.V., related party, 100% of investment company Global Aluminium Ltd. whose assets included 100% shareholding in a bauxite mine in Sierra Leone, Sierra Minerals Holding 1 Ltd. and 100% shareholding in Bauxite Marketing Ltd.

Bought by Vimetco N.V. in 2008, the bauxite mine in Sierra Leone, with a resource base of approximately 31 million tons of bauxite, produced 1,883,863 tons in 2019 (2018: 1,938,461 tons). The bauxite mine produces raw material for Alum S.A..

Global Aluminium Ltd. has accumulated a deficit of USD (15,435) thousand as of December 31, 2019 (2018: USD (16,124) thousand).

As of December 31, 2019 CMF Consulting, an independent valuator, performed an impairment test for Alum's investment in Global Aluminium Ltd. The recoverable amount of cash-generating units operating in Sierra Leone (Global Aluminium Ltd.) was determined based on fair value less costs of disposal, estimated using discounted cash-flow techniques and applying a market-based measurement. Financial forecasts estimated by the directors at 31 December 2019 and 2018 cover a five-year period. The after-tax discount rate is of 20.2% per annum (in 2018: 19.4%). The cash flows beyond the five-year period have been extrapolated until the year 2035, when the estimated reserves (measured, indicated and inferred) will be depleted at a 2.2% growth rate in line with the forecast inflation (in 2018: 2.2%), except for the terminal year when a reduced production is foreseen at the level of the remaining reserves.

The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used (see Note 31).

The key assumptions for the cash-generating unit Global Aluminium Ltd. are:

	2019	2018
Discount rate	20.2%	19.4%
Growth rate (average of next five years)	5.1%	1.0%
EBITDA margin	17.0%	18.7%

The discount rate is the CGU weighted-average cost of equity of 22.2% (in 2018: 20.2%), calculated based on the average unlevered betas of comparable companies within the industry and of a cost of debt after tax of 4.8% (in 2018: 1.1%), using the CGU's debt leverage of 11.3% (in 2018: 4.3%).

Growth rates during the next five years are based on current contract with Alum reflecting the price in the market for long term contracts and on company's intention to develop sales to third party clients.

The most sensitive key assumption used in impairment test of CGU Global Aluminium Ltd. are the discount rate and EBITDA margin. An increase of the discount rate to 25.5% and a decrease of EBITDA margin to 12.4% applied separately, would cause the estimated recoverable amount to be equal to the carrying amount (2018: an increase of the discount rate to 25.39% and a decrease of EBITDA margin to 13.2%). For the other assumptions management considered that there are no reasonably possible modifications that would lead to an impairment of the goodwill allocated to CGU Global Aluminium Ltd.

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6. INVESTMENT IN SUBSIDIARIES (continued)

According to the impairment test the equity value (market value) of SMHL is negative. The result has been compared with Alum's exposure (investment value, trade receivables and advances for bauxite) and the difference has been recorded as depreciation in the following order: investment in subsidiary, trade receivables and other receivables (i.e. advances for bauxite).

7. INCOME TAXES

Income tax recognized in the profit or loss

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Current income tax	15,556	11,967
Deferred income tax (credit)/expense	<u>(1,671)</u>	<u>(2,613)</u>
Total income tax revenue recognized in the current year	<u>13,885</u>	<u>9,354</u>

The income tax expense for the year can be reconciled to the accounting profit as follows:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
(Loss)/profit before tax	91,196	61,680
Income tax credit/(expense) calculated at 16%	(14,591)	(9,869)
Tax effect of permanent differences	706	515
Recognition of previously unrecognized temporary deductible differences	-	-
Income tax (expense)/revenue reported in profit and loss	<u>(13,885)</u>	<u>(9,354)</u>

The tax rate used for the 2019 and 2018 reconciliations above is the corporate tax rate of 16% payable by corporate entities in Romania on taxable profits under tax law in that jurisdiction.

The following is the analysis of deferred tax assets / (liabilities) presented in the statement of financial position:

	<u>Opening balance</u>	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>	<u>Recycled to profit or loss</u>	<u>Closing balance</u>
Property, plant and Equipment	(4,700)	193	-	-	(4,507)
Inventories	449	228	-	-	677
Trade receivables and other current assets	10,275	1,259	-	-	11,534
Long-term provisions	3,115	423			3,538
Short term provisions	481	(481)			-
Retirement benefits obligation	<u>645</u>	<u>48</u>	<u>81</u>	<u>-</u>	<u>775</u>
Deferred tax asset / (liability)	<u>10,265</u>	<u>1,671</u>	<u>81</u>	<u>-</u>	<u>12,017</u>

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8. RIGHT-OF-USE ASSETS

	December 31, 2019	December 31, 2018
Right-of-use assets	2,660	-
Total	2,660	-

Starting 1 January 2019 the Company has applied IFRS 16 Leases and recognized initially as non-current assets under Rights-of-use assets, the right to use the underlying asset during the lease term amounting to RON 3,159 thousand. The Company has leasing contracts mainly for equipments and vehicles with terms of up to 5 years. The carrying value of the right of use assets at 31 December 2019 was RON 2,660 thousand . For further details see also Note 2.

	2019	2018
Right-of-use-assets		
Equipment		
Balance at 1 January	414	-
Depreciation charge for the year	(116)	-
Additions	-	-
Balance at 31 December	298	-
Vehicles		
Balance at 1 January	561	-
Depreciation charge for the year	(201)	-
Additions	254	-
Balance at 31 December	614	-
Others		
Balance at 1 January	2,184	-
Depreciation charge for the year	(437)	-
Additions	-	-
Balance at 31 December	1,747	-
Right-of-use assets as 31 December	2,660	-

The following amounts were recognised in profit or loss, following the application of IFRS 16:

	December 31, 2019	December 31, 2018
Depreciation expense of right-of-use assets	753	-
Interest on lease liabilities	152	-
Expenses related to short-term leases	385	-
Expenses related to leases of low-value assets	30	-
Total amounts recognised in profit or loss	1,321	-

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9. INVENTORIES

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Raw materials	117,517	73,485
Consumables	10,373	9,408
Finished goods	12,612	6,349
Work in progress	55,833	63,138
Semi-finished goods	8,606	715
Other	311	144
Allowance for slow moving and obsolete inventories	<u>(63)</u>	<u>(78)</u>
Total	<u>205,188</u>	<u>153,160</u>

Movement in the provision for inventory is as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of the year	78	101
Charge during the year	-	-
Release during the year	<u>(15)</u>	<u>(23)</u>
Balance at end of the year	<u>63</u>	<u>78</u>

The value of the expensed inventories in 2019 is of RON 444,395 thousand (2018: RON 509,731 thousand).

The value of inventories pledged for securing the Company's borrowings amounts RON 205,251 thousand (31 December 2018: RON 153,238 thousand).

10. TRADE RECEIVABLES

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Foreign trade receivables	67,117	54,043
Domestic trade receivables	5,268	4,382
Allowance for doubtful receivables	<u>(49,530)</u>	<u>(47,290)</u>
Total	<u>22,855</u>	<u>11,135</u>

There are 2 customers representing individually more than 10% of the total balance of trade receivables as at December 31, 2019 (2018: 1 customer).

Movement in allowance for doubtful receivables is as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of the year	47,290	51,510
Charge during the year	2,241	15
Release during the year	<u>-</u>	<u>(4,236)</u>
Balance at end of the year	<u>49,530</u>	<u>47,290</u>

The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In determining the recoverability of a trade receivable, the Company consider any change in the credit quality of the customer from the date the credit was initially granted up to the reporting date and adjusted for forward-looking factors specific to the debtors and the economic environment. Accordingly, the Company's management believes that there is no further credit provision required in excess of the allowance for doubtful receivables already provided for.

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10. TRADE RECEIVABLES (continued)

According to the impairment test performed by CMF Consulting, an independent valuation company, as of December 31, 2019 there is a potential loss from receivables from SMHL for which the Company recorded a provision in amount of USD 11,462 thousand (RON 48,838 thousand) (2018: USD 11,570 thousand (RON 47,133 thousand)). More details are presented in Note 6.

A part of the Company's receivables (RON 3,406 thousand at 31 December 2019 (RON 7,264 thousand at 31 December 2018)) are pledged to secure the loans obtained from banks.

The table below is an analysis of trade receivables as at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Neither past due nor impaired	17,891	6,829
Past due but not impaired	4,966	4,200
Past due more than 1 month*	83	-
Past due more than 3 months*	234	-
Past due more than 9 months*	49,211	47,396
Allowance for doubtful receivables	(49,530)	(47,290)
Total	22,855	11,135

*) trade receivables impaired

Ageing of receivables that are past due but not impaired:

	December 31, 2019	December 31, 2018
Less than 3 months	1,663	1,044
3 months to 6 months	91	-
6 months to 9 months	22	-
More than 9 months	3,190	3,156
Total	4,966	4,200

Details regarding the Company transactions with the related parties are presented in Note 28.

In 2019 the Company signed a factoring framework agreement. The factoring facility is without regress, so that the risks and rewards related to the receivables are substantially transferred to a factor and as a result the transferred amount at the transfer date is derecognized, and the factoring fees and related finance costs are recognized at the payment date. At 31 December 2019 the overall factoring limit in amount of 3.000.000 EUR was not utilised.

11. OTHER RECEIVABLES

	December 31, 2019	December 31, 2018
Short term loan receivables (Note 28)	-	1,059
Advances to suppliers (Note 28)	213,184	203,370
VAT recoverable	100	1,560
Other debtors	562	219
Prepayments	214	1,192
Allowance for doubtful debtors	(22,586)	(16,956)
Total	191,474	190,444

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11. OTHER RECEIVABLES (continued)

According to the impairment test performed by CMF Consulting, an independent valuation company, as of December 31, 2019 there is a potential loss from advances to SMHL for which the Company recorded a provision in amount of USD 5,297 thousand (RON 22,570 thousand) (2018: USD 4,158 thousand (RON 16,940 thousand)). More details are presented in Note 6. The advances to SMHL are in amount of RON 212,370 thousand (2018: RON 202,503 thousand).

The movement in allowance for doubtful debtors is as follows:

	December 31, 2019	December 31, 2018
Balance at beginning of the year	16,956	16
Charge for the year	5,630	16,940
Balance at end of the year	22,586	16,956

12. CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Cash at banks in RON	395	407
Cash at banks in foreign currency	186	434
Restricted cash	924	3,246
Cash in hand in RON	7	3
Total	1,512	4,090

Restricted cash represents cash collateral deposited at banks with the purpose of issuing letters of credit for acquiring raw materials and equipments and with the purpose of maintaining a required level of liquidity in respect of interest payable on its borrowings.

On 31 December 2019 the Company has letters of credit with cash collateral transfers opened at Raiffeisen Bank in amount of EUR 184 thousand (RON 878 thousand) (2018: CEC Bank in amount of EUR 364 thousand (RON 1,698 thousand) and at Raiffeisen Bank in amount of USD 370 thousand (RON 1,507 thousand)).

Cash at banks earns interest at floating rates based on daily banks deposit rates. Short-term deposits are made for varying periods between one day and one month, depending on the immediate cash requirements of the Company.

Also, as of December 31, 2019 all current bank accounts opened by the Company are pledged to secure the borrowings contracted by the Entity.

13. RESERVES

	December 31, 2019	December 31, 2018
Legal reserve	16,900	12,309
Other reserves	30,645	34,650
Total reserve	47,545	46,959

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13. RESERVES (continued)

The legal reserve is made up at 20% of the issued and paid shared capital of the Company, according to the regulations in force, it is not distributable and its utilization is strictly regulated by the laws. Other reserves include mainly amounts that were generated by statutory revaluation of fixed assets.

14. ISSUED CAPITAL

The statutory share capital as of December 31, 2019 and 2018 is as follows:

	Statutory figures					
	December 31, 2019			December 31, 2018		
	Number of shares	Nominal Value RON (thousand)	%	Number of shares	Nominal Value RON (thousand)	%
SHAREHOLDERS						
ALRO SA	81,595,860	485,495	99.4026	81,595,860	485,495	99.4026
Individuals	487,778	2,902	0.5942	487,778	2,902	0.5942
Other companies	2,565	15	0.0031	2,565	15	0.0031
Total	82,086,203	488,413	100%	82,086,203	488,413	100%

The major shareholder of Alum S.A. is Alro S.A. owned by Vimetco N.V.

15. BORROWINGS AND LEASES

	December 31, 2019	December 31, 2018
Long-term borrowings		
Long-term bank loans	75,089	59,953
Bank loans, non-current	75,089	59,953
Long-term lease	1,787	99
Total long-term borrowings and lease	76,876	60,052
Short-term borrowings		
Short-term portion of long-term bank loans	62,940	300
Short-term bank loans, total	62,940	300
Short-term lease	736	193
Total short-term borrowings and lease	63,676	21,114
Total borrowings and lease	140,552	60,545

On 17 May 2019, 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 loans were granted for the purpose of financing the CAPEX program of the company. As of 31 December 2019, the Company has disbursed the total value of USD 25,000 thousand.

The loans are repayable in 7 semi annual instalments, with two year grace periods – starting from the first disbursement date. The interest rate considers LIBOR 6M + variable margin. The bank borrowings of the Company will mature in 2023. In 2019, the interest rates ranged between 5.05% and 6.39% (2018: between 5.62% and 6.39%).

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15. BORROWINGS AND LEASES (continued)

For the exposure of the Company's borrowings to interest rate changes, please refer to Note 31.

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 2019, the Company was compliant with all the financial loan covenants.

The Company borrowings are secured with accounts receivable amounting to RON 3,406 thousand (2018: ron 7,264 thousand), with current account opened with the banks amounting to RON 581 thousand (see Note 12) (2018: RON 844 thousand), with property, plant and equipment (land, buildings, equipment) with a net book value of RON 147,761 thousand (2018: RON 109,585 thousand) and with inventories of RON 205,251 thousand (2018: RON 153,238 thousand).

In August 2019, the Company concluded a contract with a commercial partner for selling CO2 emission certificates for an amount of RON 32,446 thousand. The emission certificates were sold at a spot price agreed by the parties based on the quotations used in the specific market at that date. According to the contract, if the market price of the emission certificates moves upwards but below a certain threshold up to 9 December 2020, the Company is bound to repurchase them at a price fixed by contract, which is slightly higher than the price for which it has sold them. If the market price moves upwards exceeding the same specified threshold, then the Company will not repurchase the certificates, but it will receive a termination payment from the counterparty, equal to the difference between the threshold and the initial sales price. At the transaction date and at the reporting date, the Company analyzed the market circumstances and estimated that there is a low possibility for the future market price to exceed the specified threshold at the termination date (in December 2020), and that it is more likely that it will have to buy back the certificates. The Company analyzed the contract, and determined that, due to the buy-back clause included in the contract, and due to the obligation to repurchase the certificates at a fixed price established in advance, and not at a market price applicable in future, the company has not transferred substantially the risks and rewards from the certificates, and it is thus a finance transaction. Therefore, the amount of RON 32,446 thousand was recognized as Other loans under Short term borrowings and lease at 31 December 2019 (nil at 31 December 2018), with the surplus between the future repurchase price and the price received at transaction date being accrued as interest expense under Interest expense (see Note 27): RON 90 thousand for 2019 (nil for 2018).

The Company have estimated that the fair value of the borrowings and the leases equals their carrying amount, mainly due to the fact that the long term loans have variable interest and the bank margins are similar with those for the recently contracted bank loans. Their fair value belongs to the level 3 of the fair value measurement hierarchy.

Also, in 2019, the Company has an ongoing finance lease agreement for a backhoe for a period of three years. The net book value of leased assets at Company level as of December 31, 2019 was RON 591 thousand (31 December 2018: RON 822 thousand).

The minimum lease payments for finance leases are set out below:

	December 31, 2019	December 31, 2018
Lease instalments falling due:		
Within 1 year	-	198
1 to 5 years	-	100
Total lease instalments	-	298
Less: future finance charges	-	6
Present value of lease obligations	-	292
Thereof:		
Short-term finance lease obligation (less than 1 year)	-	193
Long-term finance lease obligations (1 to 5 years)	-	99

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15. BORROWINGS AND LEASES (continued)

Changes in liabilities arising from financing activities Alum:

	Bank and other loans	Finance leases
Balance at 1 January 2019	60,253	292
New contracts	73,466	2,999
Cash outflows	-	(769)
Interest expense	7,220	152
Interest paid	(6,390)	(152)
Interest capitalised	-	0
Translation differences	3,480	1
Balance at 31 December 2019	138,029	2,523

	Bank and other loans	Finance leases
Balance at 1 January 2018	-	762
New contracts	60,426	-
Cash outflows	-	(465)
Interest expense	1,567	15
Interest paid	(1,896)	(15)
Interest capitalised	799	-
Translation differences	(643)	(5)
Balance at 31 December 2018	60,253	292

16. RETIREMENT BENEFIT OBLIGATION

Defined contribution plans

The employees of the Company are members of the state-managed retirement benefit plan and starting with January 1, 2008 can/must (for employees above/under the age of 35) subscribe to private pension funds. The Company contributes a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit plan is to make the specified contributions during the period of employment of the respective employees.

The Company has an arrangement in place to make payments to an optional defined contribution plan for the post-employment benefit of its employees that have rendered service to the Company during the period. The defined contribution plan is managed by a separate entity and the contribution made by the Company was in the form of fixed amounts per employee, paid monthly. The Company recognized the liability undiscounted (accrued expense) at the reporting date after deducting any contribution already paid, and the expense incurred during the year, the Company's legal and constructive obligation being limited to the amounts that it contributes to the fund.

Contributions to defined contribution plans

	December 31, 2019	December 31, 2018
Other defined contribution pension plans	1,054	693

Defined benefit plans

According to the Collective Labour Agreement, when retiring due to age or disease, the employees benefit from a retirement bonus which is computed based on the number of years of work and varies between 1 and 6 salaries.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2019 by an independent actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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16. RETIREMENT BENEFIT OBLIGATION (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31, 2019	December 31, 2018
Expected rate of salary increase (%)	3.68	4.22
Discount rate (%)	4.57	5.11
Expected inflation rate (%)	2.58	2.72

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
<u>Recognized in profit or loss</u>		
Current service cost	489	448
Interest on obligation	199	142
Benefits paid	(385)	(371)
<u>Recognized in other comprehensive income</u>		
Actuarial changes due to changes in assumptions	507	307
Total	810	526

The amount included in the balance sheet arising from the Company's obligation in respect of its defined benefit plans is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Opening defined benefit obligation	4,033	3,507
Current service cost	489	448
Interest cost	199	142
Actuarial (gains)/loss	507	307
Benefits paid	(385)	(371)
Total	4,843	4,033

	Year ended December 31, 2019	Year ended December 31, 2018
Actuarial (gain)/loss from demographic assumptions	-	-
Actuarial (gain)/loss from financial assumptions	77	(352)
Actuarial (gain)/loss from experience adjustments	430	659
Actuarial losses/(gains)	507	307

17. PROVISIONS

The provision for land restoration is related to the rehabilitation of the premises where the deposit residue from production. According to the environment regulations, the land underneath the waste deposits must be restored until a certain date specified by specific authorisations. The provisions are based on the estimation of expenses necessary to perform the restoration works at the time when they are expected to be incurred, discounted to their present value at 31 December 2019 and are related to the red mud lake in amount of RON 22,112 thousand.

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17. PROVISIONS (continued)

The Company estimates that the costs would be incurred in 4 years' time and calculates the provisions using the DCF method based on the following assumptions: estimated range of cost: RON 39 – RON 69 per square meter and discount rates of 3.0% (2018: 4.29%).

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

The provisions for employees compensation are recognized by the Company basically in accordance with the Collective Labour Agreements. In 2019, the Company analyzed the financial results for the period and decided not to book a provision for this period.

	<u>Rehabilitation</u>	<u>Employees remuneration</u>
At 1 January 2018	18,494	-
Capitalized during the year	230	3,009
Reversals	-	-
Unwinding of discount	743	-
Utilisation	-	-
	<u>19,468</u>	<u>3,009</u>
At 1 January 2019	19,468	3,009
Capitalized during the year	1,809	-
Reversals	-	(1,155)
Unwinding of discount	835	-
Utilisation	-	(1,854)
	<u>22,112</u>	<u>-</u>
At 31 December 2019	22,112	-
Comprising:		
Current 2019	-	-
Non-current 2019	22,112	-
Current 2018	-	3,009
Non-current 2018	19,468	-

The provisions for employees compensation are recognized by the Company basically in accordance with the Collective Labour Agreements. In 2019, the Company analyzed the financial results for the period and decided not to book a provision for this period (Note 24).

18. GOVERNMENT GRANTS

	<u>2019</u>	<u>2018</u>
Balance as of 1 January 2019	4,843	1,769
Increases during the year	839	3,074
Revenues recorded during the year in the statement of profit or loss	(347)	-
Balance as of 31 December 2019	5,335	4,843
Out of which:		
Current	379	323
Non-current	4,956	4,520

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 ".

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18. GOVERNMENT GRANTS (continued)

In 2019 the Company collected as non-refundable funds the amount of RON 839 thousand (2018: RON 3,244 thousand).

Income released to the Statement of profit or loss of RON 347 thousand (2018: nil) represent the portion recognized as income during the year from the above mentioned subsidies, as well as from subsidies received in previous years for equipments.

The income recognized during the year in the Statement of profit or loss and other comprehensive income of the Company is included in the category Other operating income (refer to Note 23).

The only achievement indicator to be pursued by the end of the project, respectively the number of staff in the R & D department that needs to grow by 16 people by March 8th, 2019, was achieved.

At the end of the project must be achieved also the result indicators, i.e. turnover (RON 605.225 thousand) and market share (1,26%). These indicators are reported annually, 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 2024.

19. TRADE AND OTHER PAYABLES

	December 31, 2019	December 31, 2018
Foreign trade payables	1,865	7,099
Domestic trade payables	22,749	41,953
Accrued trade payables	1,238	2,860
Total	25,851	51,912

Details regarding the Company transactions with the related parties are presented in Note 28.

20. OTHER CURRENT LIABILITIES

	December 31, 2019	December 31, 2018
Suppliers of fixed assets	1,526	5,942
Advances from customers	19,326	67,948
Wages and social security	4,757	4,323
Tax on salaries	406	348
Other taxes	50	71
VAT payable	2,292	3,692
Other current liabilities	1,752	1,084
Total	30,109	83,408

Details regarding the Company advances from customers - related parties are presented in Note 28.

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21. REVENUE FROM CONTRACTS WITH CUSTOMERS

99% of the company's revenues consist of sales of alumina and hydrate, most of them to one customer (see Note 28).

	Year ended December 31, 2019	Year ended December 31, 2018
Revenues from sale of alumina and hydrate	782,433	875,101
Other revenues	1,211	717
Total	783,644	875,818

22. COST OF SALES

	Year ended December 31, 2019	Year ended December 31, 2018
Energy, water and gas	191,735	191,022
Raw materials	429,985	493,671
Staff costs	42,822	37,097
Other staff costs	4,245	3,258
Consumables expenses	12,860	14,172
Amortization and depreciation	20,077	16,785
Third party services	5,669	5,205
Repairs	3,942	10,133
Transportation costs	1,351	2,012
Others	1,331	1,294
Allowance for slow moving and obsolete Inventories	(15)	(23)
Total	714,002	774,625

In 2019, the company recognized total employment benefits expenses representing salaries and other staff costs of RON 61,652 thousand (in 2018: RON 58,130 thousand) in profit and loss. In 2019, Staff costs category increased as a result of an increase in the salary fund due to the negotiations of the Collective Labour Contract.

The provisions for employees compensation are recognized by the Company basically in accordance with the Collective Labour Agreements. In 2019, the Company analysed the financial results for the period and decided not to book a provision for this period (in 2018: RON 3,009 thousand).

23. OTHER OPERATING INCOME

	Year ended December 31, 2019	Year ended December 31, 2018
Government grants (Note 18)	347	-
Income from sale of unused CO2 emission rights	74,793	-
Income from unused provision reversals (Note 17)	1,155	-
Income from claims and penalties	249	-
Other revenues	3,448	2,193
Total	79,992	2,193

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23. OTHER OPERATING INCOME (continued)

During the year 2019, the Company sold CO2 emission certificates of RON 74,793 thousand, included under Income from sale of emission certificates (2018: nil), benefiting from the increase in the price of CO2 emission certificates. The Company was in the position to have a surplus of emission certificates as they made numerous efforts to invest in energy efficiency in the latest years.

In other revenues are included, mainly, revenues from sale of electricity for the City Hall equipment that assures the town heating, demurrage for bauxite loading/unloading, rent and incomes related to sick leaves.

24. ADMINISTRATIVE EXPENSES

	Year ended December 31, 2019	Year ended December 31, 2018
Energy, water and gas	57	64
Consumables expenses	828	1,109
Staff costs	12,002	14,919
Third party services	10,527	10,259
Insurance	1,266	740
Taxes other than income	1,493	1,338
Amortization and depreciation	1,029	882
Research and development costs	2,142	-
Other administrative expenses	3,516	4,582
(Decrease)/increase in allowance for doubtful receivables	7,870	12,719
Total	40,730	46,612

For more details regarding the movement in allowance, see Note 10.

In 2019 the Company recognized research and development costs of RON 2,142 thousand (in 2018: nil) after the placing into operation in the beginning of 2019 of the equipments under the EU funded project for the project for the research of aluminum hydroxide technology (dry and wet). The target of these projects is to increase the level of innovation and market competitiveness of the Company, while expanding the products portfolio to include new products.

The breakdown of research and development costs by nature of expenditure is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Consumables expenses	22	-
Staff costs	558	-
Third party services	196	-
Amortization and depreciation	22	-
Other administrative expenses	196	-
Total	2,142	-

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25. OTHER OPERATING EXPENSES

Under other operating expenses, are recorded mainly expenses related to penalties for noncompliance with the estimated consumption for electricity and gas and penalties charged by shipping companies for excess/shortage in idle time spent at bauxite loading/unloading, expenses related to sick leaves (2019: RON 5,919 thousand; 2018: RON 3,018 thousand).

26. OTHER OPERATIONAL GAINS AND LOSSES

	Year ended December 31, 2019	Year ended December 31, 2018
Loss on disposal of fixed assets	15	(392)
Total	15	(392)

27. FINANCIAL RESULT, NET

	Year ended December 31, 2019	Year ended December 31, 2018
Interest income	221	936
Dividend income	-	14,541
Other financial income	9	97
Interest expense	(7,372)	(2,622)
Interest from discounting provisions	(835)	(743)
Interest on post-employment benefits	(199)	(142)
Bank commissions	(307)	(709)
Net exchange rate differences	(3,291)	(3,826)
Total	(11,775)	7,532

27. FINANCIAL RESULT, NET (continued)

The amount of RON 3,292 thousand (2018: RON 3,826 thousand), representing foreign exchange gain/loss, is now included in the note "Financial costs, net", and eliminated in the category "Other operating income/expenses" (Note 26).

The amount of RON 14,541 thousand included in the category "Dividend income" represents the dividends received by Company from Global Aluminium LTD in 2018 (see also Note 28).

28. RELATED PARTY TRANSACTIONS

The major shareholder of Alum S.A. is Alro S.A. owned by Vimetco N.V. Netherlands which in its turn is owned by ViHolding N.V. (Netherlands Antilles) a company controlled by MAXON LIMITED.

Related parties are entities with common direct or indirect shareholders, directors or management. A significant proportion of Company's business is conducted through transactions with related parties and the effect of these on the basis determined between the related parties is reflected below. The transactions between the related parties are based on mutual agreements and may not always be at arm's length.

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28. RELATED PARTY TRANSACTIONS (continued)

The main related parties the Entity has recorded transactions with in 2019 and 2018 are: Alro S.A., Vimetco Extrusion S.R.L., Conef Gaz S.R.L., Vimetco Management S.R.L. Romania, Centrul Rivergate S.R.L., Rivergate Fire S.R.L, Sierra Minerals Holding Ltd., Global Aluminium Ltd.. Details of transactions between the Entity and its related parties are disclosed below.

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 Extrusion	Common control	Sales/purchases of goods
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

	December 31, 2019	December 31, 2018
Sales of goods and occasionally services		
Alro S.A.	642,464	602,843
Centrul Rivergate	37	36
Sierra Minerals Holding Ltd.	695	88
Vimetco Extrusion	3	2
Total	643,199	602,969

	December 31, 2019	December 31, 2018
Purchases of goods and services		
Alro S.A.	27,205	30,138
Centrul Rivergate	3,347	3,110
Rivergate Fire	3,095	2,897
Conef Gaz S.R.L.	169,933	166,705
Vimetco Management Romania S.R.L.	780	780
Sierra Minerals Holding Ltd.	215,817	240,273
Total	420,177	443,903

	December 31, 2019	December 31, 2018
Trade and other receivables, gross		
Sierra Minerals Holding Ltd. (advances and receivables)	261,857	249,636
Sierra Minerals Holding Ltd. (loan) *	-	1,059
Centrul Rivergate	4	4
Vimetco Power	3,153	3,153
Alro S.A.	406	366
Total	265,420	254,218

*) In April 2016, the Company concluded a loan agreement 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 in operation the dryer facility. The interest according to the contract is Libor 3M + 5% per year. The loan has been repaid in 3 years, in 8 equal quarterly installments starting with July 2017, having a grace period of 1 year. The balance as of December 31st 2018 in amount of USD 260 thousand (the equivalent of RON 1,059 thousand) has been received in 2019.

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28. RELATED PARTY TRANSACTIONS (continued)

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Trade and other payables		
Alro S.A. - advances	19,301	67,536
Alro S.A. – trade payables	3,168	21,654
Conef Gaz S.R.L.	733	479
Centrul Rivergate	328	306
Rivergate Fire	307	287
Vimetco Management Romania S.R.L.	-	-
Total	<u>23,838</u>	<u>90,263</u>

The remuneration of directors and other members of key management personnel during the year was in amount of RON 2,356 thousand (2018: 2,047 RON thousand).

In 2018 the Company received dividends from Global Aluminium Ltd in amount of RON 14,541 thousand (2019: nil).

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Other non-current assets		
Sierra Minerals Holding Ltd.	-	-
Global Aluminium Ltd	-	-
Total Other non-current assets	<u>-</u>	<u>-</u>
Short-term loans receivable, IC		
Sierra Minerals Holding Ltd.	-	1,059
Global Aluminium Ltd	-	-
Total Short-term loans receivable, IC	<u>-</u>	<u>1,059</u>
Loans receivable, IC		
Sierra Minerals Holding Ltd.	-	1,059
Global Aluminium Ltd	-	-
Total loans receivable, IC	<u>-</u>	<u>1,059</u>

29. EARNINGS PER SHARE

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Net profit/(loss) attributable to shareholders	77,311	52,326
Weighted average number of ordinary shares ('000)	82,086	82,086
Basic and diluted (losses)/earnings per share (RON/share)	0.94	0.64
Dividends per share in current year (RON/share)	-	-

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30. SEGMENT INFORMATION

The Company only has one operating segment, the production and sale of alumina. All its operating assets are located in Romania.

The following table shows the distribution of the Company's sales by geographical market.

	Year ended December 31, 2019	Year ended December 31, 2018
Romania	651,532	612,024
European Union	73,165	107,425
Non-EU European Countries	40,010	113,586
Other countries	18,937	42,783
Total	783,644	875,818

31. FINANCIAL RISKS MANAGEMENT

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

Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company'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 Company may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with other companies in the industry, the Company monitor 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 consolidated and separate statement of financial position) less "cash and cash equivalents". Total capital is calculated as "total equity" as shown in the separate statement of financial position sheet plus net debt.

	2019	2018
Total borrowings (Note 15)	140,552	60,545
Less: cash and cash equivalents (Note 12)	588	844
Net debt	141,140	61,389
Total shareholders' equity	384,357	307,473
Total capital	525,497	368,862
Gearing ratio	27%	17%

As it appears from the table above, the gearing ratio has increased from 17% to 27% at Company level as a consequence of the increase the loans obtained in 2019.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices.

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31. FINANCIAL RISKS MANAGEMENT (continued)

Foreign currency risk management

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 significant part 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 or EUR while the liabilities are denominated in RON and USD. 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.

The Company's foreign currency exposure results from:

- highly probable forecast transactions (sales/purchases) denominated in foreign currencies;
- firm commitments denominated in foreign currencies; and
- monetary items (mainly trade receivables, trade payables and borrowings) denominated in foreign currencies.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	December 31, 2019		December 31, 2018	
	Euro denominated	US Dollars denominated	Euro denominated	US Dollars denominated
	' 000 RON	'000 RON	' 000 RON	'000 RON
Total current assets	17,763	50,403	8,572	50,158
Total non-current assets	-	-	-	-
Total assets	17,763	50,403	8,572	50,158
Total short-term liabilities	36,717	30,517	7,631	4,683
Total long-term liabilities	395	75,089	99	59,953
Total liabilities	37,113	105,606	7,730	64,636

Foreign currency sensitivity

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

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the functional currency strengthens against the relevant foreign currency.

	December 31, 2019		December 31, 2018	
	Euro	US Dollars	Euro	US Dollars
	'000 RON	'000 RON	'000 RON	'000 RON
Profit or loss	1,935	5,520	(84)	1,448
Equity	1,625	4,637	(71)	1,216

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31. FINANCIAL RISKS MANAGEMENT (continued)

Interest rate risk management

The Entity's interest rate risk arises from loans and borrowings. Loans issued and borrowings taken at floating rates expose the entity to cash flow interest rate risk. The interest rate on its existing credit facilities are based on the London Interbank Offered Rate (LIBOR) for US Dollars borrowings and on ROBOR for RON denominated borrowings.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates on 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.

The interest rate on its existing credit facilities are based on the London Interbank Offered Rate (LIBOR) for US Dollars borrowings and on ROBOR for RON denominated borrowings.

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 1,051 thousand (2018: RON 600 thousand). This is mainly attributable to the Entity's exposure to interest rates on its variable interest rate USD and RON denominated borrowings, excluding the impact on income tax.

The exposure of the company to the variation of interest rates for the financial assets and liabilities is detailed under the section "Management of the liquidity risk".

Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company. The Company 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 receivables are mainly related to Alro SA (over 90 %). The company is dependent operationally and financially on Alro SA, which is also the parent company.

The credit risk resulting from the transactions with the banks and financial institutions is managed by the Treasury Department. Investing of the available cash is done only with approved banks within specified limits. The limits are set to reduce the concentration risk and to reduce the possible financial losses caused by non-fulfilment of the contractual obligations.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

Trade receivables	31 December 2019		
Terms	Balances	Adjustment	Expected loss rate (%)
Current (not past due)	17,880	(72)	0.40%
1-30 days past due	1,180	(10)	0.88%
31-60 days past due	5	(1)	11.41%
61-90 days past due	2	(1)	32.85%
91-180 days past due	1	-	0.00%
More than 180 days past due	665	(609)	91.57%
Individually assessed receivables	52,652	(48,838)	0.00%
Total	72,385	(49,530)	

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31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk management (continued)

Trade receivables		31 December 2018	
Terms	Balances	Adjustment	Expected loss rate (%)
Current (not past due)	6,824	-	0.00%
1-30 days past due	896	-	0.00%
31-60 days past due	74	-	0.00%
61-90 days past due	64	-	0.00%
91-180 days past due	-	-	4.08%
More than 180 days past due	262	(156)	59.79%
Individually assessed receivables	50,305	(47,133)	0.00%
Total	58,425	(47,299)	

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding and the ability to close out market positions. Management monitors rolling forecasts of the company's liquidity reserve and cash and cash equivalents on a 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 2019

	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total
Interest-bearing loans and borrowings and leasing liabilities	-	69,767	82,835	-	-	152,602
Accounts payable and accrued liabilities	1,519	25,858	-	-	-	27,377
Total	1,519	95,625	82,835	-	-	179,979

Year ended 31 December 2018

	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total
Interest-bearing loans and borrowings and leasing liabilities	-	4,710	67,547	-	-	72,257
Accounts payable and accrued liabilities	3,748	48,164	-	-	-	51,912
Total	3,748	52,874	67,547	-	-	124,169

Fair value of financial assets and liabilities

The management considers that the accounting values of assets and liabilities recognized at amortized cost in the financial statements approximates the fair values.

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31. FINANCIAL RISK MANAGEMENT (continued)

The fair value of the assets and liabilities is determined as follows:

- the fair value of the assets and liabilities with standard terms and conditions for trading on the active and liquid markets is determined by reference to the quoting prices on the market
- the fair value of other financial assets and liabilities is determined based on models generally accepted based on the future cash flows models using prices of an observable transaction.
- the fair value of the derivatives is calculated based on quotations on the market.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable market data, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Entity has estimated that the fair value of the borrowings and finance lease equals their carrying amount, due to the short nature of the borrowing for the short-term borrowings and for the long-term borrowings based on the fact that the borrowings were recently contracted.

Financial assets and liabilities

	December 31, 2019	Level 1	Level 2	Level 3
Financial assets				
Trade receivables	22,855	-	-	22,855
Other current assets	1,281	-	-	1,281
Cash and cash equivalents	588	588	-	-
TOTAL FINANCIAL ASSETS	24,724	588	-	24,136
Financial liabilities				
Borrowings, long term and leasing liabilities	76,876	-	-	76,876
Trade and other payables	27,377	-	-	27,377
Borrowings, short term and leasing liabilities	63,676	-	-	63,676
TOTAL FINANCIAL LIABILITIES	167,929	-	-	167,929
	December 31, 2018	Level 1	Level 2	Level 3
Financial assets				
Trade receivables	11,135	-	-	11,135
Other current assets	4,533	-	-	4,533
Cash and cash equivalents	844	844	-	-
TOTAL FINANCIAL ASSETS	16,512	844	-	15,668
Financial liabilities				
Borrowings, long term and leasing liabilities	59,953	-	-	59,953
Trade and other payables	51,912	-	-	51,912
Borrowings, short term and leasing liabilities	300	-	-	300
TOTAL FINANCIAL LIABILITIES	112,165	-	-	112,165

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32. COMMITMENTS AND CONTINGENCIES

Commitments

ALUM S.A. has investment commitments for the year 2020 in amount of USD 3,545 thousand (2019: USD 3,424 thousand).

The Company has various contracts concluded as of December 31, 2019 for the acquisition in 2020 of raw materials, electricity and other materials and consumables in the amount of EUR 10,123 thousand, USD 72,285 thousand and RON 166,236 thousand, respectively (December 31, 2018: EUR 26,384 thousand, USD 151,245 thousand and RON 18,786 thousand, respectively).

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 only achievement indicator to be pursued by the end of the project, respectively the number of staff in the R & D department that needs to grow by 16 people by March 8th, 2019, was achieved.

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.

More details are presented in Note 18.

On 20.09.2019 Alum filed appeal at Tulcea Court against the Decision no. 64411/21.08.2019 issued by Ministry of European Funds - DGPEC, by which were established financial corrections for Alum's final reimbursement request in amount of RON 631 thousand.

Contingencies

Legal cases

As at December 31, 2019, the Entity is subject to a number of lawsuits resulted from the normal course of business. Management believes that these actions will not have a negative impact on the financial performance and financial position of the Company.

Taxation

The taxation systems in Romania is undergoing continuous developments. Thus, it is subject to various interpretations and constant changes which may sometimes be retroactive. In some circumstances, the fiscal authorities may treat some aspects in a different way by calculating additional taxes, interest and penalties, which can be significant.

In Romania, the fiscal year remains open for tax audit for a period of 7 years. The management considers that the tax liabilities included in these financial statements are adequate.

At 31 December 2019, the Company was subject to fiscal audits from the National Agency for Fiscal Administration regarding the period 2013 - 2018. At the date when these financial statements were approved, the fiscal inspections were not finalized. The Company's management does not expect any significant financial impact from these fiscal audits.

In accordance with the requirements issued by the Ministry of Public Finance in Romania, which relate to the fiscal treatment of the items 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 Company change the destination of the statutory reserves in the future (to cover losses or to make distributions to the shareholders), this will lead to additional income tax liabilities.

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33. AUDITOR'S FEE

In 2019 and 2018, the Company incurred the following expenses for statutory audit and for services of assurance, fiscal consultancy and other non-audit services:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Statutory audit annual	203	187
Non-audit services	17	16
Total	219	203

34. SUBSEQUENT EVENTS

On 30 December 2019, a government ordinance was issued (the Emergency Ordinance for amending GEO no.115/2011) laying out the framework for a support scheme applicable for 2018 - 2020, which would partly compensate intensive energy users for the high indirect electricity costs incurred since the European Trading Scheme for carbon dioxide emissions was implemented. The State aid scheme is a transposition of the provisions resulting from the EU ETS Guidelines 2012/C 158/ 04. The Company expects to be able to benefit from the application of this scheme in 2020.

In December 2019, China announced the appearance of a new virus originally linked to a market in the city of Wuhan, China. The virus, initially called "the novel coronavirus" and later officially named "Covid-19", affects the respiratory system of humans and is very easily transmitted, which soon led to an epidemics and spread around the world. By the date of approval of this report, over 200,000 of cases were reported worldwide, and nearly 10,000 deaths, which determined governments to take extraordinary measures such limiting the movement of persons and even restricting businesses. It is estimated that the situation might have some negative consequences due to the economic slowdown caused by the temporary closure of businesses and freezing of activities in the most affected countries. In respect of the aluminium industry, a decrease of the aluminium price was registered in 2020, however, the aluminium market has seen even lower quotations in the past, and such volatility is common to the industry, so the level of correlation between the evolution of the epidemics and the evolution of the aluminium price cannot be ascertained. Alro Group, of which the Company is part of, has been monitoring the situation from the very beginning of the outbreak, and it has taken all the legal and necessary measures to limit the spread of the virus through its activities. At the date of approval of this report by the Board of Directors, several countries have temporarily closed their borders causing certain disruption to the deliveries from Romania outwards and for imports of some materials from affected countries. However, the Alro Group remains alert to find the best solutions in order to keep potential slowdowns at minimum levels. The management of the Company considers that this is a subsequent event that does not adjust the financial statements for the financial year 2019 and does not change the assumptions for the valuation of assets as of December 31, 2019. The management made a preliminary analysis, taking into account the situation at the date of issuing the financial statements and considers that the principle of continuity of activity continues to be applicable.

ALUM S.A. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2019
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
(Together with Independent Auditor's Report)

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RAPORTUL AUDITORULUI INDEPENDENT INDEPENDENT AUDITOR'S REPORT

Catre actionarii Alum S.A.
To the Shareholders of Alum S.A.

Raport asupra auditului situatiilor financiare consolidate
Report on the Audit of the Consolidated Financial Statements

Opinia Opinion

Am auditat situatiile financiare consolidate ale societatii ALUM SA si ale filialelor sale ("Grupul") cu sediul social al societatii mama in Tulcea, strada Isaccai nr. 82, identificata prin codul unic de inregistrare fiscala 2360405, care cuprind situatia consolidata a pozitiei financiare la data de 31 decembrie 2019, situatia consolidata a rezultatului global, situatia consolidata a modificarilor in capitalurile proprii si situatia consolidata a 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 consolidated financial statements of ALUM SA and its subsidiaries ("the Group") with official head office of the parent company in Tulcea, Isaccai Str. nr. 82, identified by sole fiscal registration number 2360405, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidate anexate ofera o imagine fidela si justa a pozitiei financiare a Grupului la data de 31 decembrie 2019, cat si a performantei financiare si a fluxurilor de trezorerie ale acesteia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Standardele Internationale de Raportare Financiara adoptate de catre Uniunea Europeana.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Bazele opiniei Basis for opinion

Noi am efectuat auditul conform Standardelor Internationale de Audit (ISA). Responsabilitatile noastre conform acestor standarde sunt descrise mai detaliat in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare consolidate” din raportul nostru. Suntem independenti fata de Grup conform Codului International de etica al profesionistilor contabili (inclusiv standardele internationale de independenta) emis de Consiliul pentru Standarde Internationale de Etica pentru Contabili (codul IESBA) si conform cerintelor etice care sunt relevante pentru auditul situatiilor financiare consolidate in Romania 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). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board for

Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the consolidated financial statements in Romania, 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 consolidate din perioada curenta. Aceste aspecte au fost abordate in contextul auditului desfasurat asupra situatiilor financiare consolidate 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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.

Am indeplinit responsabilitatile descrise in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare consolidate” 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 consolidate anexate.

We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the consolidated 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 consolidated 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 consolidated financial statements.

Aspecte cheie de audit	Modul de adresare
Testarea deprecierei fondului comercial	
Prezentarile Grupului Alum cu privire la fondul comercial, si a deprecierei aferente, sunt incluse in Nota 6	
Alum Grup trebuie sa realizeze cel putin anual, si de cate ori exista indicatori de depreciere, testarea pentru depreciere a fondului comercial (cu o valoare neta contabila de 78.5 milioane lei la 31 decembrie 2019) generat la achizitia Global Aluminium Ltd. Testarea pentru depreciere se realizeaza la nivelul a doua unitati	Procedurile noastre de audit au inclus, printre altele: <ul style="list-style-type: none"> - am implicat specialistii nostri in evaluare pentru ne asista in evaluarea ipotezelor cheie si a metodologiilor utilizate de catre Grup in cadrul testului de depreciere a fondului comercial (ex: verificarea corectitudinii matematice al modelului precum si conformitatea cu cerintele Standardelor Internationale de Raportare Financiara, rata de actualizare folosita pentru

generatoare de numerar (UGN), una in Sierra Leone si una in Romania.

Evaluarea indicatorilor de depreciere pentru unitatile generatoare de numerar ia in considerare surse diverse de informatie, incluzand factori specifici mediului economic.

Industria producatoare de aluminiu a suferit o perioada de declin ciclic in perioada 2013 - 2016, ceea ce a condus la inchiderea de capacitati de productie si amanarea de catre multi jucatori a investitiilor in aceasta industrie, ceea ce a avut un efect semnificativ asupra valorii contabile a fondului comercial in legatura cu Global Aluminium Ltd, asa cum este reflectat de cheltuielile de depreciere inregistrate in situatiile financiare consolidate ale exercitiului financiar precedent.

Testul anual de depreciere a fondului comercial este semnificativ pentru auditul nostru intrucat necesita judecati si estimari semnificative ale managementului care se bazeaza pe ipoteze legate de evolutia viitoare a conditiilor de piata din Romania si Sierra Leone.

actualizarea fluxurilor viitoare de numerar ale fiecarei unitati generatoare de numerar, ipotezele macroeconomice);

- am analizat competentele, capabilitatile si obiectivitatea evaluatorului extern;
- am analizat principalele ipoteze luate in calcul la estimarea fluxurilor viitoare de numerar pentru unitatile generatoare de numerar respective (cum ar fi evolutia viitoare a preturilor de vanzare, volumul productiei, costuri si cheltuieli, modificari ale capitalului circulant, etc.) prin analiza consecventei ipotezelor cu evolutia mediului economic general si specific industriei, cu informatiile relevante disponibile despre piata si cu planurile de afaceri ale Grupului;
- am analizat daca anumite ipoteze au luat in considerare sau nu riscurile asociate fluxurilor de trezorerie, au inclus variabilitatea potentiala a valorii si perioadei de realizare a fluxurilor de trezorerie si efectul aferent asupra ratei de actualizare;
- am evaluat analiza de senzitivitate a valorii recuperabile a unitatilor generatoare de numerar, pentru a intelege impactul potential al modificarilor rezonabile in ipotezele semnificative ale modelului;
- am evaluat acuratetea istorica a bugetelor si previziunilor precedente ale conducerii prin comparatie cu performanta actuala inregistrata in anul curent fata de cea prongozata anterior;
- am testat acuratetea matematica a modelului utilizat.

De asemenea, am evaluat masura in care informatiile prezentate de Grupul Alum cu privire la testul de depreciere a fondului de comert sunt adecvate.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill	
Alum Group's disclosures regarding goodwill, including the related impairment, are included in Note 6	
<p>Alum Group is required to test at least annually and also when impairment indicators exist, the goodwill (with a net carrying value of of RON 78.5 million as at 31 December 2019) from the acquisition of Global Aluminium Ltd., for impairment. The goodwill impairment testing is performed at the level of two cash-generating units (CGUs), one in Sierra Leone and one in Romania.</p> <p>The management assessment of impairment indicators for the CGUs involves consideration of various sources of information, including the economic environment factors.</p> <p>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, which had a significant effect on the carrying value of the goodwill related to Global Aluminium Ltd as reflected by the impairment charges recorded in the prior year's consolidated financial statements.</p> <p>The annual impairment test of goodwill 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 market conditions in Romania and Sierra Leone.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • we involved our internal valuation specialists to assist us in evaluating the key assumptions and methodologies used by the Group for the impairment testing of goodwill (e.g. checked the mathematical accuracy of the model and its conformity with the requirements of the International Financial Reporting Standards, discount rates used for discounting future cash flows for each CGU, macroeconomic assumptions); • we assessed the competence, capabilities and objectivity of the external valuation expert; • we evaluated the key assumptions applied in the estimates of future cash flows for the respective CGUs (such as expected sales prices, production/sales volumes, cost and expenses, working capital changes, etc.), assumptions which we analyzed for consistency with the general and industry-specific economic environment, relevant available market information and the business plans of the Group; • we assessed whether or not certain assumptions considered the risks associated with the cash flows, including the potential variability in the amount and timing of cash flows and the related effect on the discount rate. • we evaluated the sensitivity analysis of the CGUs' recoverable amounts, to understand the potential impact to reasonable changes in the significant assumption; • we assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance and to prior year; • tested the mathematical accuracy of the impairment model used. <p>We further assessed the adequacy of Alum Group's disclosures about impairment testing of goodwill.</p>

Alte informatii Other information

Alte informatii includ Raportul consolidat al administratorilor dar nu includ situatiile financiare consolidate si raportul nostru de audit cu privire la acestea. Conducerea este responsabila pentru alte informatii.

The other information comprises the Directors' Consolidated Report, but does not include the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

Opinia noastra de audit asupra situatiilor financiare consolidate nu acopera alte informatii si nu exprimam nicio forma de concluzie de asigurare asupra acestora.

Our audit opinion on the consolidated 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 consolidate, 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 consolidate 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. Nu avem nimic de raportat in acest sens.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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. We have nothing to report in this regard.

Responsabilitatea conducerii si a persoanelor responsabile cu guvernanta pentru situatiile financiare consolidate

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Conducerea Grupului are responsabilitatea intocmirii si prezentarii fidele a situatiilor financiare consolidate in conformitate cu Standardele Internationale de Raportare Financiara adoptate de catre Uniunea Europeana, si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea de situatii financiare consolidate care sunt lipsite de denaturari semnificative, cauzate fie de frauda, fie de eroare.

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

La intocmirea situatiilor financiare consolidate, conducerea este responsabila sa evalueze abilitatea Grupului 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 Grupul sau sa ii inceteze activitatea sau nu are nicio alternativa reala decat sa procedeze astfel.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Persoanele responsabile cu guvernanta au responsabilitatea supravegherii procesului de raportare financiara a Grupului.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Obiectivele noastre constau in obtinerea unei asigurari rezonabile privind masura in care situatiile financiare consolidate, 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 consolidate.

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidate, 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 consolidated 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.
- 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 Grupului.
- 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 Group'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 indoiele semnificative privind capacitatea Grupului 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 consolidate 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 Grupul 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluam prezentarea, structura si continutul general al situatiilor financiare consolidate, inclusiv al prezentarilor de informatii, si masura in care situatiile financiare consolidate reflecta tranzactiile si evenimentele de baza intr-o maniera care realizeaza prezentarea fidela.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtinem suficiente probe de audit adecvate cu privire la informatiile financiare ale entitatilor sau activitatilor din cadrul Grupului pentru a exprima o opinie asupra situatiilor financiare consolidate. Suntem responsabili pentru indrumarea, supravegherea si efectuarea auditului la nivelul grupului. Suntem singurii responsabili pentru opinia noastra de audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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 consolidate din perioada curenta si, prin urmare, reprezinta aspecte cheie de audit.

Descriem aceste aspecte in raportul nostru de audit, cu exceptia cazului in care legislatia sau reglementarile impiedica prezentarea publica a aspectului respectiv sau a cazului in care, in circumstante extrem de rare, determinam ca un aspect nu ar trebui comunicat in raportul nostru deoarece se preconizeaza in mod rezonabil ca efectele negative ale acestei comunicari depasesc beneficiile interesului public al comunicarii respectivului aspect.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Raport asupra altor cerinte legale si de reglementare Report on Other Legal and Regulatory Requirements

Raportare asupra unor informatii, altele decat situatiile financiare consolidate si raportul nostru de audit asupra acestora

Reporting on Information Other than the Consolidated 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 consolidat al administratorilor, noi am citit Raportul consolidat al administratorilor si raportam urmatoarele:

- a) in Raportul consolidat al administratorilor nu am identificat informatii care sa nu fie consecvente, sub toate aspectele semnificative, cu informatiile prezentate in situatiile financiare consolidate la data de 31 decembrie 2019, atasate;
- b) Raportul consolidat al 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 si 554-556;
- c) pe baza cunostintelor noastre si a intelegerii dobandite in cursul auditului situatiilor financiare consolidate intocmite la data de 31 decembrie 2019 cu privire la Grup si la mediul acesteia, nu am identificat informatii eronate semnificative prezentate in Raportul consolidat al administratorilor.

In addition to our reporting responsibilities according to ISAs described in section “Other information”, with respect to the Directors' Consolidated Report, we have read the Directors' Report and report that:

- a) in the Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated financial statements as at December 31, 2019;
- b) the Directors' 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 and 554-556;

- c) based on our knowledge and understanding concerning the Group and its environment gained during our audit of the consolidated financial statements as at December 31, 2019, we have not identified information included in the Directors' Report that contains a material misstatement of fact.

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 Asociat: Ariadna Oslobeanu
Name of the Auditor/ Partner: Ariadna Oslobeanu
Inregistrat in Registrul Public electronic cu nr. 2199
Registered in the electronic Public Register under No. 2199

Bucuresti, Romania
Bucharest, Romania
25 martie 2020
25 March 2020

ALUM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

All amounts are in RON thousand, unless otherwise stated

	<u>Note</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
ASSETS			
Non-current assets			
Property, plant and equipment	4	282,695	258,557
Intangible assets	5	249	471
Goodwill	6	78,450	75,003
Deferred tax	7	25,873	44,382
Right-of use assets	8	2,660	-
Total non-current assets		<u>389,927</u>	<u>378,413</u>
Current assets			
Inventories	9	226,492	173,321
Trade receivable	10	30,980	11,210
Other receivables	11	9,111	7,701
Restricted cash	12	924	3,246
Cash and cash equivalents	12	967	2,078
Total current assets		<u>268,474</u>	<u>197,556</u>
Total assets		<u>658,401</u>	<u>575,969</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	488,413	488,413
Reserves	14	47,545	46,959
Accumulated deficit		(160,796)	(237,226)
Equity attributable to owners of the Entity		<u>375,162</u>	<u>298,146</u>
Total equity		<u>375,162</u>	<u>298,146</u>
Non-current liabilities			
Borrowings	15	75,089	59,953
Finance lease liabilities, non-current	15	1,787	99
Retirement benefit liabilities	16	7,059	6,746
Provisions	17	35,367	31,567
Government grants, non-current portion	18	4,956	4,520
Other non-current liabilities		517	1,405
Total non-current liabilities		<u>124,775</u>	<u>104,290</u>

The accompanying notes are an integral part of these consolidated financial statements.

This is a free translation from the official Romanian version

ALUM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

All amounts are in RON thousand, unless otherwise stated

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current liabilities			
Trade and other payables	19	55,152	77,430
Borrowings	15	64,688	300
Finance lease liabilities, current	15	736	193
Current income tax liability		2,552	4,921
Provisions	17	-	3,009
Government grants, current portion	18	379	323
Other current liabilities	20	34,957	87,357
Total current liabilities		158,464	173,533
Total liabilities		283,239	277,823
Total equity and liabilities		658,401	575,969

These consolidated financial statements were authorized for issue by management on March 25, 2020.

Gheorghe Dobra
General Director

Mihaela Duralia
Chief Financial Officer

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

ALUM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

	Note	Year ended December 31, 2019	Year ended December 31, 2018
Revenues from contracts with customers	21	860,969	927,867
Cost of sale	22	(721,789)	(758,902)
Gross profit		139,180	168,965
Other operating income	23	81,199	3,460
General and administrative expenses	24	(77,305)	(79,101)
Other operating expenses		(7,435)	(3,501)
Other gains and losses	25	(11)	176
Operating result		135,650	89,999
Financial income	26	10	2,325
Financial expenses	26	(10,239)	(6,191)
Exchange differences, net*	26	(2,677)	(2,922)
Finance cost, net	26	(12,906)	(6,788)
Profit/(loss) before income taxes		122,722	83,211
Income tax	7	(39,278)	(27,840)
Net profit		83,444	55,371
Profit/(loss) attributable to:			
Shareholders of the Company		83,444	55,371
Non-controlling interest		-	-
Weighted average number of ordinary shares for the purpose of basics earnings per share (thousand)		82,086	82,086
Basic and diluted earnings/(losses) per share	27	1.02	0.67
Other comprehensive (loss)/income, net of tax			
Exchange differences on translating foreign operations		(6,286)	10,258
Remeasurement gains/(losses) on defined benefit plans**		(223)	(930)
Income tax effect***		81	49
Other comprehensive income net of tax		(6,428)	9,377
Total comprehensive income/(loss) for the year		77,016	64,748

*) the net foreign exchange gains/losses (2019: RON 2,677 thousand, 2018: RON 2,922 thousand) were included in the financial statements of the previous year in the category "Other operational gains and losses". In the current financial year these are presented after the operating result.

***) items that will not be reclassified into Statement of Comprehensive Income in the future

****) items that will be reclassified into Statement of Comprehensive Income in the future

These consolidated financial statements were authorized for issue by management on March 25, 2020.

Gheorghe Dobra
General Director

Mihaela Duralia
Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

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ALUM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
All amounts are in RON thousand, unless otherwise stated

	Attributable to equity holders of the entity				Attributable to the owners of the entity	Total Equity
	Share capital	Reserves	Foreign currency translation reserve	Result for the period		
Balance at January 1, 2018	488,413	47,782	(32,981)	87,203	(357,019)	233,398
Loss for the year	-	-	-	55,371	-	55,371
Remeasurement of post-employment benefits	-	-	-	-	(930)	(930)
Deferred tax on benefits	-	-	-	-	49	49
Other comprehensive income	-	-	10,258	-	-	10,258
Total Comprehensive income	-	-	10,258	55,371	(881)	64,748
Transfer to legal reserve	-	3,305	-	-	3,305	-
Transfer of realized revaluation reserve	-	(4,128)	-	-	4,128	-
Appropriation of prior year result	-	-	-	(87,203)	87,203	-
Balance at December 31, 2018	488,413	46,959	(22,723)	55,371	(269,875)	298,146
Balance at January 1, 2019	488,413	46,959	(22,723)	55,371	(269,875)	298,146
Profit for the year	-	-	-	83,444	-	83,444
Remeasurement of post-employment benefits	-	-	-	-	(223)	(223)
Deferred tax on benefits remeasurement	-	-	-	-	81	81
Other comprehensive income	-	-	(6,275)	-	(11)	(6,286)
Total Comprehensive loss	-	-	(6,275)	83,444	(153)	77,016
Transfer to legal reserve	-	4,591	-	-	(4,591)	-
Transfer to realized revaluation reserve	-	(4,005)	-	-	4,005	-
Appropriation of prior year result	-	-	-	(55,371)	55,371	-
Balance at December 31, 2019	488,413	47,545	(28,998)	83,444	(215,242)	375,162

These consolidated financial statements were authorized for issue by management on March 25, 2020.

Gheorghe Dobra
General Director

Mihaela Duralia
Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

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ALUM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts are in RON thousand, unless otherwise stated)

	Note	Year ended December 31, 2019	Year ended December 31, 2018
Cash flows from operating activities			
Profit before tax		122,722	49,942
<i>Adjustments for:</i>			
Depreciation and amortization of non-current assets		44,425	36,337
Impairment of property, plant and equipment	4	(36)	(6)
Net gain on sale of property, plant and equipment	25	11	(176)
Allowances for doubtful debts	10	(333)	767
Allowances for slow moving and obsolete inventory	9	337	(23)
Change in retirement benefit obligation	16	494	116
Movement in provision for employee compensation	17	(3,009)	3,009
Foreign exchange differences		(10,641)	2,134
Interest income	26	(1)	(2,228)
Interest expense	26	9,339	4,702
		<u>163,308</u>	<u>127,843</u>
<i>Movements in working capital:</i>			
(Increase) in trade receivables and other assets		(22,630)	(2,516)
(Increase) in inventories		(53,989)	(37,623)
(Decrease) in trade payables and other liabilities		(71,082)	(96,845)
Cash generated from operations		15,607	(9,141)
Income tax paid		(21,611)	(16,579)
Interest paid		(6,618)	(6,825)
Net cash generated by operating activities		(12,622)	(32,545)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles assets		(66,085)	(81,062)
Government grants received	18	839	3,244
Collection of outstanding loans	28	-	55,068
Restricted cash	12	2,322	3,273
Leasing payments	15	(769)	(465)
Interest received		1	2,228
Net cash from/(used) in investing activities		(63,693)	(17,714)
Cash flow from financing activities			
Proceeds from borrowing		75,204	60,426
Repayment of borrowings		-	(12,017)
Net cash used in financing activities		75,204	48,409
Net (decrease)/increase in cash and cash equivalents		(1,111)	(1,850)
Cash and cash equivalents at beginning of the year	12	2,078	3,928
Cash and cash equivalents at end of the year	12	967	2,078

These consolidated financial statements were authorized for issue by management on March 25, 2020.

Gheorghe Dobra
General Director

Mihaela Duralia
Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

This is a free translation from the official Romanian version

ALUM S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts are in RON thousand, unless otherwise stated)

1 GENERAL INFORMATION

a) Parent Company

ALUM S.A. (the "Company") is a joint-stock company set up under the Romanian law. The Company was initially established in March 1972, ALUM S.A. Tulcea being the largest producer of calcined alumina in Romania.

The major shareholder of Alum S.A. is Alro S.A. owned by Vimetco N.V. Netherlands which in its turn is owned by ViHolding N.V. (Netherland Antilles) a company controlled by MAXON LIMITED.

The main activity is hydro metallurgical processing of bauxite to obtain aluminium oxide the main raw material for obtaining aluminum.

Company's production processes and products have been certified in accordance with international standards for quality assurance.

The address of the Company's registered office is 82 Isaccei Street, Tulcea, Tulcea County, Romania.

Alum is listed on Bucharest Stock Exchange, AeRO segment. Its price per share could be analysed as follows:

	<u>2019</u>	<u>2018</u>
- minimum price	1.02	1.00
- maximum price	4.86	2.98
- average price	2.94	1.99

The evolution of average number of the Company's employees was as follows:

	<u>2019</u>	<u>2018</u>
Average number of employees	<u>791</u>	<u>765</u>

b) Subsidiaries

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

Bought by Vimetco N.V. in 2008, the bauxite mine in Sierra Leone, with a resource base of approximately 31 million tons of bauxite, produced 1,883,863 tons in 2018 (2018: 1,938,461 tons). The bauxite mine ensures the necessary raw materials for the alumina refinery (Alum S.A.) in Romania.

The evolution of average number of the Subsidiary's employees was as follows:

	<u>2019</u>	<u>2018</u>
Average number of employees	<u>732</u>	<u>550</u>

Alum S.A. and its subsidiaries will be hereinafter called as the "Group".

ALUM S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in RON thousand, unless otherwise stated)

1 GENERAL INFORMATION (continued)

c) Basis of preparation

Statement of compliance

These consolidated and separate financial statements of Alum and its subsidiaries (further named "Financial statements") have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

Going concern

These financial statements have been prepared on a going concern basis, which assumes the Group will be able to realize their assets and discharge their liabilities in the normal course of business.

Basis of preparation

The financial statements have been prepared on the historical cost basis as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and presentation currency

The functional currency of the parent company is the Romanian leu (RON). For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency and translated in the presentation currency.

The rates applied in translating foreign currencies to RON were as follows:

	2019	2018
USD exchange rate at the end of the period*	4.2608 USD/RON	4.0736 USD/RON
USD average exchange rate**	4.2392 USD/RON	3.9433 USD/RON

*) as communicated by the National Bank of Romania

**) computed as an average of the daily exchange rates communicated by the National Bank of Romania

These financial statements are presented in RON thousand, rounded to the nearest unit.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Following below are the new standards, amendments and interpretations to existing standards adopted starting 1 January 2019 and their effect in the preparation of the Group financial statements for the year ended 31 December 2019.

Standards and interpretations effective in 2019 that the Group has applied to these financial statements:

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2019:

IFRS 16 Leases

IFRS 16 Leases, issued on 13 January 2016 is effective for annual periods beginning on or after 1 January 2019 (early application was permitted, but not before an entity applies IFRS 15). IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases.

ALUM S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(All amounts in RON thousand, unless otherwise stated)

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and interpretations effective in 2019 that the Group has applied to these financial statements (continued)

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term.

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17.

a) Nature of the effect of adoption of IFRS 16

Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

In adopting IFRS 16, at 1 January 2019 right-of-use assets of RON 3,159 thousand were recognized (out of which RON 414 thousand represent reclassification of financial lease contracts and RON 2,745 thousand represent additional right-of-use assets recognized for operating lease contracts), being presented in the statement of financial position in Other non-current assets. At 1 January 2019, additional lease liabilities of RON 2,745 thousand were recognized by the Group.

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2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and interpretations effective in 2019 that the Group has applied to these financial statements (continued)

b) Summary of new accounting policies in adopting IFRS 16

The Group applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach. The Group applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Group recognizes new assets and liabilities for its operating leases of special constructions, vehicles and equipments. A depreciation charge for right-of-use assets and interest expense on lease liabilities are also recognized. Right-of-use assets for property leases is measured on transition as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Previously, the Group recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

The Group has lease contracts for various items of machinery, vehicles and other equipment used in its operations with lease terms between 3 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options. Using their professional judgement and experience, the Group's management considered the lease term to be equal with the projections of Group's business plans (5 years) for contracts for which they had reasonable assurance that the extension option would be exercised at the end of the contract.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	2019
Assets	
Right-of-use assets	3,159
Property, plant and equipment	(414)
Total assets	2,745
Liabilities	
Interest-bearing loans and borrowings	2,745
Total liabilities	2,745
Total adjustments on equity	-
Retained earnings	-
Non-controlling interests	-

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2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and interpretations effective in 2019 that the Group has applied to these financial statements (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Operating lease commitments as at 31 December 2018	923
Weighted average incremental borrowing rate as at 1 January 2019	5.57%
Discounted operating lease commitments as at 1 January 2019	3,072
Less:	
Commitments relating to short-term leases	29
Add:	
Commitments relating to leases previously classified as finance leases	-
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	-
Lease liabilities as at 1 January 2019	3,043

- Amendments to IFRS 9 Prepayment features with negative compensation were issued on 18 May 2018 (effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted). The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The amendments do not have an impact on the Group's financial statements.

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, issued on 7 February 2018. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The amendments do not have an impact on the Group's financial statements.

- Amendments to IAS 28: Long-term interests in associates and joint ventures (issued on 12 October 2018). The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These amendments are not applicable to the Group.

- IFRIC 23 Uncertainty over income tax treatments. Interpretation was issued on 7 June 2017, is applicable for annual periods beginning on or after 1 January 2019 and earlier application is permitted. Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The amendment did not have an impact on the Group's financial statements.

- Annual Improvements to IFRS Standards 2015 – 2017 Cycle (effective for annual periods beginning on or after 1 January 2019), issued on 12 December 2017. The improvements are not expected to have a material impact on the Group's financial statements. These annual improvements are a collection of amendments to IFRSs:

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2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards and interpretations effective in 2019 that the Group has applied to these financial statements (continued)

-IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

-IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

-IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

Standards issued but not yet effective and not early adopted

- *Conceptual Framework in IFRS standards.* The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2019. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate acGrouping document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. It's objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- IFRS 17 Insurance Contracts. The standard, issued on 18 May 2019, is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. The standard has not been yet endorsed by the EU. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. This standard is not applicable to the Group.

- Amendment to IFRS 3 Business Combinations, issued on 22 October 2019 (not yet adopted by EU) intended to improve the definition of a business and assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments apply prospectively to transactions or other events that occur on or after the date of first application.

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2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Standards issued but not yet effective and not early adopted (continued)

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the Group issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The directors do not anticipate that the application of the standard in the future will have an impact on the Group's consolidated financial statements.

- Amendments to IAS 1 and IAS 8: Definition of Material, issued on 31 October 2019 (not yet adopted by EU). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS. The new definition states that 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. Although the amendments to the definition of material is not expected to have a significant impact on financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how the information is organised in the financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform, issued on 26 September 2019. The Amendments relate to the issues affecting financial reporting in the periods before replacement of an existing interest rate benchmark with an alternative interest rate. The Amendments provide relief from the highly probable and prospective assessments required by IFRS 9 and IAS 39 for hedging relationships that are affected by the uncertainties of the inter-bank offered rates ('IBORs') reform. With the same objective, the Amendments provide relief from the retrospective assessment under IFRS 9. The exceptions described in the Amendments apply only to those hedging relationships directly affected by uncertainties of the IBOR reform including cross-currency interest rate swaps (for the interest component affected). The Amendments will become effective for the annual periods beginning on or after 1 January 2020, with earlier application permitted.

3 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").

The main accounting policies are set out below.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquire. Acquisition-related costs are generally recognized in profit or loss as incurred.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the above mentioned difference is negative, the excess is recognized in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset as current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Revenue from contracts with customers

Sales of goods

Under IFRS 15, revenue is recognized when a customer obtains control of the goods. The Group delivers goods (mainly calcined alumina, aluminium hydroxide, bauxite) under contractual terms based on internationally accepted delivery conditions (INCOTERMS).

The Group recognizes revenue at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Principal versus agent considerations

Under IFRS 15, the assessment is based on whether the Group controls the specific goods before transferring them to the end customer, rather than whether they have exposure to significant risks and rewards associated with the sale of goods.

The Group have concluded that they are the principal in all of their revenue arrangements since they are the primary obligor in all the revenue arrangements, have pricing latitude and are also exposed to inventory.

Recognition of revenue from distinct performance obligations

The Group has analyzed its contracts with customers to determine all its performance obligations and it has not identified any new performance obligation that should be accounted for separately in accordance with IFRS 15.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Rendering of services

The Group performs sundry services occasionally and as a non core business. Revenue is measured at the expected value of the consideration received or receivable. Under IFRS 15, the total consideration in the service contracts is allocated to all services based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Group sells the services in separate transactions. Based on the Group's assessment, the allocated value based on the stand-alone selling prices of the services, and the stand-alone prices of the services are broadly similar.

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business.

Amounts received from customers in advance of goods delivery or service performance are recognized by the Group as liabilities on the Statement of Financial Position as "Advances from customers" until the Group actually transfers control of the goods delivered to the client or performs the contracted service.

Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as licenses, small items of office equipments, etc.). For these leases, the Group recognise the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group use their incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in The assessment of exercise of a purchase option, in which case The lease liability is remeasured by discounting The revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expect to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The depreciation periods considered for each category of right-of-use assets are as follows:

	<u>2019</u>
Buildings and special constructions	5 years
Equipment and vehicles	between 3 and 5 years

The right-of-use assets are presented as Other non-current assets in the statement of financial position.

The Group applies IAS 36 Impairment of assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of their investment properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below the hedging accounting policies).

For the purpose of presenting the financial statements in RON, the monetary assets and liabilities of the Group's foreign operations are translated at the exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rate for the periods presented.

In order to present the financial statements in RON, for the entities whose functional currency is different from RON, assets and liabilities are translated at exchange rates in effect at the end of the reporting period. Income and expense items are translated at average exchange rates for the presented periods. Equity items are translated at historical exchange rates.

Exchange differences arising on the translation are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are de-recognized but they are not reclassified to profit or loss.

Borrowing costs

Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in consolidated profit or loss in the period in which they are incurred.

Employee benefits

The Group, in the normal course of business, makes payments to the Romanian State on behalf of its employees for pensions, health care and unemployment cover. The cost of these payments is charged to profit or loss in the same period as the related salary cost.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

The Group awards its employees with some retirement benefits according to the Collective Labour Agreement. For this defined benefit retirement plan, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting period. Remeasurement, comprising actuarial gains and losses, is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur.

Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability. Defined benefit costs are categorized as follows:

- Service costs (comprising current service cost, past service cost, as well as gain and losses on curtailments and settlements), included in profit or loss line item "Cost of sales" or "Administrative expenses" within personnel costs.
- Net interest expense, included in profit or loss line item "Finance costs, net" within interest expense.
- Remeasurement.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates (for Romanian Group companies 16%, for Sierra Leone 30%) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Currently the fiscal losses generated by the Romanian Group companies can be carried forward for 7 years, while for Sierra Leone for 10 years.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Current and deferred tax for the year

Current and deferred tax are recognized in the consolidated profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Value added tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT except:

- Where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- When receivables and payables are stated with the amount of sales tax included. The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Depreciation is recognized so as to write off the cost less their residual values over their useful lives, using the straight-line method.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Buildings and special constructions	2 - 52 years
Plant and machinery	1 - 25 years
Equipment and vehicles	1 - 25 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in consolidated profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

De-recognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in consolidated profit or loss when the asset is derecognized.

Intangible assets are amortized over a period of 3 years (for software).

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Impairment of tangible and intangible assets other than goodwill (continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis;
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing cost, determined on weighted average basis.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the specific risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Decommissioning and rehabilitation liability

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 recognized 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 recognized 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 are added to or deducted from the cost of the asset.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in consolidated profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets

For purposes of subsequent measurement financial assets are classified into the following specified categories: amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss (FVTPL).

- *Debt instruments at amortised cost* for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely payments of principal and interest (SPPI) criterion. This category includes the Group's Trade and other receivables and Long-term loans receivable.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

- *Financial assets at FVPL* include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

In the separate unconsolidated financial statements investments in subsidiaries are stated at historical cost less accumulated impairment losses.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and statement of cash flows comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognize a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when they transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities and equity instruments

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Company manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Gains (losses) from derivative financial instruments, net' or 'Other financial gains/(losses), net'. Fair value is determined in the manner described in Note 31.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts (continued)

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, where appropriate, cumulative amortisation recognized in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Group derecognise financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Related parties

Parties are considered related when other party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly control or significantly influence the other party.

Government grants

Government grants are recognized once there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. They are recognized in the profit or loss over the periods necessary to match them with the related costs which they are intended to compensate, and are disclosed under "other income". Government grants that are receivable as a compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Emission rights

The Group recognizes the emission credits in the consolidated financial statements based on the net liability method. Under this method only those liabilities that are expected to result from exceeding the emission credit quotas granted are recognized.

The Group estimates its annual emission volumes at the end of each reporting period and recognizes the total estimated additional liability for the expected excess of emission volumes at the fair value of additional units to be purchased or penalties to be incurred under the national legislation. The additional net liability is recognized in profit or loss based on unit of production method.

In case the Group estimates utilization of less than the allocated emission credits any potential income from the sale of unused emission credits is recognized only on actual sale of those credits.

As the actual emissions volumes at the Group level did not exceed the emission rights granted, no provision was recognized in 2019.

Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment information is presented in respect of the Group's business and geographical segments and is determined based on the Group's management and internal reporting structure.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating segments (continued)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Group's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Dividends

Dividends are recorded as a liability in the Group's consolidated financial statements in the period in which they are approved by the Group's shareholders and reflected in a corresponding diminution of shareholders' equity.

Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The following are the critical judgements and estimations that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the separate financial statements.

Impairment of tangible and intangible assets

Impairment exists when the carrying value of an asset or cash generating unit 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 budgets prepared by the Group and do not include restructuring activities that the Group 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. The key assumptions used to determine the recoverable amount for the non-financial assets are disclosed and further explained in Note 6.

Taxes and deferred tax

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group established provisions, when necessary, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in that context.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

Taxes and deferred tax (continued)

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Detailed information is disclosed in Note 7.

Defined benefit plans

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and longevity. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Detailed information is disclosed in Note 16.

Provision for decommissioning

The Company has recognized a provision for the rehabilitation of the premises where it deposits scrap from production. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, inflation rates, effective costs of works to be performed and the expected timing of these costs.

Detailed information is disclosed in Note 17.

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4 PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings and special constructions	Plant and machinery	Equipment and vehicles	Capital assets in progress	Advances for fixed assets	Total
At January 1, 2018	20,057	216,532	400,089	105,089	32,803	4,363	778,933
Additions	-	230	-	422	76,996	5,794	83,442
Transfers	-	10,425	13,238	16,826	(40,489)	-	-
Disposals and write off	-	(55)	(849)	(5,642)	-	-	(6,546)
Translation adjustment	-	1,770	1,797	3,994	575	257	8,395
At December 31, 2018	20,057	228,903	414,275	120,689	69,885	10,414	864,223
Additions	-	1,809	-	-	65,588	(3,053)	64,344
Transfers	-	20,283	60,409	16,456	(91,167)	(5,982)	-
Disposals and write off	-	(60)	(1,261)	(470)	-	-	(1,791)
Transfer to other category*	-	-	-	(578)	-	-	(578)
Translation adjustment	-	1,962	1,957	4,298	646	308	9,171
At December 31, 2019	20,057	252,897	475,379	140,395	44,952	1,688	935,368

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4 PROPERTY, PLANT AND EQUIPMENT (continued)

Accumulated depreciation and impairment

Accumulated depreciation	Land	Buildings and special constructions	Plant and machinery	Equipment and vehicles	Capital assets in progress	Advances for fixed assets	Total
At January 1, 2018	-	152,971	361,898	52,557	-	-	567,427
Depreciation expenses	-	11,647	14,215	10,596	-	-	36,458
Eliminated on disposals and write off of assets	-	(55)	(804)	(5,015)	-	-	(5,874)
Transfer between categories	-	-	-	-	-	-	-
Translation adjustment	-	1,094	1,681	1,926	-	-	4,702
At December 31, 2018	-	165,657	376,991	60,064	-	-	602,714
Depreciation expenses	-	12,361	18,575	12,927	-	-	43,863
Eliminated on disposals and write off of assets	-	(60)	(1,246)	(470)	-	-	(1,777)
Transfer between categories	-	-	-	-	-	-	-
Transfer to other category*	-	-	-	(164)	-	-	(164)
Translation adjustment	-	1,214	1,801	2,104	-	-	5,120
At December 31, 2019	-	179,172	396,121	74,462	-	-	649,756

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4 PROPERTY, PLANT AND EQUIPMENT (continued)

Accumulated depreciation and impairment (continued)

	<u>Land</u>	<u>Buildings and special constructions</u>	<u>Plant and machinery</u>	<u>Equipment and vehicles</u>	<u>Capital assets in progress</u>	<u>Advances for fixed assets</u>	<u>Total</u>
Allowance for impairment							
At January 1, 2018	-	116	124	926	1,792	-	2,959
Impairment losses recognized in profit or loss	-	-	-	-	-	-	-
Reversals of impairment losses recognized in profit or loss	-	21	-	-	-	-	21
	-	-	(27)	-	-	-	(27)
At December 31, 2018	-	137	97	926	1,792	-	2,953
Impairment losses recognized in profit or loss	-	-	-	-	-	-	-
Reversals of impairment losses recognized in profit or loss	-	(21)	(15)	-	-	-	(36)
	-	-	-	-	-	-	-
At December 31, 2019	-	116	83	926	1,792	-	2,917
Net book value							
At December 31, 2018	20,057	63,108	37,186	56,698	68,093	10,414	258,557
At December 31, 2019	20,057	73,609	79,176	65,007	43,160	1,688	282,695

Alum S.A. recorded full provision for the future cost of rehabilitating the red mud lake. The change in the year increased the value of the fixed asset as of December 31, 2019 by RON 1,809 thousand (2018: RON 230 thousand) (see Note 17). The rehabilitation provision represents the present value of rehabilitation costs relating to the site, which are estimated to be incurred up to 2023, which is when the storage on the site should be either closed or extended.

SMHL recorded a provision based on technical assessment to restore and rehabilitate the affected mining areas for the related costs required to be incurred. The technical assessment was performed by an external expert, the provision was recorded in 2014 and unwinding of the discount of RON 598 thousand is recognized in the current year (2018: RON 528 thousand) (Note 17).

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4 PROPERTY, PLANT AND EQUIPMENT (continued)

The gross book value of the Property, plant and equipment of Alum includes the amount of RON 902 thousand representing borrowing costs capitalized in 2018 in accordance with IAS 23 Borrowing costs as revised. The borrowing costs consist of interest and transaction costs that the Group incur in relation to the contracted loans. In 2018 at the Group level there were interest expenses capitalized of RON 799 thousand at an average interest rate of 5.87% p.a. No borrowing costs were capitalized in 2019.

*As a result of adopting IFRS 16, at 1 January 2019 the Group reclassified Property, plant and equipment with a net book value of RON 414 thousand to Other non-current assets. The transfer is related to machines under financial lease previously recognized in the Property, plant and equipment as per requirements of IAS 17. See also Note 2 and Note 8.

As of December 31, 2019 property, plant and equipment of the Group have been pledged to secure the contracted borrowings with a carrying amount of RON 153,666 thousand (December 31, 2018: RON 118,660 thousand) (Note 15).

The gross book value of the fully amortized fixed assets as of December 31, 2018 is in amount of RON 211,551 thousand (2018: RON 201,581 thousand).

In the category of capital assets in progress is included, mainly, the value of Gaudfrin vertical filters, disc filter for coarse seed (Bokela) and water cooling tower in Precipitation that will be put in function in 2020.

Impairment tests for property, plant and equipment

The Group analyzed the net book value recorded at the balance sheet date for the depreciable property, plant and equipment, in order to evaluate the possibility of their depreciation, which could lead to the recording of an adjustment for depreciation.

There were no impairment indications identified, therefore there was no need to perform an impairment test of the property, plant and equipment as at 31 December 2019 and 31 December 2018.

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5 INTANGIBLE ASSETS

Cost	Development expenses	Other intangibles	Advances for intangibles	Total
At January 1, 2018	4,367	15,751	-	20,118
Acquisition of subsidiary	-	-	-	-
Additions	-	24	-	24
Transfers	-	-	-	-
Disposals	-	-	-	-
Translation adjustment	-	721	-	721
At December 31, 2018	4,367	16,496	-	20,863
Additions	-	48	-	48
Transfers to fixed assets	-	-	-	-
Disposals	-	-	-	-
Translation adjustment	-	743	-	743
At December 31, 2019	4,367	17,288	-	21,655
Accumulated Amortization	Development expenses	Other intangibles	Advances for intangibles	Total
At January 1, 2018	4,367	15,060	-	20,393
Amortization expense	-	267	-	267
Eliminated on disposals of assets	-	-	-	-
Translation adjustment	-	698	-	698
At December 31, 2018	4,367	16,025	-	20,863
Amortization expense	-	291	-	291
Eliminated on disposals of assets	-	-	-	-
Translation adjustment	-	722	-	722
At December 31, 2019	4,367	17,039	-	21,406
Net book value				
At December 31, 2018	-	471	-	471
Net book value				
At December 31, 2019	-	249	-	249

Other intangible assets refer to software programs, licenses and exploration assets.

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6 GOODWILL

COST	2019	2018
Balance at beginning of year		
Goodwill at acquisition of Global Aluminium Ltd. by Vimetco N.V. (former parent)	102,487	97,906
Additions	-	-
Translation adjustment	4,710	4,581
Balance at end of year	107,197	102,487
ACCUMULATED IMPAIRMENT LOSSES		
	December 31, 2019	December 31, 2018
Balance at beginning of year:		
Impairment on goodwill at acquisition of Global Aluminium Ltd. by Vimetco N.V. (former parent)	(27,485)	(26,256)
Additions	-	-
Translation adjustment	(1,263)	(1,229)
Balance at end of year	(28,748)	(27,485)
CARRYING AMOUNT		
Balance at end of year	78,450	75,003

The goodwill at acquisition of Global Aluminium Ltd. is allocated to the cash-generating units (CGU) at 31 December 2019 and 2018 as follows (after translation adjustments and impairment):

	December 31, 2019	December 31, 2018
CGU Romania	58,855	56,270
CGU Sierra Leone	19,595	18,733
Total	78,450	75,003

The goodwill allocated to the cash-generating unit operating in Romania results from the acquisitions and transactions under common control and at 31 December 2019 and includes an amount of RON 58,855 thousand (2018: RON 56,270 thousand) representing the goodwill at initial acquisition of Global Aluminium Ltd. by Vimetco N.V. allocated for impairment test purposes to the group of cash generating units operating in Romania.

Impairment of goodwill

The accumulated impairment loss as at 31 December 2019 was recognised partially for the goodwill allocated to Sierra Leone CGU on acquisition of Global Aluminium Ltd. in amount of RON 28,748 thousand (2018: RON 27,485 thousand).

The recoverable amount of cash-generating units operating in Sierra Leone (Global Aluminium Ltd.) was determined based on fair value less costs of disposal, estimated using discounted cash-flow techniques and applying a market-based measurement. Financial forecasts estimated by the directors cover a five-year period (2018: 5 years). The after-tax discount rate is of 20.2% per annum (2018: 19.4%).

The cash flows beyond the five-year period have been extrapolated until the year 2035, when the estimated reserves (measured, indicated and inferred) will be fully used with a 2.2% growth rate (2018: 2.2%) (in line with forecasted inflation rate), except for the terminal year when a reduced production is foreseen at the level of the remaining reserves. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used (see Note 31).

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6 GOODWILL (continued)

The key assumptions for the cash-generating unit Global Aluminium Ltd. are:

	2019	2018
Discount rate	20.2%	19.4%
Growth rate (average of next five years)	5.1%	1.0%
EBITDA margin	17.0%	18.7%

The discount rate is the CGU weighted-average of the cost of equity of 22.2% (2018: 20.2%), calculated based on the average unlevered betas of comparable companies within the industry and of a cost of debt after tax of 4.8% (2018: 1.1%), using the CGU's debt leverage of 11.3% (2018: 4.3%).

Growth rates during the next five years are based on current contract with Alum reflecting the price in the market for long term contracts and on company's intention to develop sales to third party clients.

EBITDA margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the external analysis and the expected future sales volumes and prices, coupled with company's cost cutting efforts.

The most sensitive key assumption used in impairment test of CGU Global Aluminium Ltd. are the discount rate and EBITDA margin. An increase of the discount rate to 25.5% and a decrease of EBITDA margin to 12.4% applied separately, would cause the estimated recoverable amount to be equal to the carrying amount (2018: an increase of growth rate to 33.3% and a decrease of EBITDA margin to 8.76%). For the other assumptions management considered that there are no reasonably possible modifications that would lead to an impairment of the goodwill allocated to CGU Global Aluminium Ltd.

In 2019, the recoverable amount of cash-generating unit operating in Romania was determined based on fair value less costs of disposal, estimated using discounted cash-flow techniques and applying a market-based measurement. This method requires eliminating all owner specific synergies from the cash-flow projections other than those synergies that any market participant would be able to realize. The fair value measurement was categorized as a Level 3 fair value measurement based on the inputs in the valuation technique used.

The cash flow projections were based on the business plan estimated by the directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used in the estimation of the recoverable amount are set out in the following table. The values assigned to key assumptions and estimates used to measure the recoverable amount of the CGU operating in Romania reflect past experience, are consistent with external sources of information and are based on management's expectations of market development. The production quantities were estimated based on past experience, represent management's best estimate of future production and reflect company's investment plans. Sales prices were based on the long-term aluminium prices derived from available industry and market sources. Operating costs were projected based on the historical performance and adjusted for the current market conditions and inflation.

Key assumptions	2019	2018
Discount rate, after-tax	9.3%	9.6%
Growth rate (average of next five years)	6.9%	6.5%
EBITDA margin (average of next five years)	12.3%	13.7%

The discount rate is the CGU weighted-average of the cost of equity of the CGU, i.e. 10.2% (in 2018: 9.8%), calculated based on the average unlevered betas of comparable companies within the industry and of a cost of debt after tax of 4.0% (in 2018: 4.9%), using the CGU's debt leverage of 14.5% (in 2018: 4.6%).

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6 GOODWILL (continued)

Growth rates during the next five years are based on published industry research, directors' future expectations of economic and market conditions, the result of capital investments and anticipated efficiency improvements. The growth rate beyond the five-year period was assumed in line with the forecasted inflation, namely 2.2% (in 2018: 2.2%).

EBITDA margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the average levels experienced over the past years, with adjustments made to reflect the expected future sales volumes and price fluctuations.

The most sensitive key assumptions used in impairment test of CGU Alro Group are the discount rate and EBITDA margin. An increase of the discount rate to 14.2% and a decrease of EBITDA margin to 10.6% applied separately, would cause the estimated recoverable amount to be equal to the carrying amount (2018: increase to 16.9% and decrease to 9.9% respectively). For the other assumptions management considers that there are no reasonably possible modifications that would lead to an impairment of the goodwill allocated to CGU operating in Romania.

The estimated recoverable amount of the CGU operating in Romania exceeded its carrying amount by approximately RON 1,380,000 thousand (2018: RON 1,977,000 thousand) and for CGU Global Aluminium Ltd. by approximately RON 39,000 thousand (2018: RON 73,000 thousand).

7 INCOME TAXES

Income tax recognized in consolidated income statement:

	Year ended December 31, 2019	Year ended December 31, 2018
Current tax		
Current tax for the year	19,231	15,784
	19,231	15,784
Deferred tax		
Origination and reversal of temporary differences	4,187	1,952
Reversal of previously recognised tax losses	15,860	10,104
Capitalisation of previously unrecognised tax losses	-	-
	20,047	12,056
Total income tax expense/(credit) recognized in the period	39,278	27,840

The income tax expense for the year can be reconciled to the accounting profit as follows:

	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Translation adjustment	Closing balance
Property, plant and equipment	(10,102)	(2,122)	-	-	(12,224)
Inventories	2,269	1,016	-	-	3,285
Trade receivables and other current assets	285	(163)			122
Provisions	7,226	287	-	-	7,513
Retirement benefits obligation	1,329	157	81	-	1,567
Tax losses capitalized	43,374	(19,223)	-	1,458	25,609
Deferred tax asset	44,382	(20,047)	81	1,458	25,873

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7 INCOME TAXES (continued)

	Year ended December 31, 2019	Year ended December 31, 2018
Result before tax	122,722	83,211
Weighted average tax rate applicable to the Group	19.36%	22.88%
Income tax calculated with the weighted average tax rate	23,764	19,042
Effect of income that is exempt from taxation	(752)	(770)
Effect of expenses that are not deductible in determining taxable profit	407	(1,820)
Effect of utilization of previously unrecognized tax losses	(4,061)	(3,281)
Effect of capitalisation of previously unrecog. tax loss	-	-
Effect of current year tax losses for which no deferred tax asset was recognized	19,921	14,669
Over/underprovision of prior year tax accrual	-	-
Income tax (credit)/expense reported in the statement of profit or loss	39,278	27,840

The tax rate used for reconciliations above 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%)

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

Tax loss expiring	Gross amount	Tax effect
Within 1 year	22,459	81
1 - 2 years	18,262	2,143
2 - 5 years	199,751	19,567
More than 5 years	12,731	3,818
Total	253,202	25,609

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 2019 and cover a five-year period. The cash flows beyond the five-year period have been extrapolated until the year 2025, when the tax losses expire, at a 2.2% growth rate in line with the forecast inflation. The main assumptions used in the forecast are the average sales growth of 1.12% per annum (31 December 2018: 1.03% per annum), average EBITDA margin of 17.05% (31 December 2018: 18.74%) and a profit before tax margin of 10.00% per annum (31 December 2018: 11.75% per annum).

As the result of the forecast, the management expects to use an amount of RON 46.188 thousand from total RON 253.202 thousand (31 December 2018: RON 113,715 thousand from total RON 252,746 thousand) 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 EBITDA margin and profit before tax margin. A decrease in the forecasted EBITDA margin by 1.0% would reduce the deferred tax assets by RON 1,900 thousand (31 December 2018: RON 2,200 thousand) and a decrease in the forecasted profit before tax margin by 1.0% would reduce the deferred tax assets by RON 2,400 thousand (31 December 2018: RON 2,700 thousand).

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8 RIGHT-OF-USE ASSETS

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Right-of-use assets	2,660	-
Total	2,660	-

Starting 1 January 2019 the Group has applied IFRS 16 Leases and recognized initially as non-current assets under Rights-of-use assets, the right to use the underlying asset during the lease term amounting to RON 3,159 thousand. The Group has leasing contracts mainly for equipments and vehicles with terms of up to 5 years. The carrying value of the right of use assets at 31 December 2019 was RON 2,660 thousand. For further details see also Note 2.

	<u>2019</u>	<u>2018</u>
Right-of-use-assets		
Equipment		
Balance at 1 January	414	-
Depreciation charge for the year	(116)	-
Additions	-	-
Balance at 31 December	298	-
Vehicles		
Balance at 1 January	561	-
Depreciation charge for the year	(201)	-
Additions	254	-
Balance at 31 December	614	-
Others		
Balance at 1 January	2,184	-
Depreciation charge for the year	(437)	-
Additions	-	-
Balance at 31 December	1,747	-
Right-of-use assets as 31 December	2,660	-

The following amounts were recognised in profit or loss, following the application of IFRS 16:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Depreciation expense of right-of-use assets	753	-
Interest on lease liabilities	152	-
Expenses related to short-term leases	385	-
Expenses related to leases of low-value assets	30	-
Total amounts recognised in profit or loss	1,321	-

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9 INVENTORIES

	December 31, 2019	December 31, 2018
Raw materials	101,213	62,106
Consumables	40,987	36,614
Finished goods	25,833	19,779
Work in progress	55,833	63,138
Semi-finished goods	13,634	2,041
Other	312	146
Allowance for inventories	(11,320)	(10,503)
Total	226,492	173,321

The movement in the allowance for inventories is presented below:

	2019	2018
Balance at beginning of the year	10,503	10,059
Change during the current year	352	-
Release during the current year	(15)	(23)
Translation adjustment	481	467
Balance at end of the year	11,320	10,503

The value of the expensed inventories in 2019 is of RON 286,159 thousand (2018: RON 330,825 thousand).

The value of inventories pledged for securing the Group's borrowings amounts RON 205,251 thousand (31 December 2018: RON 153,238 thousand).

10 TRADE RECEIVABLES

	December 31, 2019	December 31, 2018
Foreign trade receivables	26,447	6,911
Domestic trade receivables	5,262	5,326
Allowance for doubtful receivables	(729)	(1,027)
Total trade receivables	30,980	11,210

There is one customer representing individually more than 10% of the total balance of trade receivables as at December 31, 2019 (December 31, 2018: 1 customer).

Movement in the allowance for doubtful trade receivables is as follows:

	December 31, 2019	December 31, 2018
Balance at beginning of the year	1,027	232
Charge in the current year	536	844
Release in the current year	(869)	(76)
Translation adjustment	36	27
Balance at end of the year	729	1,027

The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the customer from the date the credit was initially granted up to the reporting date and adjusted for forward-looking factors specific to the debtors and the economic environment.

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10 TRADE RECEIVABLES (continued)

Accordingly, the Group's management believes that there is no further credit provision required in excess of the allowance for doubtful receivables already provided for.

In the table below is an analysis of the trade receivables as at December 31, 2019 and December 31, 2018:

Trade receivables

	December 31, 2019	December 31, 2018
Not past due and not impaired	17.891	6,829
Past due but not impaired	13.089	4,381
Impaired receivables assessed on an individually basis	122	-
Past due more than 3 months and impaired	234	-
Past due more than 9 months and impaired	375	1,027
Less: Allowance for doubtful receivables	(729)	(1,027)
Total	30,980	11,210

Aging of receivables that are past due but not impaired:

	December 31, 2019	December 31, 2018
Less than 3 months	9,847	1,045
3 months to 6 months	1	-
6 months to 9 months	34	30
More than 9 months	3,207	3,306
Total trade receivables past due but not impaired	13,089	4,381

These relate to a number of independent customers or related party entities, for which there is no recent history of default. Refer also to Note 31 Risk management for further details.

A part of the Group's receivables (RON 3,406 thousand at 31 December 2019 (RON 7,264 thousand at 31 December 2018)) are pledged to secure the loans obtained from banks.

In 2019 Alum signed a factoring framework agreement. The factoring facility is without regress, so that the risks and rewards related to the receivables are substantially transferred to a factor and as a result the transferred amount at the transfer date is derecognized, and the factoring fees and related finance costs are recognized at the payment date. At 31 December 2019 the overall factoring limit in amount of 3.000.000 EUR was not utilised.

11 OTHER RECEIVABLES

	December 31, 2019	December 31, 2018
Advances to suppliers	3,601	1,854
VAT recoverable	100	1,560
Other debtors	4,573	1,782
Prepayments	955	2,521
Allowance for other doubtful debtors	(118)	(16)
Total other current assets	9,111	7,701

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11 OTHER RECEIVABLES (continued)

The movement in the allowance for other current assets is as follows:

	December 31, 2019	December 31, 2018
Balance at beginning of the year	16	16
Released in the current year	101	-
Translation adjustment	1	-
Balance at end of the year	118	16

12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

	December 31, 2019	December 31, 2018
Cash at banks in RON	395	407
Cash at banks in foreign currency	546	1,657
Cash in hand in RON	26	14
Cash equivalents	-	-
Restricted cash	924	3,246
Total cash and cash equivalents	1,891	5,324

Restricted cash represents cash collateral deposited at banks with the purpose of maintaining a required level of liquidity in respect of interest payable on the borrowings.

On 31 December 2019 the Group has letters of credit with cash collateral transfers opened at Raiffeisen Bank in amount of EUR 184 thousand (RON 878 thousand) (2018: CEC Bank in amount of EUR 364 thousand (RON 1,698 thousand) and at Raiffeisen Bank in amount of USD 370 thousand (RON 1,507 thousand)). The letters of credit have been opened to guarantee the payment of contracts for equipment purchases.

Also, as of December 31, 2019 all current bank accounts opened by the Company, as well as all the amounts of money in their credit or by which such bank accounts are credited at a certain moment (subject to certain exceptions) are pledged to secure the borrowings contracted by the Company in May 2019 (2019: RON 581 thousand, 2018: RON 844 thousand).

13 ISSUED CAPITAL

The statutory share capital as of December 31, 2019 and December 31, 2018 is as follows:

	Statutory figures					
	December 31, 2019			December 31, 2018		
	Number of shares	Nominal Value RON (thousand)	%	Number of shares	Nominal Value RON (thousand)	%
SHAREHOLDERS						
ALRO SA	81,595,860	485,495	99.4026	81,595,860	485,495	99.4026
Individuals	487,778	2,902	0.5942	487,778	2,902	0.5942
Companies	2,565	15	0.0031	2,565	15	0.0031
Total	82,086,203	488,413	100%	82,086,203	488,413	100%

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13 ISSUED CAPITAL (continued)

The major shareholder of Alum S.A. is Alro S.A. Slatina owned by VIMETCO N.V. Netherlands owned by ViHolding N.V. (Netherland Antilles) a company controlled by a MAXON LIMITED.

14 RESERVES

	December 31, 2019	December 31, 2018
Legal reserve	16,900	12,309
Other reserves	30,645	34,650
Total reserve	47,545	46,959

The legal reserve is made up at 20% of the issued and paid shared capital of the Company, according to the regulations in force, it is not distributable and its utilization is strictly regulated by the laws.

Other reserves include mainly amounts that were generated by statutory revaluation of fixed assets.

15 BORROWINGS AND LEASES

	December 31, 2019	December 31, 2018
Long-term borrowings		
Long-term loans (see also Note 28)	75,089	59,953
Bank loans, non-current	75,089	59,953
Long-term lease	1,787	99
Total long-term borrowings and lease	76,876	60,052
Short-term borrowings		
Short-term portion of long-term bank loans	32,222	300
Other short-term borrowings	32,466	-
Short-term bank loans, total	64,688	300
Short-term finance lease	736	193
Total short-term borrowings and lease	65,423	493
Total borrowings and lease	142,299	60,545

On 17 May 2019, 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 2019 the amount drawn down from these loans was of USD 25,000 thousand.

The bank borrowings of the Group will mature in 2023. In 2019, the interest rates ranged between 5.05% and 6.39% (2018: between 5.62% and 6.39%).

According to the existing borrowing agreements the Group is subject to certain restrictive covenants. These covenants require the Group, 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 2019, the Group was compliant with all the financial loan covenants.

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15 BORROWINGS AND LEASES (continued)

In August 2019, the company Alum concluded a contract with a commercial partner for selling CO2 emission certificates for an amount of RON 32,446 thousand. The emission certificates were sold at a spot price agreed by the parties based on the quotations used in the specific market at that date. According to the contract, if the market price of the emission certificates moves upwards but below a certain threshold up to 9 December 2020, the Company is bound to repurchase them at a price fixed by contract, which is slightly higher than the price for which it has sold them. If the market price moves upwards exceeding the same specified threshold, then the Company will not repurchase the certificates, but it will receive a termination payment from the counterparty, equal to the difference between the threshold and the initial sales price. At the transaction date and at the reporting date, the Group analyzed the market circumstances and estimated that there is a low possibility for the future market price to exceed the specified threshold at the termination date (in December 2020), and that it is more likely that it will have to buy back the certificates. The Group analyzed the contract, and determined that, due to the buy-back clause included in the contract, and due to the obligation to repurchase the certificates at a fixed price established in advance, and not at a market price applicable in future, the subsidiary has not transferred substantially the risks and rewards from the certificates, and it is thus a finance transaction. Therefore, the amount of RON 32,446 thousand was recognized as Other loans under Short term borrowings and lease at 31 December 2019 (nil at 31 December 2018), with the surplus between the future repurchase price and the price received at transaction date being accrued as interest expense under Interest expense (see Note 26): RON 90 thousand for 2019 (nil for 2018).

The Group subsidiary Sierra Leone has a line of credit from Sierra Leone Commercial Bank, in SLL, equivalent to 257,000 USD, duration will be one year starting from May 2018 at an interest rate of 19% per year and processing fees - 1% flat, paid. In May 2019 SMHL renewed for 1 year the overdraft limit for the amount of USD 230 th for working capital. In November 2019 SMHL received a supplemental overdraft facility at same interest rate of 19% and validity until January 2020. As at December 31, 2019 the amount used from both overdraft lines was USD 410 thousand (SLL 3,955,516 thousand).

The Group borrowings are secured with accounts receivable amounting to RON 3,406 thousand (2018: ron 7,264 thousand), with current account opened with the banks amounting to RON 581 thousand (see Note 12) (2018: RON 844 thousand), with property, plant and equipment (land, buildings, equipment) with a net book value of RON 153,666 thousand (2018: RON 109,585 thousand) and with inventories of RON 205,251 thousand (2018: RON 153,238 thousand).

The Group have estimated that the fair value of the borrowings and the leases equals their carrying amount, mainly due to the fact that the long term loans have variable interest and the bank margins are similar with those for the recently contracted bank loans. Their fair value belongs to the level 3 of the fair value measurement hierarchy.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	December 31, 2019	December 31, 2018
RON	-	-
USD	105,584	60,253
EURO	32,446	-
SLL	1,747	-
Total	139,777	60,253

In 2019 ALUM S.A. has an ongoing finance lease agreement for a backhoe for a period of three years. The net book value of leased assets at Company level as of December 31, 2019 was RON 591 thousand (31 December 2018: RON 822 thousand).

As a result of adopting IFRS 16, at 1 January 2019 the Group recognized additional leasing obligations in amount of RON 2,745 thousand (see also Note 2 and Note 8).

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15 BORROWINGS AND LEASES (continued)

The minimum lease payments for finance leases are set out below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Lease instalments falling due:		
Within 1 year	-	198
1 to 5 years	-	100
Total lease instalments	<u>-</u>	<u>298</u>
Less: future finance charges	-	6
Present value of lease obligations	<u>-</u>	<u>292</u>
Thereof:		
Short-term lease obligation (less than 1 year)	-	193
Long-term lease obligations (1 to 5 years)	-	99

Changes in liabilities arising from financing activities of the Group:

	Bank and other loans	Finance leases
Balance at 1 January 2019	60,253	292
New contracts	75,204	2,999
Cash outflows	-	(769)
Interest expense	7,296	152
Interest paid	(6,466)	(152)
Interest capitalised	-	-
Translation differences	3,489	1
Balance at 31 December 2019	139,776	2,523

	Bank and other loans	Finance leases
Balance at 1 January 2018	11,651	762
New contracts	60,426	-
Cash outflows	(12,015)	(465)
Interest expense	2,057	15
Interest paid	(2,386)	(15)
Interest capitalised	799	-
Translation differences	(278)	(5)
Balance at 31 December 2018	60,253	292

16 RETIREMENT BENEFIT OBLIGATION

Defined contribution plans

The employees of the Group are members of the state-managed retirement benefit plan and starting with January 1, 2008 can/must (for employees above/under the age of 35) subscribe to private pension funds. The Group contributes a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions during the period of employment of the respective employees.

The Group has an arrangement in place to make payments to an optional defined contribution plan for the post-employment benefit of its employees that have rendered service to the Group during the period. The defined contribution plan is managed by a separate entity and the contribution made by the Group was in the form of fixed amounts per employee, paid monthly. The Group recognized the liability undiscounted (accrued expense) at the reporting date after deducting any contribution already paid, and the expense incurred during the year, the Group's legal and constructive obligation being limited to the amounts that it contributes to the fund.

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16 RETIREMENT BENEFIT OBLIGATION (continued)

Contributions to defined contribution plans

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Social insurance costs	437	461
Other defined contribution pension plans	1,054	693

Defined benefit plans

According to the Collective Labor Agreement of the Company, when retiring due to age or disease, the employees benefit from a retirement bonus which is computed based on the number of years of work and varies between 1 and 6 salaries.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2019 by an independent actuarial specialist. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Expected rate of salary increase (%)	3.68	4.22
Discount rate (%)	4.57	5.11
Expected inflation rate (%)	<u>2.58</u>	<u>2.72</u>

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
<u>Recognized into P&L</u>		
Current service cost	1,002	878
Interest on obligation	458	323
Benefits paid	(1,207)	(876)
<u>Recognized into OCI</u>		
Actuarial gain/(loss) due to changes in assumptions	<u>223</u>	<u>930</u>
Total	<u>476</u>	<u>1,255</u>

The amount included in the balance sheet arising from the Group's obligation in respect of its defined benefit plans is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Net liability arising from defined benefit obligation as of January 1	6,746	5,496
Net costs/(gains) recognized	476	1,255
Translation adjustment	<u>(163)</u>	<u>(5)</u>
Net liability arising from defined benefit obligation as of December 31	<u>7,059</u>	<u>6,746</u>

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16 RETIREMENT BENEFIT OBLIGATION (continued)

Significant actuarial assumptions for the determination of defined benefit obligation are: discount rate, estimated salary increase rate and estimated inflation rate. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:

Defined benefit obligation change

	<u>2019</u>	<u>2018</u>
Discount rate +1%	6,418	6,058
Discount rate -1%	7,793	7,354
Estimated salary increase rate +1%	7,796	7,379
Estimated salary increase rate -1%	6,391	6,032
Longevity +1 year	7,003	6,616
Longevity -1 year	7,104	6,708
Employee turnover rate +0.5%	6,983	6,601
Employee turnover rate -0.5%	7,119	6,719

The sensitivity analyses above has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

17 DECOMMISSIONING PROVISIONS

The provision recorded as of December 31, 2019 relates to the expected site restoration expenses in respect of the bauxite mine operated by Sierra Mineral Holdings I Ltd and Alum's waste dump (red mud lake) closing expenses.

Alum S.A. makes full provision for the future cost of decommissioning and rehabilitating the storage facilities for residual product (red mud) 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 significantly extended.

This provision has been recorded based on the estimates made by the experienced constructions engineering specialists from ALUM as of December 31, 2019. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. Also, the timing of rehabilitation is likely to depend on when the site cease to store at economically viable rates. 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.

The discount rate used in the calculation of the provision as at 31 December 2019 was 3.02% (2018: 4.29%).

SMHL recognizes in full the provision for the future costs of rehabilitating the environment disturbed as a result of the mining activities.

SMHL recorded the provision based on technical assessment to restore and rehabilitate the affected mining areas for the related costs required to be incurred. The technical assessment was performed by an external valuation expert, provision started in 2014 and unwinding of the discount of RON 598 thousand is recognised in the current year (2018: RON 528 thousand).

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17 DECOMMISSIONING PROVISIONS (continued)

The provisions for employees compensation are recognized by the Group basically in accordance with the Collective Labour Agreements. In 2019, the management analysed the financial results for the period and decided not to book a provision for this period.

	January 1, 2018	Additional provisions recognised	Utilisation of provisions	Reversal of provisions	Recognition of discount unwinding	December 31, 2018
Provision for land restoration	9.704	-	-	-	528	10.233
Translation adjustment	1.332	-	-	-	535	1.867
Provision for Alum waste dump	18.494	230	-	-	743	19.468
Provision for employees remuneration	-	3.009	-	-	-	3.009
Total provisions	29.530	3.239	-	-	1.807	34.576
Total long-term provision	29.530	230			1.807	31.567
Total short-term provision	-	3.009				3.009
	January 1, 2019	Additional provisions recognised	Utilisation of provisions	Reversal of provisions	Recognition of discount unwinding	December 31, 2019
Provision for land restoration	10.233	-	-	-	598	10.830
Translation adjustment	1.867	-	-	-	558	2.425
Provision for Alum waste dump	19.468	1.809	-	-	835	22.112
Provision for employees remuneration	3.009	-	(1.854)	(1.155)	-	-
Total provisions	34.576	1.809	(1.854)	(1.155)	1.990	35.367
Total long-term provision	31.567	1.809			1.990	35.367
Total short-term provision	3.009		(1.854)	(1.155)		-

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18 GOVERNMENT GRANTS

	<u>2019</u>	<u>2018</u>
Balance as of 1 January	4,843	1,769
Increases during the year	839	3,074
Revenues recorded during the year in the statement of profit or loss	(347)	-
Balance as of 31 December	5,335	4,843
Out of which:		
Current	379	323
Non-current	4,956	4,520

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 ".

In 2019 the Group received as non-refundable funds the amount of RON 839 thousand (2018: RON 3,244 thousand).

Income released to the Statement of profit or loss of RON 347 thousand (2018: nil) represent the portion recognized as income during the year from the above mentioned subsidies, as well as from subsidies received in previous years for equipments.

The income recognized during the year in the Statement of profit or loss and other comprehensive income of the Group is included in the category Other operating income (refer to Note 23).

The only achievement indicator to be pursued by the end of the project, respectively the number of staff in the R & D department that needs to grow by 16 people by March 8th, 2019, was achieved.

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 2024.

19 TRADE AND OTHER PAYABLES

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Foreign trade payables	4,817	9,839
Domestic trade payables	47,022	62,939
Accrued trade payables	3,313	4,652
Total	55,152	77,430

Details regarding the Group transactions with the related parties are presented in Note 28.

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20 OTHER CURRENT LIABILITIES

	December 31, 2019	December 31, 2018
Suppliers of fixed assets	1,951	5,973
Advances from customers (Note 27)	19,326	67,948
Wages and social security taxes	6,770	6,419
Tax on salaries	406	348
Other taxes	2,320	1,893
Dividends payable	5	5
VAT Payable	2,292	3,692
Other	1,887	1,078
Total	34,957	87,357

The advance payments received from Alro are in amount of RON 19,301 thousand as of 31 December 2019 (2018: RON 67,536 thousand).

21 REVENUES FROM CONTRACTS WITH CUSTOMERS

	Year ended December 31, 2019	Year ended December 31, 2018
Revenues from sales of alumina	782,434	875,101
Revenues from sales of bauxite	53,859	25,331
Revenues from sales of fuel (SMHL)	23,468	26,720
Other revenues	1,208	715
Total	860,969	927,867

22 COST OF SALES

	Year ended December 31, 2019	Year ended December 31, 2018
Energy, water and gas	191,764	191,039
Raw materials	218,548	256,525
Staff costs	59,933	54,233
Other staff costs	5,486	4,322
Consumables expenses	61,707	66,379
Amortization and depreciation	40,404	33,613
Third party services	33,021	31,695
Repairs	4,002	10,220
Transportation costs	62,687	63,930
Packing	1,066	1,004
Fuel (SMHL)	21,382	25,410
Taxes (SMHL)	20,962	20,205
Other	490	350
(Decrease)/increase in allowances for slow moving and obsolete inventories	337	(23)
Total	721,789	758,902

In 2019, the Group recognized employment benefits expenses representing salaries and other staff costs of RON 101,289 thousand (in 2018: RON 97,362 thousand) in the Statement of profit or loss.

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23 OTHER OPERATING INCOME

	Year ended December 31, 2019	Year ended December 31, 2018
Government grants (Note 18)	347	-
Income from sale of emission rights	74,793	-
Income from unused provision reversals (Note 17)	1,155	-
Income from claims and penalties	347	-
Other income	4,557	3,460
Total	81,199	3,460

During the year 2019, the Group sold CO2 emission certificates of RON 74,793 thousand, included under Income from sale of emission certificates (2018: nil), benefiting from the increase in the price of CO2 emission certificates. The Group was in the position to have a surplus of emission certificates as they made numerous efforts to invest in energy efficiency in the latest years.

In other revenues are included, mainly, revenues from sale of electricity for the City Hall equipment that assures the town heating, demurrage for bauxite loading/unloading, rent and incomes related to sick leaves.

24 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2019	Year ended December 31, 2018
Energy, water and gas	57	64
Consumables expenses	4,838	6,918
Staff costs	30,892	33,930
Staff restructuring expenses	822	505
Consulting	2,899	3,390
Third party services	14,728	13,094
Amortization and depreciation	2,716	2,723
Research and development costs	2,142	-
Taxes	2,300	2,074
Other staff costs	5,209	5,199
Insurance premiums	3,194	2,527
Commissions and fees	509	481
Other	6,464	7,428
Change in allowance for doubtful debts	535	767
Total	77,305	79,101

In 2019 the company recognized research and development costs of RON 2,142 thousand (in 2018: nil) after the placing into operation in the beginning of 2019 of the equipments under the EU funded project for the project for the research of aluminum hydroxide technology (dry and wet). The target of these projects is to increase the level of innovation and market competitiveness of the Company, while expanding the products portfolio to include new products.

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24 GENERAL AND ADMINISTRATIVE EXPENSES (continued)

The breakdown of the research and development costs by nature of expenditure is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Consumables expenses	22	-
Staff costs	558	-
Third party services	196	-
Amortization and depreciation	22	-
Other administrative expenses	196	-
Total	2,142	-

25 OTHER GAINS AND LOSSES

	Year ended December 31, 2019	Year ended December 31, 2018
Net result on disposal of fixed assets	11	(176)
Total	11	(176)

26 FINANCIAL RESULTS, NET

	Year ended December 31, 2019	Year ended December 31, 2018
Interest income	(1)	(2.228)
Other financial income	(9)	(97)
Interest expense	7.448	3.107
Interest from discounting provisions	1.433	1.271
Interest on post-employment benefits	458	323
Bank commissions	900	1.490
Exchange rate differences, net	2,677	2,922
Total	12,906	6,788

The amount of RON 2,677 thousand (2018: RON 2,922 thousand), representing foreign exchange gain/loss, is now included in the note "Finance costs, net", and eliminated in the category "Other gains and losses" (Note 25).

27 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of outstanding ordinary shares during the year.

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27 EARNINGS PER SHARE (continued)

	Year ended December 31, 2019	Year ended December 31, 2018
Profit/(loss) attributable to the owners of the Company	83,444	55,371
Weighted average number of ordinary shares	82,086	82,086
Basic (losses)/earnings per share (RON/share)	1.02	0.67
Dividends paid per share (RON/share)	-	-

There are no equity instruments or share options in place as at December 31, 2019 and as at December 31, 2018 that could potentially dilute the basic earnings per share.

28 RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The main related parties the Group has recorded transactions with in 2019 and 2018 are: Alro S.A., Conef Gaz S.R.L., Conef S.A., Vimetco Management Romania S.R.L, Centrul Rivergate S.R.L., Rivergate Fire S.R.L, Vimetco Extrusion, Vimetco N.V.. These related party entities have the same ultimate shareholder as the companies of the Group.

Related party	Related party type	Transaction type
Alro S.A.	Shareholder	Sales/purchases of goods/services
Vimetco N. V., Netherlands	Shareholder	Sales/purchases of goods/services
Vimetco Management Romania S.R.L.	Common control	Purchases of goods and services
Vimetco Extrusion	Common control	Sales/purchases of goods
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

	Year ended December 31, 2019	Year ended December 31, 2018
Purchases of goods and services		
Vimetco Management Romania SRL	780	780
Alro SA	27,246	30,200
Conef Gaz SRL	169,933	166,705
Centru Rivergate SRL	3,347	3,110
Rivergate Fire SRL	3,095	2,897
Total	204,401	203,692

	Year ended December 31, 2019	Year ended December 31, 2018
Sales of goods and services		
Vimetco Extrusion	3	2
Alro SA	642,464	602,843
Centru Rivergate SRL	37	36
Total	642,504	602,881

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28 RELATED PARTY TRANSACTIONS (continued)

	December 31, 2019	December 31, 2018
Trade and other receivables	<u>3,153</u>	<u>3,153</u>
Vimetco Power Romania SRL	3,153	3,153
Alro SA	406	366
Centru Rivergate SRL	<u>4</u>	<u>4</u>
Total	<u>3,563</u>	<u>3,524</u>
	December 31, 2019	December 31, 2018
Trade and other payables	<u>19,301</u>	<u>67,536</u>
Alro S.A. - advances	19,301	67,536
Alro S.A. – trade payables	7,058	29,512
Centru Rivergate SRL	328	306
Rivergate Fire SRL	307	287
Conef Gaz SRL	<u>733</u>	<u>479</u>
Total	<u>27,727</u>	<u>98,120</u>

Remuneration of directors

The remuneration (including social security taxes) of directors and other members of key management personnel during the year was in amount of RON 19,535 thousand (2018: RON 15,455 thousand).

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29 SEGMENT INFORMATION

Business and geographical segments

For management reporting purposes, the Group is organized on a vertically integrated basis into two major operating divisions – bauxite and alumina. The divisions are the basis on which the Group reports its primary segment information. The bauxite segment produces bauxite – principal raw material for producing alumina. The alumina segment produces alumina - principal raw material for aluminium smelting. The bauxite mine is located in Sierra Leone and the alumina plant in Tulcea, Romania. Other operations include services providing to parent, subsidiaries and external customers.

Segment revenues and results for the year ended December 31, 2019 were as follows:

	<u>Bauxite</u>	<u>Alumina</u>	<u>Elimination of inter-segment Transactions and others</u>	<u>Consolidated</u>
External sales	77,328	783,641	-	860,969
Inter-segment sales	216,363	-	(216,363)	-
Total segment revenues (external sales +intersegment sales)	<u>293,691</u>	<u>783,641</u>	<u>(216,363)</u>	<u>860,969</u>
Total segment cost of revenues	<u>(219,222)</u>	<u>(714,004)</u>	<u>211,437</u>	<u>(721,789)</u>
Segment result (gross profit)	<u>74,469</u>	<u>69,637</u>	<u>(4,926)</u>	<u>139,180</u>
Administrative expenses				(77,305)
Other operating revenues, net				73,764
Financial expenses				(10,239)
Financial revenues				10
Net foreign exchange gains / (losses)				(2,688)
Income tax				<u>(39,278)</u>
Profit for the year				<u>83,444</u>

The amount of RON 4,926 thousand, representing inter-segment transactions, is now included in the category "Inter-segment transactions and others ", and eliminated in the category "Cost of revenues".

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28 SEGMENT INFORMATION (CONTINUED)

Segment revenues and results for the year ended December 31, 2018 were as follows:

	<u>Bauxite</u>	<u>Alumina</u>	<u>Elimination of inter-segment Transactions and others</u>	<u>Consolidated</u>
External sales	52,052	875,815	-	927,867
Inter-segment sales	240,497	-	(240,497)	-
Total segment revenues (external sales +intersegment sales)	<u>292,549</u>	<u>875,815</u>	<u>(240,497)</u>	<u>927,867</u>
Total segment cost of revenues	<u>(221,422)</u>	<u>(774,627)</u>	<u>237,146</u>	<u>(758,902)</u>
Segment result (gross profit)	<u>71,127</u>	<u>101,189</u>	<u>(3,351)</u>	<u>168,965</u>
Administrative expenses				(79,101)
Other operating revenues, net				(41)
Financial expenses				(6,191)
Financial revenues				2,325
Net foreign exchange gains / (losses)				(2,746)
Income tax				<u>(27,840)</u>
Profit for the year				<u>55,371</u>

The amount of RON 3,351 thousand, representing inter-segment transactions, is now included in the category "Inter-segment transactions and others ", and eliminated in the category "Cost of revenues".

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29 SEGMENT INFORMATION (continued)

Segment revenue and expense

All segment revenues and expenses are directly attributable to the segments. Joint expenses are allocated to the business segments on the reasonable basis.

Inter-segment transfers

Segment revenue, segment expenses and segment result include transfers between business segments. Such transfers are accounted for at are reflected at their complete cost. Those transfers are eliminated in consolidation.

Segment assets and liabilities

Segment assets and liabilities: segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of trade and other payables, wages, taxes payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes, borrowings and financial liabilities.

Segment assets and liabilities as at December 31, 2019 were as follows:

	December 31, 2019	December 31, 2018
Segment assets		
Bauxite	239,992	206,251
Alumina	581,507	502,000
Unallocated assets, out of which:	43,653	64,657
Property, plant and equipment	6,470	6,757
Inventories	59	23
Tax assets	25,873	44,382
Other short term assets	11,002	13,024
Other long term assets	249	471
Elimination of inter-segment balances	(206,751)	(196,939)
Total consolidated assets	658,401	575,969
Segment liabilities		
Bauxite	314,688	298,610
Alumina	223,848	222,699
Unallocated liabilities, out of which:	8,025	10,846
Other financial liabilities	5,473	5,925
Tax liabilities	2,552	4,921
Provisions	-	-
Elimination of inter-segment balances	(263,322)	(254,332)
Total consolidated liabilities	283,239	277,823

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29 SEGMENT INFORMATION (continued)

Geographical segments - Sales by market

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

	Year ended December 31, 2019	Year ended December 31, 2018
Romania	651,532	612,022
European Union	73,165	107,425
Non-EU European Countries	40,010	113,586
Other countries	96,262	94,835
Total	860,969	927,867

30 SUBSIDIARIES

Subsidiary name	Principal activity	No. of shares	Cost of acquisition (RON/share)	Voting rights (%)	Value (RON thousand)
Global Aluminium Ltd.	-bauxite production	3,400,000	24.29	100%	82,581
Total					82,581

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 Minerals Holding I Ltd. and 100% shareholding in Bauxite Marketing Ltd.

The companies in Alum Group at December 31, 2019 and December 31, 2018 are as follows:

Subsidiary	December 31, 2019		December 31, 2018	
	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 I, Ltd.	100.00%	100.00%	100.00%	100.00%

31 FINANCIAL RISKS 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.

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31 FINANCIAL RISKS MANAGEMENT (continued)

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 Company, comprising issued capital, reserves and accumulated deficit.

The Group's management analyses the capital structure on a regular basis. As a part of this analysis, 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 per the balance sheet plus net debt.

The gearing ratio as at December 31, 2019 and December 31, 2018 was as follows:

	December 31, 2018	December 31, 2015
Total borrowings (Note 14)	142,299	60,545
Less: cash and cash equivalents (Note 11)	(967)	(2,078)
Net debt	141,332	58,467
Total equity	375,162	298,146
Total capital	516,494	356,613
Gearing ratio	27.36%	16.40%

Foreign currency risk management

The Group is exposed to foreign exchange risk because the predominant part of its sales of bauxite and calcined alumina is denominated in or linked to the USD while the significant part of its operating costs (e.g., 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 Group's foreign currency exposure results from:

- highly probable forecast transactions (sales/purchases) denominated in foreign currencies;
- firm commitments denominated in foreign currencies; and
- monetary items (mainly trade receivables, trade payables and borrowings) denominated in foreign currencies.

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31 FINANCIAL RISKS MANAGEMENT

Foreign currency risk management

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

	December 31, 2019		December 31, 2018	
	Euro denominated	US Dollars denominated	Euro denominated	US Dollars denominated
	RON thousand	RON thousand	RON thousand	RON thousand
Total current assets	20,875	14,081	14,544	8,960
Total non-current assets	-	-	-	-
Total assets	20,875	14,081	14,544	8,960
Total short-term liabilities	38,162	15,384	8,337	33,532
Total long-term liabilities	395	75,089	99	59,953
Total liabilities	38,557	90,473	8,437	93,485

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 of the Romanian Lei against the relevant foreign currencies. 10% is the sensitivity rate 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.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their conversion at the year 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 equity where the functional currency strengthens against the relevant foreign currency.

	December 31, 2019		December 31, 2018	
	Euro	US Dollars	Euro	US Dollars
	RON thousand	RON thousand	RON thousand	RON thousand
Profit or loss	1,768	7,639	(611)	8,452
Equity (net of income tax)	1,485	6,417	(513)	7,100

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 and EURIBOR for borrowings in Euro.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates on RON, 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.

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31 FINANCIAL RISKS MANAGEMENT (continued)

Interest rate sensitivity (continued)

If interest rates would be higher/lower by 1% and all other variables would be constant, the Group's profit would increase/decrease by RON 1,051 thousand (2018: RON 600 thousand) and the Group's equity would increase/decrease by RON 883 thousand (2018: RON 504 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable interest rate for USD and EUR denominated borrowings.

Credit risk management

Credit risk refers to the risk that a counter party 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.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

Trade receivables		31 December 2019	
Terms	Balances	Adjustment	Expected loss rate (%)
Current (not past due)	17,880	(72)	0.40%
1-30 days past due	1,180	(10)	0.88%
31-60 days past due	8,787	(1)	11.41%
61-90 days past due	2	(39)	32.85%
91-180 days past due	1	-	0.00%
More than 180 days past due	695	(609)	91.57%
Individually assessed receivables	3,165	-	0.00%
Total	31,709	(729)	

Trade receivables		31 December 2018	
Terms	Balances	Adjustment	Expected loss rate (%)
Current (not past due)	6,829	-	0.00%
1-30 days past due	896	-	0.00%
31-60 days past due	74	-	0.00%
61-90 days past due	64	-	0.00%
91-180 days past due	-	-	4.08%
More than 180 days past due	1,207	(1,027)	59.79%
Individually assessed receivables	3,168	-	0.00%
Total	12,237	(1,027)	

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31 FINANCIAL RISKS MANAGEMENT (continued)

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 (i.e., undrawn borrowing facilities and cash and cash equivalents) 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 2019

	<u>On demand</u>	<u>< 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>> 5 years</u>	<u>Total</u>
Interest-bearing loans and borrowings	-	71,539	-	82,835	-	154,374
Accounts payable and accrued liabilities	27,901	29,202	-	-	-	57,103
Total	27,901	100,741	-	82,835	-	211,477

Year ended 31 December 2018

	<u>On demand</u>	<u>< 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>> 5 years</u>	<u>Total</u>
Interest-bearing loans and borrowings	-	4,706	67,546	-	-	72,252
Accounts payable and accrued liabilities	25,118	52,312	-	-	-	77,430
Total	25,118	57,018	67,546	-	-	149,682

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).

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31 FINANCIAL RISKS MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

The Management of the Group 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 they 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, 2019	Level 1	Level 2	Level 3
Financial assets				
Trade receivables	30,980	-	-	30,980
Other current assets	9,111	-	-	9,111
Cash and cash equivalents	967	967	-	-
TOTAL FINANCIAL ASSETS	41,058	967	-	40,091
Financial liabilities				
Borrowings, long term and lease liabilities	76,876	-	-	76,876
Trade and other payables	57,103	-	-	57,103
Borrowings, short term and lease liabilities	65,423	-	-	65,423
TOTAL FINANCIAL LIABILITIES	199,402	-	-	199,402

	December 31, 2018	Level 1	Level 2	Level 3
Financial assets				
Trade receivables	11,210	-	-	11,210
Other current assets	7,701	-	-	7,701
Cash and cash equivalents	5,324	5,324	-	-
TOTAL FINANCIAL ASSETS	24,235	5,324	-	18,911
Financial liabilities				
Borrowings, long term and lease liabilities	60,052	-	-	60,052
Trade and other payables	77,430	-	-	77,430
Borrowings, short term and lease liabilities	493	-	-	493
TOTAL FINANCIAL LIABILITIES	137,975	-	-	137,975

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32 CONTINGENCIES AND COMMITMENTS

Legal cases

As at December 31, 2019 and December 31, 2018, 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 provisioned as of those dates (Note 10), 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.

In some circumstances, the fiscal authorities may treat some aspects in a different way by calculating additional taxes, interest and penalties, which can be significant.

In Romania, the fiscal year remains open for tax audit for a period of 5 years. The management considers that the tax liabilities included in these financial statements are adequate. In Sierra Leone the term is 7 years. The group management considers that the tax liabilities included in these financial statements are appropriate.

At 31 December 2019, Alum was subject to fiscal audits from the National Agency for Fiscal Administration regarding the period 2013 - 2018. At the date when these financial statements were approved, the fiscal inspections were not finalized. The Group's management does not expect any significant financial impact from these fiscal audits.

Starting November 2019, the Group subsidiary Sierra Mineral Holdings 1, Limited has been subject to a fiscal audit by the National Revenues Authority (NRA) related to income tax, corporate tax and other taxes of transaction including benefits in kinds as well as tax liability lodgement to NRA, for the period 2017 - 2018. At the date of approval of the consolidated financial statements the fiscal inspection was not completed. The Group management does not estimate a significant financial impact as a consequence of this fiscal audit.

In accordance with the requirements issued by the Romanian 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 Romanian 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.

Environment

For a description of the environmental obligation see Note 17.

Commitments

As of December 31, 2019 the Group has investment commitments for the year 2020 in amount of USD 4,445 thousand (December 31, 2018: USD 4,962 thousand).

The Group has various contracts concluded as of December 31, 2019 for the acquisition in 2020 of raw materials, electricity and other materials and consumables in the amount of EUR 10,123 thousand, USD 72,285 thousand and RON 166,236 thousand, respectively (December 31, 2018: EUR 26,384 thousand, USD 151,245 thousand and RON 18,786 thousand, respectively).

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 only achievement indicator to be pursued by the end of the project, respectively the number of staff in the R & D department that needs to grow by 16 people by March 8th, 2019, was achieved. 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 2024. More details are presented in Note 18.

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32 CONTINGENCIES AND COMMITMENTS (continued)

Commitments (continued)

On 20.09.2019 Alum filed appeal at Tulcea Court against the Decision no. 64411/21.08.2019 issued by Ministry of European Funds - DGPEC, by which were established financial corrections for Alum's final reimbursement request in amount of RON 631 thousand.

33 AUDITOR'S FEE

This note shows the total remuneration payable by the Group and the Company, excluding VAT, to our principal auditors, Ernst & Young Assurance Services SRL for the financial years mentioned below.

	December 31, 2019	December 31, 2018
Statutory audit annual	203	187
Non-audit services	17	16
Total	219	203

34 SUBSEQUENT EVENTS

On 30 December 2019, a government ordinance was issued (the Emergency Ordinance for amending GEO no.115/2011) laying out the framework for a support scheme applicable for 2018 - 2020, which would partly compensate intensive energy users for the high indirect electricity costs incurred since the European Trading Scheme for carbon dioxide emissions was implemented. The State aid scheme is a transposition of the provisions resulting from the EU ETS Guidelines 2012/C 158/ 04. The Company expects to be able to benefit from the application of this scheme in 2020.

In December 2019, China announced the appearance of a new virus originally linked to a market in the city of Wuhan, China. The virus, initially called "the novel coronavirus" and later officially named "Covid-19", affects the respiratory system of humans and is very easily transmitted, which soon led to an epidemics and spread around the world. By the date of approval of this report, over 200,000 of cases were reported worldwide, and nearly 10,000 deaths, which determined governments to take extraordinary measures such limiting the movement of persons and even restricting businesses. It is estimated that the situation might have some negative consequences due to the economic slowdown caused by the temporary closure of businesses and freezing of activities in the most affected countries. In respect of the aluminium industry, a decrease of the aluminium price was registered in 2020, however, the aluminium market has seen even lower quotations in the past, and such volatility is common to the industry, so the level of correlation between the evolution of the epidemics and the evolution of the aluminium price cannot be ascertained. Alro Group has been monitoring the situation from the very beginning of the outbreak, and it has taken all the legal and necessary measures to limit the spread of the virus through its activities. At the date of approval of this report by the Board of Directors, several countries have temporarily closed their borders causing certain disruption to the deliveries from Romania outwards and for imports of some materials from affected countries. However, the Group remains alert to find the best solutions in order to keep potential slowdowns at minimum levels. The management of the Group considers that this is a subsequent event that does not adjust the financial statements for the financial year 2019 and does not change the assumptions for the valuation of assets as of December 31, 2019. The management made a preliminary analysis, taking into account the situation at the date of issuing the financial statements and considers that the principle of continuity of activity continues to be applicable.

ALUM GROUP

Directors' Consolidated Report

- 2019 -

SUMMARY

- 1.1. ALUM GROUP strategy**
- 1.2. Management and organizational culture**
- 1.3. Corporate social responsibility**
- 1.4. Risk management**
- 1.5. Market**
- 1.6. Competition**
- 1.7. The Shareholding and Registered share capital structure**
- 1.8. Contingencies and Commitments**

2.1. Consolidated Balance Sheet for year ending 2019

2.2. Consolidated Profit and Loss Account for 2019

Management Consolidated Report for 2019

Introduction

The ALUM GROUP component entities and the respective shareholding as at 31.12.2019 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;
- Ongoing implementation of the projects for the purchase and installation of the Bokela coarse seed slurry filter and four Gaudfrin vertical filters to ensure filtering control for 1,300 m³/h aluminate liquor;
- Continuation of elevating works for the Red mud pond to +48.5 meters above sea level;
- 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;
- Developing new products and activities.

Financial Highlights

Consolidated Financial Statements		2019	2018
Sales	RON million	861	928
EBITDA ¹	RON million	180	126
EBITDA margin	RON million	20.9%	13.6%
Total assets	RON million	658	576
Shareholder's equity	RON million	375	298
Net debt ²	RON million	141	58
Earning per share	RON	1.02	0.67
Equity per share	RON	4.57	3.63

1.1. ALUM GROUP orientation (continued)

Financial Highlights (continued)

Production

Alumina production	metric tonnes	460,911	571,772
Bauxite production	metric tonnes	1,883,863	1,938,461
Average number of employees		1,523	1,315

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

²Net 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:

The future development projects which ALUM put into commissioning intend to implement are briefly presented below:

1. Projects previously approved and under implementation consisting of:
 - Red mud pipe, length 4.5 km (refinery to red mud pond) ;
 - 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;
 - Acquisition and installation a disc filter for coarse seed;
 - Filtering process control efficiency enhancing by acquiring and installing vertical filters;
 - Different acquisition (PPE, MCE, ENDOWMENTS) approved in 2018;
 - Increasing Alum competitiveness by installing equipment to obtain wet and dry hydrate
2. Projects to ensure operating conditions and safe continuity of the production process (maintenance capex):
 - Increasing the storage capacity of the red mud pond by elevating the height of the perimetral dykes;
 - Increasing recirculated water cooling system capacity of Precipitation Installation;
 - Investments for maintenance and improvement of equipment parameters - Alum (PPE) 2019;
 - Replacing the obsolete equipment, Endowments 2019;
 - Maintenance Capex (Digestion modernization - autoclaves registers and agitators for 1 Digestion and Evaporation batteries);
3. New Investment Objectives:
 - Packaging, storage and distribution of new Alum products;
 - Optimization of steam lines and installing steam traps in 1 Digestion batteries / steam pressure reduction station.

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.

GAL

GAL's main subsidiary Sierra Mineral Holdings 1, Ltd. (SMHL), is responsible for the Group's mining operations and operates bauxite mines located in the Bo, Bonthe and Moyamba districts in the Southern province of the Republic of Sierra Leone on the basis of the Bauxite Mineral Prospecting and Mining Agreement dated 16 July 2012 entered into with the Government of the Republic of Sierra Leone and valid from 1st of January 2012 until 31st of December 2031. SMHL has no ownership right with respect to the plots of land where the bauxite mines or the other facilities are located but owns some production and accommodation facilities in the mining area and in the Nitti port. SMHL operates under a mining lease with a concession area of approximately 321.73 square kilometres.

1.1. ALUM GROUP orientation (continued)

Main development directions of ALUM GROUP (continued)

GAL (continued)

As a vertically integrated producer, the Group sources and uses all of its bauxite from the mines operated in Sierra Leone. SMHL represents one component of the Group's technological flow, being at the base of this integrated production chain: mining of bauxite.

The bauxite obtained by SMHL is sold to Alum to be refined and to produce alumina, the main raw material used for aluminium production in its refinery located in Tulcea, Romania, which further serves in the aluminium production at ALRO.

On 1st of May 2011, Alum completed the acquisition of SMHL, Bauxite Marketing Ltd. and their holding company, Global Aluminium Ltd. SMHL has been the Group's major supplier of bauxite since 2009 and is currently its sole supplier of bauxite.

The Executive Management of SMHL consist of Aleksandr Ivanov (General Manager) and Abdul Bangura (CFO). The Board of Directors comprises three members, as follows: Pavel Machitski (Member), Steluta-Mariana Despa-Niculae (Member) and Roman Bulat (Member).

In 2019, SMHL registered a production of 1,883,863 tonnes of bauxite compared to 1,938,461 tonnes in 2018. In terms of sales, in 2019, SMHL achieved sales which amounted to 1,815,277 tonnes compared to 1,957,280 tonnes in 2018. SMHL took advantage of the market opportunities by selling the surplus of its bauxite to third parties.

SMHL achieved higher unit sales price in 2019 by 2% as SMHL was able to control its operational cost and further improve its efficiency and quality of its products through several technical initiatives and investments that were undertaken during the year.

Some of the main factors that contributed to the good performance of the company in 2019 include:

- a better organisation of the production activity by outsourcing mining, dry beneficiation and transportation activities;
- increasing the operating efficiency through the implementation of a controlled and timely programme of repairs and maintenance for the plants, fleets and equipment used, which directly resulted in a reduction of production losses and increase efficiency;
- making appropriate investments for upgrading the operating equipment, mining, river transportation and in processing and optimisation operations;
- improving the bauxite quality by performing an optimal blend of mined and processed ores as well as investment in New Plants and equipment;
- the company engaged on a continuous process of improving its personnel force by employing better-qualified staff and dropping those that were less efficient or surplus to requirement all geared towards achieving the company's quantitative and qualitative production parameters.

The positive results achieved in 2019 followed the same upward trajectory that began in 2015 and the management is determined, despite the forecasted turbulence in 2020 to do all it can to consolidate and to maintain a profitable business in the foreseeable future.

The Group's subsidiary, SMHL completed in H2 2019 a bankable feasibility study ("BFS") for the construction of an alumina trihydrate plant ("ATH plant") with a startup capacity of 200,000 tonnes per annum within its mining lease – ML/2005 in Sierra Leone.

In February 2019 a pre-feasibility study was achieved and approved by SMHL's shareholders to carry out an onward bankable feasibility study by SMHL. The BFS work was entrusted to Guiyang Aluminium Magnesium Design and Research Institute (GAMI), China in November 2019. The study is expected to be completed by mid-2020, if all goes as per schedule. SMHL team was appointed to ensure the BFS work is carried out diligently and within the given agreed time frame. As a part of this bankable feasibility study, SMHL is carrying out a detailed extensive exploration program in the northern part of SMHL concession to establish bauxite Mineral Resources and Ore Reserves Statement in line with JORC 2012 reporting standard. SMHL team also started other associated supplementary studies including preliminary hydrogeological, geotechnical, infrastructure, market and Rapid Environmental Social Impact Assessment (ESIA) to support the overall BFS for the ATH Project.

1.1. ALUM GROUP orientation (continued)

Main development directions of ALUM GROUP (continued)

GAL (continued)

The exploration campaign is expected to result in a rejuvenated enhanced bauxite mineral resources and ore reserves in the concession.

SMHL will prioritise costs reduction measures in all its operational areas – mining and transportation and sea transshipment operations.

Moreover, the Group's management is closely monitoring the activity in Sierra Leone also, to take necessary measures to improve performance in real-time.

Locally, SMHL is an active member within the communities in Sierra Leone, special attention being paid to the environmental protection, considering the environmental footprint of the mining activity. Through the Community Development Agreement, SMHL can support several investments and social projects for local community development within the mining communities.

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 and 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 requirements 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 authorities.

Thus, in 2019:

- The modernization works have been completed and has been put into operation (after demonstration of operating parameters) for the C2AP boiler No. 1.
- The modernization works were completed and the operating parameters demonstration tests have been finalized for the no. 4 boiler. The steam boiler modernization works were aimed at meeting European standards for NOx emissions below 100 mg / Nm³ (3% O₂) in burned gases.

1.2 Management and organizational culture (continued)

- For the enhancement of the operational safety, the rehabilitation works for the red mud pipe used for the transfer from the plant to the red mud storage area were completed.
- The environmental agreement was obtained for the new project for the increasing height of the dams from the red mud storage area (project made by UTCB Bucharest, Iprolam Bucharest). The works for the first stage of elevation under the new project were started in the second semester of 2019.
- The works to increase the capacity of the Precipitation water cooling system have been finalized. The works consisted in the design, purchase and installation of a new cooling system to ensure the cooling of a water flow of 800 m³/h, from a temperature of 50 degrees Celsius to 30 degrees Celsius.
- The works for the installation of a new flue gas exhaust for the steam boiler no. 2 have been completed, which provide low pressure in the boiler combustion chamber.

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 2019 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 16.48% in the present.
- Financial support for various projects initiated by non-profit associations in activities aimed at involving children in socio-cultural activities (participation of prize-winning students in excursions, supporting students in robotics and IT, chess, promotion and practicing of sports disciplines, program for children and youth education by volunteers, supporting activities for the education of children from disadvantaged families);
- Sponsoring the International Delta & Wetlands 2019 International Symposium - an annual event presenting the latest achievements of researchers in the Danube Delta Biosphere Reserve, which discusses the scientific issues related to the implementation of the European Environmental Directives at national level, such as those related to cross-border and interregional cooperation.
- Sponsorship for the "Rowmania FEST" event - International Rowing Boat Festival organized by the non-profit association "Ivan Patzaichin – Mila 23";
- Collecting funds for providing food and clothes on Easter and Christmas holidays for families with low incomes and many children and for the people from the Nursing Home for Elderly in Tulcea;

1.3 Corporate social responsibility (continued)

- Financial support for the non-profit organization "Casiana" for supporting children suffering from incurable diseases;
- Financial support for the non-profit organization "The Danube Delta psychology center" in the benefit of children with autism and other people in distress;
- Financial support for the non-profit organization "The Association of the blind" in Romania for helping people with visual disabilities.
- 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).

Starting 2017, ALRO Group publishes, in addition to the Annual Report, a Sustainability Report in line with the G4 Core Global Reporting Initiative Guidelines (GRI). This report describes how ALRO Group performs, monitors and achieves the most important environmental, social and corporate governance issues. The Sustainability Report enhances the information provided on the Group, Parent-Company and its main subsidiaries actions realised in the sustainability area in the same transparent manner as the Annual Report and adds value to shareholders, other stakeholders and to the communities in which the Group and its subsidiaries operate.

ALUM is part of ALRO Group and the mandatory requirement for preparing a Sustainability Report (i.e. a Non-Financial Report) is covered by the fact that the Parent-Company, ALRO decided to prepare a Consolidated Non-Financial Report, i.e. ALRO Group's Sustainability Report. This Report is available for the public to consult on ALUM's website.

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 2019 and cover a five-year period. The cash flows beyond the five-year period have been extrapolated until the year 2025, when the tax losses expire, at a 2.2% growth rate in line with the forecast inflation. The main assumptions used in the forecast are the average sales growth of 1.12% per annum (31 December 2018: 1.03% per annum), average EBITDA margin of 17.05% (31 December 2018: 18.74%) and a profit before tax margin of 10.00% per annum (31 December 2018: 11.75% per annum).

As the result of the forecast, the management expects to use an amount of RON 46.188 thousand from total RON 253.202 thousand (31 December 2018: RON 113,715 thousand from total RON 252,746 thousand) 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 EBITDA margin and profit before tax margin. A decrease in the forecasted EBITDA margin by 1.0% would reduce the deferred tax assets by RON 1,900 thousand (31 December 2018: RON 2,200 thousand) and a decrease in the forecasted profit before tax margin by 1.0% would reduce the deferred tax assets by RON 2,400 thousand (31 December 2018: RON 2,700 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.

1.4. Risk management (continued)

Financial risk management (continued)

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, 2019 and December 31, 2018 was as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Total borrowings	142,299	60,545
Less: cash and cash equivalents	(967)	(2,078)
Net debt	141,332	58,467
Total equity	375,162	298,146
Total capital	516,494	356,613
Gearing ratio	27.36%	16.40%

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.

1.4. Risk management (continued)

Foreign currency risk management (continued)

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

	December 31, 2019		December 31, 2018	
	Euro denominated	US Dollars denominated	Euro denominated	US Dollars denominated
	' 000 RON	'000 RON	' 000 RON	'000 RON
Total current assets	20,875	14,081	14,544	8,960
Total non-current assets	-	-	-	-
Total assets	20,875	14,081	14,544	8,960
Total short-term liabilities	38,162	15,384	8,337	33,532
Total long-term liabilities	395	75,089	99	59,953
Total liabilities	38,557	90,473	8,437	93,485

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, 2019		December 31, 2018	
	Euro	US Dollars	Euro	US Dollars
	'000 RON	'000 RON	'000 RON	'000 RON
Profit or loss	1,768	7,639	(611)	8,452
Equity	1,485	6,417	(513)	7,100

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 and on EURIBOR for borrowings in Euro.

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.

1.4. Risk management (continued)

Interest rate sensitivity (continued)

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 1,051 thousand (2018: RON 600 thousand) and the equity would increase/decrease by RON 883 thousand (2018: RON 504 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable interest rate USD 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 2019

	<u>On demand</u>	<u>< 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>> 5 years</u>	<u>Total</u>
Interest-bearing loans and borrowings	-	71,539	-	82,835	-	154,374
Accounts payable and accrued liabilities	27,901	29,202	-	-	-	57,103
Total	27,901	100,741	-	82,835	-	211,477

Year ended 31 December 2018

	<u>On demand</u>	<u>< 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>> 5 years</u>	<u>Total</u>
Interest-bearing loans and borrowings	-	4,706	67,546	-	-	72,252
Accounts payable and accrued liabilities	25,118	52,312	-	-	-	77,430
Total	25,118	57,018	67,546	-	-	149,682

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 they 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, 2019	Level 1	Level 2	Level 3
Financial assets				
Trade receivables	30,980	-	-	30,980
Other current assets	9,111	-	-	9,111
Cash and cash equivalents	967	967	-	-
TOTAL FINANCIAL ASSETS	41,058	967	-	40,091
Financial liabilities				
Borrowings, long term	76,876	-	-	76,876
Trade and other payables	57,103	-	-	57,103
Borrowings, short term	65,423	-	-	65,423
TOTAL FINANCIAL LIABILITIES	199,402	-	-	199,402

1.4. Risk management (continued)

Financial assets and liabilities (continued)

	December 31, 2018	Level 1	Level 2	Level 3
Financial assets				
Trade receivables	11,210	-	-	11,210
Other current assets	7,701	-	-	7,701
Cash and cash equivalents	5,324	5,324	-	-
TOTAL FINANCIAL ASSETS	24,235	5,324	-	18,911
Financial liabilities				
Borrowings, long term	60,052	-	-	60,052
Trade and other payables	77,430	-	-	77,430
Borrowings, short term	493	-	-	493
TOTAL FINANCIAL LIABILITIES	137,975	-	-	137,975

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 2019 Alum and subsidiaries recorded in the Financial Statements a turnover in amount of RON 860,969 th, structured as follows:

✓ Sales of alumina	700,283	th RON
✓ Sales of hydrate	82,150	th RON
✓ Revenues from sales of scrap iron and wastes	878	th RON
✓ Revenues from sales of bauxite	53,859	th RON
✓ Other revenues	23,799	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, 2019	Year ended December 31, 2018
Romania	651,532	612,022
European Union	73,165	107,425
Non-European Countries	40,010	113,586
Other	96,262	94,835
Total	860,969	927,867

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 equipments purchased in 2018 within these investment projects were placed into operation in 2019 and the subsidies received are recognized as income on a straight line basis during the useful life of the equipments.

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, 2019 the shareholding structure of ALUM is as follows:

	Statutory figures					
	December 31, 2019			December 31, 2018		
	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	99.4026
Individuals	487,778	2,902	0.5942	487,778	2,902	0.5942
Companies	2,565	15	0.0031	2,565	15	0.0031
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, 2019 and December 31, 2018 are as follows:

Subsidiary	December 31, 2019		December 31, 2018	
	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, 2019 and December 31, 2018, 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.

1.8. Contingencies and Commitments (continued)

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.

In some circumstances, the fiscal authorities may treat some aspects in a different way by calculating additional taxes, interest and penalties, which can be significant.

In Romania, the fiscal year remains open for tax audit for a period of 5 years. The management considers that the tax liabilities included in these financial statements are adequate. In Sierra Leone the term is 7 years, and the last control by the tax authorities at the Group subsidiary in Sierra Leone took place in September 2019. The group management considers that the tax liabilities included in these financial statements are appropriate.

At 31 December 2019, the Company was subject to fiscal audits from the National Agency for Fiscal Administration regarding the period 2013 - 2018. At the date when these financial statements were approved, the fiscal inspections were not finalized. The Company's management does not expect any significant financial impact from these fiscal audits.

Starting November 2019, the Group subsidiary Sierra Mineral Holdings 1, Limited has been subject to a fiscal audit by the National Revenues Authority (NRA) related to income tax, corporate tax and other taxes of transaction including benefits in kinds as well as tax liability lodgement to NRA, for the period 2017 - 2018. At the date of approval of the consolidated financial statements the fiscal inspection was not completed. The Group management does not estimate a significant financial impact as a consequence of this fiscal audit.

In accordance with the requirements issued by the Romanian 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 Romanian 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, 2019 the Group has investment commitments for the year 2020 in amount of USD 4,445 thousand (December 31, 2018: USD 4,962 thousand).

The Group has various contracts concluded as of December 31, 2019 for the acquisition in 2020 of raw materials, electricity and other materials and consumables in the amount of EUR 10,123 thousand, USD 72,285 thousand and RON 166,236 thousand, respectively (December 31, 2018: EUR 26,384 thousand, USD 151,245 thousand and RON 18,786 thousand, respectively).

2.1. Consolidated Balance Sheet for year ending 2019

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>Variance</u> <u>2019/2018</u>
ASSETS			
Non-current assets			
Property, plant and equipment	282,695	258,557	24,138
Intangible assets	249	471	(222)
Goodwill	78,450	75,003	3,447
Deferred tax	25,873	44,382	(18,509)
Other non-current assets	<u>2,660</u>	<u>-</u>	<u>2,660</u>
Total non-current assets	<u>389,927</u>	<u>378,413</u>	<u>11,514</u>

This is a free translation from the official Romanian version

	December 31, 2019	December 31, 2018	Variance 2019/2018
Current assets			
Inventories	226,492	173,321	53,171
Trade receivables	30,980	11,210	19,770
Other current assets	9,111	7,701	1,410
Cash and cash equivalents	1,891	5,324	(3,433)
Total current assets	268,474	197,556	70,918
Total assets	658,401	575,969	82,432
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	488,413	488,413	-
Reserves	47,545	46,959	586
Accumulated deficit	(160,796)	(237,226)	76,430
Equity attributable to owners of the Entity	375,162	298,146	77,016
Total equity	375,162	298,146	77,016
Non-current liabilities			
Borrowings	75,089	59,953	15,136
Finance lease liabilities, non-current	1,787	99	1,688
Retirement benefit obligation	7,059	6,746	313
Provisions, long term	35,367	31,567	3,800
Government grants, non-current portion	4,956	4,520	436
Other non-current liabilities	517	1,405	(888)
Total non-current liabilities	124,775	104,290	20,485
Current liabilities			
Trade and other payables	55,152	77,430	(22,278)
Borrowings	64,688	300	64,387
Finance lease liabilities, current	736	193	543
Current income tax	2,552	4,921	(2,369)
Provisions	-	3,009	(3,009)
Government grants, current portion	379	323	56
Other current liabilities	34,957	87,357	(52,400)
Total current liabilities	158,464	173,533	(15,069)
Total liabilities	283,239	277,823	5,416
Total equity and liabilities	658,401	575,969	82,432

2.2. Consolidated Statement of Comprehensive Income for year ending 2019

At the end of 2019, Alum Group recorded a profit in amount of 83,444 KRON.

	2019	2018	Variance 2019/2018
Revenues from contracts with customers	860,969	927,867	(66,898)
Cost of sales	(721,789)	(758,902)	37,113
Gross profit	139,180	168,965	(29,785)
Other operating income	81,199	3,460	77,739
Impairment of property plant and equipment	36	6	30
Administrative expenses	(77,305)	(79,101)	1,796
Other operating expenses	(7,471)	(3,507)	(3,964)
Other gains/(losses)	(2,688)	(2,746)	58
Finance revenue	10	2,325	(2,315)
Finance cost	(10,239)	(6,191)	(4,048)
Finance result, net	(10,229)	(3,866)	(6,363)
Profit before income taxes	122,722	83,211	39,511
Income tax expense	(39,278)	(27,840)	(11,438)
(Loss)/profit for the period	83,444	55,371	28,073
(Loss)/profit per share	1.02	0.67	

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

**General Director
D. Sc eng. Dobra Gheorghe**

**Finance Director
Ec. Duralia Mihaela**