

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TMK Artrom SA

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the consolidated and separate financial statements of TMK Atrom SA (the Company) with official head office in Slatina Draganesti, 30, Ilt County, identified by sole fiscal registration number 1510210, which comprise the consolidated and separate statement of financial position as at December 31, 2018, December 31, 2017 December 31, 2016, and the consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the separate and consolidated financial position of the Company as at December 31, 2018, December 31, 2017, December 31, 2016, and of its separate and consolidated financial performance and its separate and consolidated cash flows for the years then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

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 consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated and separate financial statements" section of our report, including in relation to these

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matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate 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 and separate financial statements.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="178 533 448 562">Inventory allowances</p> <p data-bbox="178 589 1458 663">TMK Artroms's disclosure about inventories, including the related allowance, are included in Note 3 and 19.</p> <p data-bbox="178 678 820 954">As at 31 December 2018 the Company had recorded in the consolidated and separate financial statements, inventory of RON 325,869 thousand, and RON 214,092 thousand, net of allowances of RON 17,774 thousand and RON 9,075 thousand respectively as presented by the Company in Note 19 to the consolidated and separate financial statements.</p> <p data-bbox="178 987 836 1435">The identification and determination of the inventory allowance requires management to make judgements and assumptions and represents a process with a significant level of uncertainties. The main assumptions used by management in evaluating the level of the allowance for finished goods, semi-finished goods and work in progress include factors such as ageing of inventories, determining the net realizable value by reference to future sales, market prices of pipes and steel and market trends, whose volatility is affecting the cost of raw material and the selling price of the finished goods.</p> <p data-bbox="178 1469 836 1574">For raw materials, specific analysis is made, considering the obsolescence and alternative future uses of the elements in the closing balance.</p> <p data-bbox="178 1608 836 1709">Due to the significance of inventory balances and the related estimation uncertainty in determining the allowance, this is considered a key audit matter.</p>	<p data-bbox="847 667 1477 954">Our audit procedures included, among others, attending the annual stock count and observing the physical condition of inventories, analysis of stock movement during 2018 and review of the forecasts regarding the usage or sale of old inventories, evaluating the analysis made by the management on the assumptions underlying the calculation of the net realizable value, and testing the calculation of inventory allowance.</p> <p data-bbox="847 987 1495 1274">In respect of testing the net realizable value of inventories, our audit procedures focused on analyzing the sales made in 2018 and the first month of 2019, evaluation of the budgets of the Company and the forecasts available regarding the market price evolution for raw materials and products corroborated with the relevant information about the market and business plans of the Company.</p> <p data-bbox="847 1308 1495 1402">We also reviewed the adequacy of disclosures included in the consolidated and separate financial statements.</p>

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Key audit matter	How our audit addressed the key audit matter
<b>Recoverability of the carrying value of property, plant and equipment held by TMK Resita</b>	
<p>TMK Artrom's Group's disclosures in the consolidated financial statements about recoverability of the carrying value of property, plant and equipment, are included in Note 15.</p>	
<p>The Group holds 99,99% of TMK Resita SA, a subsidiary which manufactures the main raw material for TMK Artrom SA.</p>	<p>We evaluated and tested management's assessment of the triggers for potential impairment as well as assessment of the recoverability of the carrying value of property, plant and equipment recorded in TMK Resita subsidiary.</p>
<p>The carrying value of the TMK Resita property, plant and equipment included in the consolidated financial statements amounted to RON 484 million as at 31 December 2018.</p>	<p>Our work included, but was not limited to the following procedures:</p>
<p>Under the International Financial Reporting Standards, an entity is required to assess whether triggers for potential impairment exist. The assessment of whether there is an indication that an asset may be impaired, and assumptions used in the impairment analysis require significant judgement.</p>	<ul style="list-style-type: none"> <li>- obtained the business plans and budgets of TMK Resita SA and reconciled input data to supporting evidence</li> <li>- assessed the historical accuracy of management's budgets and forecasts (in terms of production volumes and operating costs) by comparing them to actual performance</li> <li>- compared the assumptions used within the future cash flow models to approved budgets and business plans</li> <li>- evaluated the key assumptions applied in the estimated future cash flows, such as expected sales prices, production/sales volumes, cost and expenses, working capital changes, by analysing their consistency with the general and industry-specific economic environment and relevant available market information</li> <li>- checked the mathematical accuracy of management's cash flow model and its conformity with the requirements of the International Financial Reporting Standards</li> <li>- reviewed the management's sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes;</li> <li>- involved of our internal valuation specialist to assist us in the evaluation of key assumptions and methodology used for the determination of the discount rate and review of sensitivity analysis</li> <li>- assessed the adequacy of the disclosures included in the financial statements</li> </ul>
<p>The management has carried out an impairment assessment of triggers for potential impairment and an assessment of the recoverability of TMK Resita SA non-current assets taking into account the recurring losses incurred in previous years and the cyclical nature of the industry, which resulted in no impairment adjustment to be recorded as at 31 December 2018.</p>	
<p>We focused on this matter because of the significance of carrying value of property, plant and equipment in the consolidated financial statements and significant judgements in relation to the assumptions used in the impairment assessment.</p>	

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## Other information

The other information comprises the Stand Alone and Consolidated Report of Administration which includes the Sustainability report - Consolidated Non-Financial Statement, but does not include the consolidated and separate financial statements and our auditors' report thereon. Management is responsible for the other information.

Our audit opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate 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 and separate 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.

## Responsibilities of Management and Those Charged with Governance for the Consolidate and Separate Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the Order of the Minister of Public Finance no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate 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.

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

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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

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error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 consolidated and separate 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.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

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.

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.

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

## **Report on Other Legal and Regulatory Requirements**

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### **Reporting on Information Other than the Consolidated and Separate Financial Statements and Our Auditors' Report Thereon**

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

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- a) in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated and separate financial statements as at December 31, 2018;
- b) the Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 - 19;
- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated and separate financial statements as at December 31, 2018, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.

**Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council**

**Appointment and Approval of Auditor**

We were appointed as auditors of the Company by the General Meeting of Shareholders on 25 April 2018 to audit the consolidated and separate financial statements for the financial year end December 31, 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 8 years, covering the financial periods end December 31, 2011 till December 31, 2018.

**Consistency with Additional Report to the Audit Committee**

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 15 February 2019.

**Provision of Non-audit Services**

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services which were provided by us to the Company, and its controlled undertakings

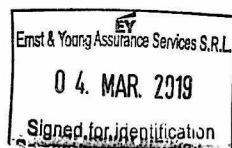
On behalf of,

**Ernst & Young Assurance Services SRL**

15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania  
Registered in the electronic Public Register under No. 77

Name of the Auditor/ Partner: Sebastian Mocanu  
Registered in the electronic Public Register under No. 1603

Bucharest, Romania



4 March 2019

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