

# TMK-ARTROM S.A.

Financial statements prepared in  
accordance with regulations of OMFP no.  
1286/2012, with following changes and  
additions

**31 DECEMBER 2013**

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**TMK ARTROM S.A.**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**as of 31 December 2013**

(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Notes	2013 RON	2012 Restated RON
Turnover	5	876,753,359	909,412,618
<i>Sales of goods</i>	5	876,030,093	908,619,493
<i>Rendering of services</i>	5	723,266	793,125
Cost of sales	6	(755,644,521)	(751,962,464)
<b>Gross profit</b>		<b>121,108,838</b>	<b>157,450,154</b>
Selling and distribution expenses	7	(58,963,396)	(56,427,385)
Advertising and promotion expenses	8	(152,808)	(771,325)
General and administrative expenses	9	(28,491,511)	(25,869,041)
Research and development expenses	10	(184,654)	(225,488)
Other operating expenses	11.2	(4,549,565)	(5,835,653)
Other operating income	11.1	263,828	162,770
<b>Income from operations</b>		<b>29,030,732</b>	<b>69,484,032</b>
Foreign exchange (loss) / gain, net		(3,866,984)	(6,634,805)
Finance income	11.4	77,552	1,289,336
Finance costs	11.3	(12,055,662)	(13,266,127)
Gains / (losses) on financial instruments		(61,908)	51,158
<b>Profit before tax</b>		<b>13,123,730</b>	<b>50,923,594</b>
Income tax	12	(1,302,344)	(8,429,962)
<b>Profit for the year</b>		<b>11,821,386</b>	<b>42,493,632</b>
<b>Other comprehensive income - which can be reclassified in retained earnings</b>			
Net movement on cash flow hedges	16	111,752	(111,752)
Income tax effect	12	(17,880)	17,880
<b>Other comprehensive income - which cannot be reclassified in retained earnings</b>			
Actuarial (gains)/losses arising from changes in financial assumptions		(1,373,902)	-
<b>Other comprehensive income (loss) for the year, net of tax</b>		<b>(1,280,030)</b>	<b>(93,872)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>10,541,356</b>	<b>42,399,760</b>
Average number of shares		116,170,334	116,224,307
<b>Earnings per share</b>		<b>0.10</b>	<b>0.37</b>

**TMK ARTROM S.A.**  
**STATEMENT OF FINANCIAL POSITION**  
**as of 31 December 2013**

(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Note	2013 RON	2012 RON
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	21	1,667,297	30,463,476
Trade and other receivables	19	208,789,369	184,505,121
Inventories	18	152,427,445	150,416,733
Prepayments	20	132,894,909	84,294,462
Derivative financial instruments	16.1.	-	51,158
Other current assets	21	-	500,000
		<b>495,779,020</b>	<b>450,230,950</b>
<b>Non - current assets</b>			
Intangible assets	15	187,081	150,387
Property, plant and equipment	14	443,593,736	430,450,672
Other non-current assets	17	3,505,132	5,035,531
		<b>447,285,949</b>	<b>435,636,590</b>
<b>Total assets</b>		<b>943,064,969</b>	<b>885,867,540</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	24	82,396,203	64,416,095
Advances from customers	24	938,883	1,002,696
Provisions and accruals	26	4,297,180	4,048,876
Interest-bearing loans and borrowings	16.2.	173,996,492	40,148,998
Financial leasing	16.2.	647,014	651,423
Derivative financial instruments (liabilities)	16.2.	-	101,002
Income tax payable	24	2,406,829	2,545,168
<b>Total current liabilities</b>		<b>264,682,601</b>	<b>112,914,258</b>
<b>Non - current liabilities</b>			
Interest-bearing loans and borrowings	16.2.	192,998,018	295,470,273
Financial leasing	16.2.	162,639	696,577
Deferred tax liability	12	39,335,628	42,886,145
Provisions and accruals	26	210,122	210,122
Post-employment benefits	23	2,851,708	2,750,264
Other long - term liabilities	16.2.	23,078	234,257
<b>Total non - current Liabilities</b>		<b>235,581,193</b>	<b>342,247,638</b>
<b>Total liabilities</b>		<b>500,263,794</b>	<b>455,161,896</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
<b>Share capital, from which:</b>		<b>291,587,538</b>	<b>899,681,339</b>
- Subscribed and paid share capital	22	291,587,538	291,587,538
- Adjustments of share capital	22	-	608,093,801
Other components of equity	22	(1,373,902)	(93,872)
Other reserves	22	13,434,393	12,778,207
Retained earnings	22	127,331,760	(524,153,662)
Profit of the year		11,821,386	42,493,632
<b>Total equity</b>		<b>442,801,175</b>	<b>430,705,644</b>
<b>Total liabilities and equity</b>		<b>943,064,969</b>	<b>885,867,540</b>

**TMK ARTROM S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
**as of 31 December 2013**

(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Issued capital	Other reserves_Legal reserves	Other reserves_Other than legal reserve	Retained earnings	Other elements of equity_Cash flow hedge reserve	Other elements of equity_from applying IAS 19R	Total equity
	RON	RON	RON	RON	RON	RON	RON
<b>For the year ended at 31 December 2013</b>							
<b>As at 1 January 2013</b>	<b>899.681.339</b>	<b>11.920.654</b>	<b>857.554</b>	<b>(481.660.030)</b>	<b>(93.872)</b>	<b>-</b>	<b>430.705.643</b>
Profit of the year	-	-	-	11.821.386	-	-	<b>11.821.386</b>
Other income / (loss) for the year, net of tax	-	-	-	-	93.872	(1.373.902)	<b>(1.280.030)</b>
<b>Total comprehensive income</b>	-	-	-	<b>11.821.386</b>	<b>93.872</b>	<b>(1.373.902)</b>	<b>10.541.356</b>
Adjustment of share capital	(608.093.801)	-	-	608.093.801	-	-	-
Actuarial operations IAS 19 revised	-	-	-	1.554.175	-	-	<b>1.554.175</b>
Set-up of reserves from profit of the year	-	656.186	-	(656.186)	-	-	-
<b>At 31 December 2013</b>	<b>291.587.538</b>	<b>12.576.840</b>	<b>857.554</b>	<b>139.153.146</b>	<b>-</b>	<b>(1.373.902)</b>	<b>442.801.175</b>
<b>For the year ended at 31 December 2012</b>							
<b>As at 1 January 2012</b>	<b>899.884.549</b>	<b>9.374.474</b>	<b>847.998</b>	<b>(521.607.483)</b>	<b>-</b>	<b>-</b>	<b>388.499.537</b>
Profit of the year	-	-	-	42.493.632	-	-	<b>42.493.632</b>
Other income / (loss) for the year, net of tax	-	-	-	-	(93.872)	-	<b>(93.872)</b>
<b>Total comprehensive income</b>	-	-	-	<b>42.493.632</b>	<b>(93.872)</b>	-	<b>42.399.760</b>
Share capital decrease	(203.210)	-	9.556	-	-	-	<b>(193.654)</b>
Set-up of reserves from profit of the year	-	2.546.180	-	(2.546.180)	-	-	-
<b>At 31 December 2012</b>	<b>899.681.339</b>	<b>11.920.654</b>	<b>857.554</b>	<b>(481.660.030)</b>	<b>(93.872)</b>	<b>-</b>	<b>430.705.644</b>

**TMK ARTROM S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
**as of 31 December 2013**

*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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In April 2013, according to the approval of General Meeting of Shareholders from 26.04.2013 it was accounted the covering of reported losses, resulted from beginning to apply IFRS as well as applying IAS 29 for the first time, from share capital adjustments (inflation period 1990-2003 and amounts recognized according to IFRS), in amount of RON 608,093,801 and from retained earnings representing the realized surplus from revaluation of reserves made after 01.01.2004 taxed in the income tax statement according to OUG 34/2009 starting with 01.05.2009, elements of taxable revenues (8 months 2009 + 2010 + 2011) in amount of RON 8,046,809.

The Company applied IAS 19 revised and it rectified the amount of post-employment benefit liability by excluding components that were related to short-term benefits granted to employees, not included in definition of post-employment benefit. This determinates the reduction of the obligation for actuarial provision calculated for employee benefits at 31.12.2012 on account of retained earnings in amount of RON 1,145,606.

The Company transferred the actuarial losses accumulated in previous years (period 2007-2012) in other items of equity on account of retained earnings in amount of RON 408,569 according IAS 19 revised.

At 31 December 2013 in other items of equity were recognized actuarial obligations due to the changes or financial assumptions and due to the benefits payable at retirement date for previous years in amount of RON 965,333.

**TMK ARTROM S.A.****CASH FLOW STATEMENT****as of 31 December 2013***(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

Indirect method	Note	1 January - 31 December 2013 RON	1 January - 31 December 2012 RON
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit / (Loss) before tax</b>		<b>13,123,730</b>	<b>50,923,594</b>
<b>Plus / minus adjustments for:</b>			
Depreciation	14, 15	27,257,808	27,388,970
Increase / reversal of provisions	26	(41,148)	1,332,939
Increase / reversal of allowances for current assets	18, 19	239,018	5,430,147
Exchange rate differences		1,039,637	7,429,755
Variation of retirement benefits	23	281,717	738,188
Result from disposal of non-current assets		3,716,996	3,354,740
Interest and related expenses, net	11	11,978,110	11,070,732
Other non-monetary items from hedge	16	61,908	(51,157)
<b>Plus / minus adjustments for changes in working capital related to operating activities:</b>			
Decrease / (increase) in inventories		(2,739,386)	(40,866,165)
Decrease / (increase) in trade and other receivables and prepayments		(71,442,714)	24,069,309
(Decrease) / increase in payables (except banks)		10,331,459	(25,147,103)
<b>less:</b>			
Interest paid		(12,129,739)	(12,425,404)
Income tax paid		(738,786)	-
<b>Total inflows / (outflows) from operating activities (a)</b>		<b>(19,061,390)</b>	<b>53,248,545</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Amount received from disposal of non-current assets		105,445	2,913
Purchase of tangible and intangible assets	14, 15	(38,539,223)	(31,127,764)
Repayment of given loans		-	48,434,445
Interest received		77,552	1,281,361
<b>Total inflows / (outflows) from investing activities (b)</b>		<b>(38,356,226)</b>	<b>18,590,955</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loans received		127,287,799	-
Repayment of loans		(97,892,458)	(50,698,327)
Repayment of finance leases (amortization)		(773,904)	(695,779)
<b>Total inflows / (outflows) from financing activities (c)</b>		<b>28,621,437</b>	<b>(51,394,106)</b>
<b>Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c)</b>		<b>(28,796,179)</b>	<b>20,445,394</b>
<b>Cash and cash equivalents at beginning of period</b>	21	<b>30,463,476</b>	<b>10,018,082</b>
<b>Cash and cash equivalents at end of period</b>	21	<b>1,667,297</b>	<b>30,463,476</b>

**TMK ARTROM S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2013**

*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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## **1. CORPORATE INFORMATION**

These financial statements of TMK ARTROM S.A. (the "Company") for the year ended at 31 December 2013 have been prepared in accordance with Order no. 1286/2012 for approving the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent amendments and clarifications and authorized for issue in accordance with the resolution of the Administrators dated 24 March 2014.

The Company has no subsidiaries or associates, and, therefore, it prepares only standalone financial statements. Standalone financial statements are consolidated at the parent entity, OAO TMK, headquartered in Moscow, Russian Federation. TMK Group's consolidated financial statements are available for public inspection at [www.tmk-group.com](http://www.tmk-group.com).

TMK ARTROM S.A. is registered in Slatina 30th Draganesti Street, Olt County, Oltenia, Romania. The plant produces seamless pipes for industrial applications, including for the mechanical engineering and automotive industry.

TMK Artrom has today an important share of the European market for industrial seamless pipes representing mechanical pipes, hydraulic cylinders, automotive and energetically pipes. More than 80% of the plant's output is intended for sales outside of Romania, mainly within other EU countries, USA, and Canada.

### **2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

These financial statements are presented in Romanian Lei ("RON"). The financial statements have been prepared under the historical cost convention, except for derivative financial instruments that were measured at fair value.

The financial statements, for the year ended 31 December 2012, were the first statement that the entity prepared in accordance with the Order of the Minister of Public Finance no. 1286/2012 approving the accounting regulations compliant with the International Financial Reporting Standards ("IFRS") applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent modifications and clarifications. The financial statements for the year ended as of 31 December 2013 are therefore prepared in accordance with same preparation basis.

#### **Statement of Compliance**

Standalone financial statements of the entity have been prepared in accordance with Order no. 1286/2012 for approving the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent amendments and clarifications. These provisions are in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), except as provided in IAS 21 The Effects of Changes in Foreign Exchange Rates on functional currency and except IAS 29, due to the offsetting of losses from transition to IFRS as well as from adopting for the first time IAS 29 from adjustments of share capital (inflation period 1990-2003 and amounts recognized according IFRS), in amount of RON 608,093,801.

In order to prepare these financial statements in accordance with the laws of Romania, the functional currency of the entity is considered Romanian Leu (RON).



**2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a) Basis of preparation and statement of compliance**

The financial statements of the Company at 31 December 2013 are prepared in accordance with the provisions of Order of the Minister of Public Finance no. 1286/2012 approving the accounting regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent modifications and clarifications. These provisions are aligned with the requirements of the International Financial Reporting Standards as endorsed by the European Union, with the exception of the provisions of IAS 21 The Effects of Changes in Foreign Exchange Rates regarding the functional currency.

**b) Going concern**

The financial statements of the Company are prepared on a going concern basis.

**c) Transactions in foreign currencies**

For the purposes of the preparation of these financial statements, in accordance to Romanian legislative requirements, the functional currency of the Company is deemed to be the Romanian Leu (RON).

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Exchange rate for 1 unit of foreign currency:

	<u>31 December 2012</u>	<u>31 December 2013</u>
1 EUR	4.4287	4.4847
1 USD	3.3575	3.2551

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

**d) Significant accounting judgments, estimates and assumptions**

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of the assets or liabilities affected in the future periods.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

## **2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

For details regarding significant accounting judgments, estimates and assumptions, please refer to Note 3.

### **e) Financial instruments**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Company determines the classification of its financial assets and liabilities at initial recognition.

The Company's financial assets include cash and cash equivalents, trade and other receivables (including loans granted to related parties) and derivative instruments. Financial liabilities include trade and other payables, interest bearing borrowings, finance lease obligations and derivative instruments.

For financial assets at fair value through profit and loss, gains and losses arising from changes in fair value are included in net profit or loss for the period.

Derivative financial instruments include forward contracts for foreign currencies; their use is made in connection with risk management defined by the Company. These derivative financial instruments are designated as cash flow hedges. The hedged risk is fluctuation of the foreign currency in which external sales are denominated. The Company evaluates the hedge effectiveness at the commencement of the cash flow hedge transaction and performs a quarterly assessment, testing prospectively or retrospectively. The effective portion of the changes in the fair value of such cash flow hedge instruments is recognized in other comprehensive income, while the ineffective portion is recognized in profit and loss. When the forecast transaction no longer occurs, the cumulative gain or loss is recognized in the comprehensive income and is recycled through profit or loss. If the hedging instrument expires or is sold and it is not replaced with another hedging instrument, or if its designation as a cash flow hedge is revoked, any cumulative gain or loss previously recognized in comprehensive income, remains separately in equity, until the forecast transaction will occur. When forecasted transaction occurs, the gains or losses previously recognized in other comprehensive income are transferred to the income statement.

Initially, financial instruments are recognized at their fair value plus transaction costs directly attributable to the acquisition or issue of financial instruments unless the financial instruments are at fair value through profit or loss.

Subsequently, financial assets and liabilities are measured according to the category to which they are classified, as follows:

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as during the amortization process.

## **2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### *Loans and borrowings*

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as during the amortization process.

### *Derivative financial instruments*

Derivative financial instruments, such as foreign currency exchange contracts and interest rate swap contracts, are measured at fair value. Derivative financial instruments are classified as held for trading unless they are designated as hedging instruments, for which hedge accounting is applied. Changes in the fair value of derivative financial instruments are recognized periodically either in profit or loss or, in the case of a cash flow hedge, in other components of equity, net of applicable deferred income taxes.

### *Amortized cost*

Amortized cost for financial assets and liabilities is computed using the effective interest method. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

### *Derecognition of financial instruments*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired; or the Entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Entity has transferred substantially all the risks and rewards of the asset, or (b) the Entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is paid or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such a change or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognized in the profit and loss.

### *Offsetting of financial instruments*

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

## **2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **f) Impairment of financial assets**

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets than can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter in bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In relation to trade receivables, a provision for impairment is set when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts payable under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

Within the Entity, the adjustments for impairment related to clients 90 day outstanding is computed according to five risk categories:

A	= Companies with temporary problems	0 %;
B	= Steady companies	15%;
C	= Unsteady companies	30%;
D	= Companies in a pre-bankruptcy stage	50%;
E	= Bankrupt companies	100%.

For 100% risks, a provision for all recorded client invoices not received is set, not only for those 90 day outstanding.

The classification into the five categories will be made as follows:

A = Companies with temporary problems 0%;

We have the debtors' assurance that the payment will be made at once. The payment was not made for technical reasons (the invoice was issued late, or it was incorrectly prepared, but the client always pays on time. The document included errors.)

B = Steady companies 15%

The debtor's financial situation shows that they have enough resources to make the payment, they guarantee the payment will be made and mention the payment term and have liquid assets. They have not been sued because intensive work is conducted with them and the payment schedule was prepared.

A 15% risk is assigned when the payment schedule is prepared and several amounts have been paid. The department in charge with the receivables has enough information (Balance Sheet, Income Statement) and the Financial Department can perform a financial analysis on these clients.

C = Unsteady companies 30%

Following analysis of the financial situation and the feedback to the request to pay the debt, the management has decided to initiate legal proceedings. The attorneys are confident they will win. All clients sued are classified in the C category. If the financial analysis shows they have the sources to make the payment and choose not to make it, they will be classified as:

D = Companies in a pre-bankruptcy stage 50%

All actions to receive the debts have been taken by the Financial and Legal Departments. Debt collection has been transferred to the Security Service and the probability to receive the debts is possible and/or

**2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

likely. When the client is in this situation, it is virtually impossible to receive the debt (the company Security Service is in charge).

E = Bankrupt companies 100%

In this case, a provision for the entire receivable of the client, regardless of the maturity, is set.

The analysis prepared by the Legal Department for each individual case and the commercial analysis of internal and external clients will be attached.

The case will be submitted to the Company Management and the Board of Directors for approval.

No provisions are set for affiliates.

**g) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment in the financial statements of the Company.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put to operation, such as repairs and maintenance are charged to Statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Construction in progress represents plant and properties under construction and is stated at cost, less any impairment loss. This includes cost of construction and other direct costs.

Depreciation of property, plant and equipment except land and construction in progress, commences when the assets are ready for their intended use.

Depreciation for property, plant and equipment except land and construction in progress is computed using the straight-line method over the following estimated useful lives.

Buildings and other constructions	9 to 60 years
Machinery and other equipment	2 to 42 years
Motor vehicles and other industrial conveyors	4 to 20 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

**h) Intangible assets**

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their entire estimated useful lives.

## **2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets have the following useful lives:

Software and licenses	1-5 years
Other intangible assets (development costs)	3 years

### **Research and development costs**

Research is recognized as an expense; development costs are recognized either as expenses, when they are incurred, or capitalized if they meet the definition of an intangible asset. Development costs for a project are recognized as intangible assets, if such expenditure satisfies the criteria in IAS 38 for recognizing it as an intangible asset.

The Company requires:

- (a) recognition as an expense when incurred, if it is research expenditure;
- (b) recognition as an expense when incurred, if it is development expenditure that does not satisfy the criteria in IAS 38 for recognizing such expenditure as an intangible asset; and
- (c) recognized as an intangible asset, if it is development expenditure that satisfies the criteria in IAS 38 for recognizing such expenditure as an intangible asset.

After the initial recognition of the development expense, for the respective intangible assets it is used cost model – measure the intangible asset at cost, less any accumulated amortization and impairment loss. The amortization of the intangible asset begins when the development activity is finalized and the asset is available for use. The useful life is the period in which the asset will generate economic benefits.

The amortization is recognized either under cost of sales, general and administrative, selling and distribution (other operating expense), depending on the usage of the respective asset.

Carrying value of each intangible asset is revised annually and it is impaired if necessary by the Company, in accordance with the information from note i) below. External and internal costs associated with maintenance of software programs already existing are registered as incurred.

#### **i) Impairment of non-financial assets**

At each reporting date the Company reviews the carrying amounts of its property, plant and equipment 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.

The 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 time value of money and 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 assets (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

## **2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

When an impairment loss subsequently reversed, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

### **j) Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

The expense related to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

### **k) Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases. Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

### **l) Subsidies / government grants**

The subsidies are recognized when there is a reasonable assurance that the amount will be collected and all the conditions are met. When the grant relates to an expense item, it is recognized as the decrease of respective expenses over the periods when the costs, which it is intended to compensate, are incurred.

## **2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **m) Inventories**

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost comprises the acquisition cost and other costs that have been incurred in bringing the inventories to their present location and condition and is determined by weighted average method for all the inventories.

Finished goods and work in progress comprise of cost of direct materials and labor and a proportion of manufacturing overheads, allocated based on the quantity produced.

### **n) Cash and cash equivalents**

Cash includes cash on hand, cash with banks and checks in course of being cashed. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with remaining three months or less to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

### **o) Revenue recognition**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Revenues from sales of inventory are recognized when significant risks and rewards of ownership of goods have passed to the buyer. Revenues arising from rendering of services are recognized in the same period when the services are provided.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, revenue is measured at the fair value of goods or services provided.

### **p) Post-employment benefits and other long term employee benefits**

#### **Short-term employee benefits**

Short-term employee benefits paid by the Company include wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits (such as medical care). Such employee benefits are accrued in the year in which the associated services are rendered by employees of the Company.

#### **Defined benefit pension plans**

The Company provides post-employment and other long-term benefits to their employees (lump-sum post-employment payments and payments in case of death.). All post-employment benefit plans are unfunded. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements. The liability recognized in respect of post-employment and other long-term employee benefits is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognized past-service costs. Defined benefit obligation is calculated by external consultants using the projected unit credit method.

All actuarial gains and losses, according to IAS 19 Revised, will be recognized in other comprehensive income in the period in which they will occur for all defined benefit plans.



## **2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **q) Taxes**

#### **► Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### **► Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

## **2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

### **► Sales tax**

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

- Where the sales 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
- Receivables and payables that are stated with the amount of sales tax included.

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

### **r) Dividends**

Dividends are recorded in the year in which they are approved by the shareholders.

### **s) Contingencies**

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Company'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.

### **Judgments**

The management of the Company decided that its functional currency is the RON considering the following aspects:

- The Company records costs mostly in the national currency RON;
- The Company records revenues in a proportion of 21% in the national currency RON, and the other revenues recorded in EUR and USD.

### **Estimates and assumptions**

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 described below.

**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)****➤ 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. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, 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 does not establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates.

All amounts due to State authorities for taxes have been paid or accrued at the balance sheet date. The Romanian tax system undergoes a consolidation process and is being harmonized with the European legislation. Different interpretations may exist at the level of the tax authorities in relation to the tax legislation that may result in additional taxes and penalties payable. Where the State authorities have findings from reviews relating to breaches of Romania's tax laws, and related regulations these may result in: confiscation of the amounts in case; additional tax liabilities being payable; fines and penalties (those are applied on the total outstanding amount). As a result the fiscal penalties resulting from breaches of the legal provisions may result in a significant amount payable to the State.

**➤ Pension benefits**

The cost of the defined benefit pension plan and other post-employment benefits 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, mortality rates and future pension increases. Due to the complexity of 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. Sensitivity analysis is disclosed in note 23.

**➤ Fair value of financial instruments**

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES**

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2013:

- IAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income.
- IAS 19 Employee Benefits (Revised)
- IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities
- IFRS 13 Fair Value Measurement
- Annual Improvements to IFRSs – 2009 – 2011 Cycle

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

- **IAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The effect of this amendment is the change in disclosures for OCI.

- **IAS 19 Employee Benefits (Revised)**

IAS 19 initiates a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. In case of the Company, the effect of this amendment is the reduction of the obligation on the actuarial provision calculated for employee benefits on account of retained earnings in amount of RON 1,145,606.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to a master netting arrangement or similar agreement in force, irrespective of whether they are set off in accordance with IAS 32. As the Company is not setting off financial instruments in accordance with IAS 32 and does not have relevant netting arrangements, the amendment does not have an impact on the Company.

#### 4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

- **IFRS 13 Fair Value Measurement**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements performed by the Company. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. The effect of this standard is not significant for the Company.

- The IASB has issued the Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effect of the improvements to IAS 1, IAS 32 and IAS 34 are not significant for the Company and the effect of the improvement to IAS 16 includes the reclassification of major spare parts, which are not components and meet the definition of property, plant and equipment, from inventories to property, plant and equipment, in amount of RON 993,852.

- **IAS 1 Presentation of Financial Statements:** This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- **IAS 16 Property, Plant and Equipment:** This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- **IAS 32 Financial Instruments - Presentation:** This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.
- **IAS 34 Interim Financial Reporting:** The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

**TMK ARTROM S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2013**

*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)**

**Changes of disclosure of revenues and expenses by nature**

The Company reclassified some items of comprehensive income as at 31 December 2013 and according to IAS 1 paragraph 41 it also reclassified the comparatives.

**Comprehensive income statement reconciliation as at 31.12.2012**

	Reported RON	Adjustment RON	Restated RON
<b>Gross profit</b>	<b>157,450,154</b>	-	<b>157,450,154</b>
Selling and distribution expenses	(56,361,495)	(65,890)	(56,427,385)
General and administrative expenses	(25,309,714)	440,673	(24,869,041)
Other operating expenses	(5,656,843)	(178,810)	(5,835,653)
Other operating income	358,743	(195,973)	162,770
<b>Income from operations</b>	<b>69,484,032</b>	-	<b>69,484,032</b>
<b>Profit before tax</b>	<b>50,923,594</b>	-	<b>50,923,594</b>
Income tax	(8,429,962)	-	(8,429,962)
<b>Profit for the year</b>	<b>42,493,632</b>	-	<b>42,493,632</b>
<b>Other comprehensive income (loss) for the year, net of tax</b>	<b>(93,872)</b>	-	<b>(93,872)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>42,399,760</b>	-	<b>42,399,760</b>

As at 31 December 2012 the Company reclassified the amount RON 65,890, representing income tax expenses calculated for agent commissions paid to Syntera Investment System LTD, from general and administrative expenses into selling and distribution expenses.

The Company reclassified, as at 31 December 2012, from general and administrative expenses an amount RON 178,810 into other operating expenses the following: wages and salaries of medical dispensary in amount of RON 112,746, other non-deductible tax expenses in amount of RON 64 and employer contributions for union paid to Chamber of Commerce in amount of RON 66,000.

As at 31 December 2012 the company reclassified from other operating income into general and administrative expenses an amount of RON 195,973 which represents payments received from legal entities for disabled unemployed people.

The general and administrative expenses decreased at 31.12.2012 by a total amount RON 440,673.

#### 4.2. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

In addition to those standards and interpretations that have been disclosed in the financial statements for the year ended 31 December 2013, the following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted by the Company:

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2014. These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendment also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Management has estimated that this change does not have an impact on financial statements.

- **IFRS 9 Financial Instruments: Classification and Measurement and subsequent amendments to IFRS 9 and IFRS 7- Mandatory Effective Date and Transition Disclosures; Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39**

IFRS 9, as issued, reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets, but will not have an impact on classification and measurements of financial liabilities. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The subsequent package of amendments issued in November 2013 initiate further accounting requirements for financial instruments. These amendments a) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; b) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and c) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements. These standard and subsequent amendments have not yet been endorsed by the EU. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

- **IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets**

This amendment is effective for annual periods beginning on or after 1 January 2014. These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. Management has assessed that this amendment will have no significant effect on the financial statements.

- **IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting**

This amendment is effective for annual periods beginning on or after 1 January 2014. Under the amendment there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The IASB made a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument changes in order to achieve clearing for that instrument. Management has assessed that the amendment will have no significant effect on the financial statements.

#### 4.2. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED (continued)

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

The amendment is effective from 1 July 2014. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment has not yet been endorsed by the EU. Management has assessed that the amendment will have no significant effect on the financial statements.

- **IFRIC Interpretation 21: Levies**

The interpretation is effective for annual periods beginning on or after 1 January 2014. The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation has not yet been endorsed by the EU. Management has assessed that this interpretation will have no significant impact on the financial statements.

The IASB has issued the **Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. These annual improvements have not yet been endorsed by the EU. Management has assessed that these improvements will have no significant effect on the financial statements.

- - **IFRS 2 Share-based Payment:** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
  - **IFRS 3 Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
  - **IFRS 8 Operating Segments:** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
  - **IFRS 13 Fair Value Measurement:** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
  - **IAS 16 Property Plant & Equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
  - **IAS 24 Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
  - **IAS 38 Intangible Assets:** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.



#### 4.2. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED (continued)

- The IASB has issued the **Annual Improvements to IFRSs 2011 – 2013 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. These annual improvements have not yet been endorsed by the EU. Management has assessed that these improvements will have no effect on the financial statements.
  - **IFRS 3 Business Combinations:** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
  - **IFRS 13 Fair Value Measurement:** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
  - **IAS 40 Investment Properties:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

#### 5. TURNOVER

For management, the Company is monitoring operations by geographical areas. The Company does not have any reportable segment.

	2013 RON	%	2012 RON	%
Domestic sales	181,395,079	20,69	191,602,258	21,07
Sales abroad	695,358,280	79,31	717,810,360	78,93
<b>Total</b>	<b>876,753,359</b>	<b>100</b>	<b>909,412,618</b>	<b>100</b>

  

	2013 RON	2012 RON
<b>Sales of pipes from which:</b>		
Internal market	150,663,950	158,679,496
Europe	494,250,106	541,906,711
North America	109,001,888	140,552,846
Other areas	4,667,276	6,913,009
<b>Total sales of pipes</b>	<b>758,583,220</b>	<b>848,052,062</b>
<b>Sales of other goods and services from which:</b>		
Sales of other goods on internal market	30,176,333	32,254,398
Sales of other goods on external market	87,270,539	28,313,033
Rendering of services on internal market	191,438	668,364
Rendering of services on external market	531,828	124,761
<b>Total sales of other goods and services</b>	<b>118,170,139</b>	<b>61,360,556</b>
<b>Total turnover</b>	<b>876,753,359</b>	<b>909,412,618</b>

Total turnover decreased by 3.6% in 2013 compared to year 2012 due to the decrease of average price of sale by 11.3%, to the increase in the volume of production sold from 176,150 tons to 177,549 tons (an increase by 0.79%), but also due to the increase in sales of goods purchased for resale. The volume of sales of goods purchased for resale increased in 2013 by 207% due to the sales to export and on internal market of 37,380 tons of profiles (billets) purchased from companies within the group (TMK-RESITA and Trade House TMK).

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**5. TURNOVER (continued)**

Production volume of pipes (TMK-Artrom production) sold in the total amount of turnover in year 2013 is of 86.52% (in year 2012: 93.26%).

The Company recorded in 2013 a physical production of 179,553 tons of pipes.

The sales of pipes on internal market in 2013 have a weight of 17.2% in the total turnover and a weight of 21% in the total quantitative sales of pipes.

The sales of pipes to export in year 2013 have a weight of 69.3% in total turnover and a percentage of 79% in total quantitative sales of pipes.

Sales in year 2013 have been made directly and by traders related companies as follows:

- a) In Romania and East Europe directly;
- b) In North Europe through TMK-EUROPE from Dusseldorf, major shareholder;
- c) In South Europe and West Europe direct sale but using TMK-Italia from Lecco as an agent;
- d) In USA by TMK-IPSCO and in Middle East through TMK-Middle East – Dubai and directly to customers.

TMK-ARTROM signed an agent contract with TMK-ITALIA and is selling directly through its agent to customers from Southern and Western Europe, who in previous years were the customers of TMK-Italia.

On medium and long term an increase in the added value of sales of purchased goods to be resold it is taken into consideration.

**Geographical information**

*Gross margin on geographical areas*

<b>1 January - 31 December 2013</b>	<b>Romania RON</b>	<b>European Union RON</b>	<b>North America RON</b>	<b>Other countries RON</b>	<b>Total RON</b>
Turnover (Sales)	181,031,722	581,559,285	109,001,888	5,160,465	<b>876,753,359</b>
Cost of sales	(172,472,492)	(497,945,963)	(81,701,005)	(3,525,061)	<b>(755,644,521)</b>
<b>Gross profit</b>	<b>8,559,230</b>	<b>83,613,322</b>	<b>27,300,883</b>	<b>1,635,404</b>	<b>121,108,838</b>

<b>1 January - 31 December 2012</b>	<b>Romania RON</b>	<b>European Union RON</b>	<b>North America RON</b>	<b>Other countries RON</b>	<b>Total RON</b>
Turnover (Sales)	191,602,257	542,669,407	140,552,846	34,588,108	<b>909,412,618</b>
Cost of sales	(178,814,033)	(448,333,769)	(94,779,773)	(30,034,889)	<b>(751,962,464)</b>
<b>Gross profit</b>	<b>12,788,224</b>	<b>94,335,638</b>	<b>45,773,073</b>	<b>4,553,219</b>	<b>157,450,154</b>

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## 6. COST OF SALES

Cost of sales for the year ended 31 December was as follows:

	2013 RON	2012 RON
Raw materials	507,799,644	551,009,835
Energy and utilities	53,648,720	56,885,847
Consumables	51,664,172	41,117,512
Staff cost (note 11.5)	43,239,066	41,115,043
Depreciation and amortization	25,624,257	26,135,661
Social security expenses (note 11.5)	12,159,865	11,559,785
Other compensations for employees (note 11.5)	4,337,586	4,801,704
Repairs and maintenance	3,322,170	3,127,547
Freight	1,807,013	1,795,994
Professional fees and services	1,714,310	1,075,719
Taxes	1,044,548	1,110,720
Travel	524,512	301,581
Insurance	126,299	91,399
Rent	117,894	104,369
Communications	64,653	46,759
Other expenses	1,359	5,682
<b>Total production cost</b>	<b>707,196,068</b>	<b>740,285,158</b>
Change in inventory	(20,531,246)	(9,065,185)
Merchandise expenses	83,383,446	26,134,934
Capitalized production costs	(14,138,569)	(10,606,374)
Obsolete stock, write-offs / (reversal of write-offs) (note 18)	(265,178)	5,213,931
<b>Cost of sales</b>	<b>755,644,521</b>	<b>751,962,464</b>

## 7. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the year ended 31 December were as follows:

	2013 RON	2012 Restated RON
Freight	41,837,647	40,621,734
Professional fees and services	9,884,596	9,912,322
Staff cost (note 11.5)	2,765,725	2,556,253
Insurance	978,112	277,278
Consumables	836,166	895,390
Social security expenses (note 11.5)	777,614	719,411
Bad debt expense (note 19)	504,957	230,122
Depreciation and amortization	468,588	281,378
Other compensations for employees (note 11.5)	294,820	339,924
Taxes	213,218	135,551
Utilities and maintenance	196,392	261,575
Communications	111,678	113,509
Travel	91,218	66,351
Other expenses	2,665	16,588
<b>Selling and distribution expenses</b>	<b>58,963,396</b>	<b>56,427,385</b>

**8. PROMOTION AND ADVERTISING EXPENSES**

Promotion and advertising expenses for the year ended 31 December were as follows:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>RON</b>
Marketing expenses	147,640	539,990
Materials	5,168	231,335
<b>Promotion and advertising expenses</b>	<b>152,808</b>	<b>771,325</b>

**9. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the year ended 31 December were as follows:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>Restated RON</b>
Staff cost (note 11.5)	11,683,060	11,018,330
Professional fees and services	4,171,481	3,860,351
Social security expenses (note 11.5)	3,347,360	2,676,743
Other compensations for employees (note 11.5)	2,450,557	2,516,009
Rent	1,388,486	1,601,433
Depreciation and amortization	1,164,962	971,929
Utilities and maintenance	1,082,525	936,713
Travel	1,051,906	747,118
Consumables	886,402	968,265
Communications	530,291	465,757
Other expenses	318,144	308,201
Taxes	309,615	498,994
Insurance	106,721	111,526
<b>General and administrative expenses</b>	<b>28,491,511</b>	<b>25,065,014</b>

**10. RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses for the year ended 31 December were as follows:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>RON</b>
Professional fees and services	93,419	51,475
Staff cost (note 11.5)	69,352	66,746
Social security expenses (note 11.5)	19,622	18,797
Other compensations for employees (note 11.5)	2,255	2,409
Consumables	6	86,061
<b>Research and development expenses</b>	<b>184,654</b>	<b>225,488</b>

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## **11. OTHER INCOME/EXPENSES AND ADJUSTMENTS**

### **11.1 Other operating income**

Other operating income for the year ended 31 December was as follows:

	<b>2013</b>	<b>2012 Restated</b>
	<b>RON</b>	<b>RON</b>
Damages, trial expenses	216,010	143,250
Sales of gas emission certificates	23,634	-
Special grants - subsidies	15,675	15,675
Other income	8,509	3,614
Gains on sales of property, plant and equipment	-	231
<b>Total</b>	<b>263,828</b>	<b>162,770</b>

### **11.2 Other operating expenses**

Other operating expenses for the year ended 31 December were as follows:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>Restated</b>
		<b>RON</b>
Losses from disposal of property, plant and equipment	3,716,996	3,354,971
Wages and salaries - medical dispensary	97,408	87,967
Professional fees and services	66,000	66,000
Sponsoring	29,017	121,553
Social security costs - medical dispensary	27,144	24,779
Travel non-deductible expenses	12,469	152,148
Penalties - legal entities	12,463	12,459
Tax fines	3,548	1,500
Other expenses	584,520	1,990,642
Environmental protection expenses	-	23,634
<b>Total</b>	<b>4,549,565</b>	<b>5,835,653</b>

### **11.3 Financial costs**

Financial costs for the year ended 31 December were as follows:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>RON</b>
Interest on long term loans and borrowings (note 16.2)	8,180,990	12,235,430
Interest on short term borrowings (note 16.2)	2,312,519	46,035
Discount fees and charges of promissory note	290,456	443,228
Amortized cost of issuance fee	905,313	470,806
Interest on financial leasing	58,366	70,628
Other financial expenses	308,018	-
<b>Total</b>	<b>12,055,662</b>	<b>13,266,127</b>

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**11. OTHER INCOME/EXPENSES AND ADJUSTMENTS (continued)**

**11.4 Financial income**

Financial income for the year ended 31 December was as follows:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>RON</b>
Interest on deposits	74.656	122.676
Interest from granted borrowing	-	1.158.685
Other financial income	2.896	7.975
<b>Total</b>	<b>77.552</b>	<b>1.289.336</b>

**11.5 Employee benefits expenses**

Employee benefits expenses for the year ended 31 December were as follows:

	<b>2013</b>	<b>2012 Restated</b>
	<b>RON</b>	<b>RON</b>
Wages and salaries (Notes 6,7,9,10,11.2)	57,854,611	53,227,984
Social security costs (Notes 6,7,9,10,11.2), out of which:	16,331,605	14,999,515
- Company's contributions to social security (pensions)	12,907,483	11,843,539
Other compensations for employees - meal tickets	2,443,373	2,327,247
Other compensations for employees - other	4,641,845	5,332,799
<b>Total employee benefits expense</b>	<b>81,271,434</b>	<b>75,887,545</b>

	<b>2013</b>	<b>2012</b>
Average number of employees	1,216	1,183
Actual number of employees at the end of financial year	1,227	1,207

**12. INCOME TAX**

For year 2013, the Company has calculated a current income tax of RON 4,870,741 .

	<b>2013</b>	<b>2012</b>
Current income tax	(4,870,741)	(4,488,654)
Deferred income tax	3,568,397	(3,941,308)
- Deferred income tax - revenue	4,100,101	4,605,637
- Deferred income tax - expenses	(531,704)	(8,546,945)
<b>Income tax</b>	<b>(1,302,344)</b>	<b>(8,429,962)</b>

**12. INCOME TAX (continued)**

Reconciliation between current income tax expense and the accounting profit multiplied by Romanian domestic tax rate for year ended December 2013 is as follows:

	2013	2012
<b>Profit before income tax</b>	<b>13,123,730</b>	<b>50,923,594</b>
Income taxes calculated at the nominal applicable tax rate (16%)	2,099,797	8,147,775
Tax effect of deductible / non-taxable elements, out of which:	(6,569,202)	(6,824,937)
- Fiscal depreciation	(5,385,289)	(5,475,963)
- Legal reserve	(104,990)	(407,389)
- Revenues from annulment of allowances	(1,078,923)	(936,017)
- Other items	-	(5,568)
Tax effect of taxable / non-deductible elements, out of which:	9,369,163	10,303,150
- Realization of revaluation reserve	3,563,731	3,508,105
- Accounting depreciation	4,361,249	4,382,235
- Allowances expenses	1,201,969	2,030,311
- Other items	242,214	382,499
Tax loss to be recovered	-	(7,015,781)
Internal tax credit (sponsoring expenses)	(29,017)	(121,553)
<b>Computed income tax</b>	<b>4,870,741</b>	<b>4,488,654</b>
<b>Income tax reported in the statement of income</b>	<b>4,870,741</b>	<b>4,488,654</b>

	2013	2012
<b>Statement of comprehensive income</b>		
Deferred tax related to items charged or credited directly to other comprehensive income during the year:	-	-
Net gain/(loss) on revaluation of cash flow hedges	(17,880)	17,880
<b>Income tax charged directly to other comprehensive income</b>	<b>(17,880)</b>	<b>17,880</b>

The Company has computed deferred tax from different temporary differences for fixed assets and other items. In 2013 deferred tax expenses of RON 531,704 (2012: RON 8,546,945) and deferred tax income of RON 4,100,101 (2012: RON 4,605,637) were recorded.

Deferred tax relates to the following:

**Statement of financial position**

	2013 RON	2012 RON
<b>- Deferred income tax assets</b>		
Allowance for doubtful accounts receivable	35,084	35,084
Staff retirement indemnities	456,273	440,042
Provisions for management bonuses	442,330	482,836
Provisions for quality complaints	278,839	17,006
Adjustments of inventories	821,553	863,983
Hedge instruments	-	7,975
<b>Total (a)</b>	<b>2,034,079</b>	<b>1,846,926</b>
<b>- Deferred income tax liabilities</b>		
Difference between carrying amount and fiscal amount of tangible and intangible assets	41,369,707	44,733,071
<b>Total (b)</b>	<b>41,369,707</b>	<b>44,733,071</b>
<b>Net deferred tax income (a) - (b)</b>	<b>(39,335,628)</b>	<b>(42,886,145)</b>

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**12. INCOME TAX (continued)**

**Statement of comprehensive income**

	<b>2013</b> <b>RON</b>	<b>2012</b> <b>RON</b>
<b>- Deferred income tax assets</b>		
Allowance for doubtful accounts receivable	-	34,594
Staff retirement indemnities	16,231	118,110
Provisions for management bonuses	(40,506)	93,418
Provisions for quality complaints	261,832	13,942
Adjustments of inventories	(42,429)	834,229
Tax losses carried forward	-	(7,015,781)
<b><u>Recognized in other comprehensive income</u></b>		
Hedge instruments recognized directly in OCI	(17,880)	17,880
Hedge instruments recognized in current year profit and loss	9,905	(8,185)
<b>Total (a)</b>	<b>187,153</b>	<b>(5,911,793)</b>
<b>- Deferred income tax liabilities</b>		
Difference between carrying amount and fiscal amount of tangible and intangible assets	(3,363,364)	(1,988,365)
<b>Total (b)</b>	<b>(3,363,364)</b>	<b>(1,988,365)</b>
<b>Net deferred tax income (a) - (b)</b>	<b>3,550,517</b>	<b>(3,923,428)</b>

**13. EARNINGS PER SHARE**

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

<b>Earnings per share</b> <b>amounts in RON</b>	<b>01 January - 31</b> <b>December 2013</b>	<b>01 January - 31</b> <b>December 2012</b>
<b><u>Earnings</u></b>		
Net profit	11,821,386	42,493,632
Average number of shares	116,170,334	116,224,307
<b>Earnings per average number of shares</b>	<b>0.10</b>	<b>0.37</b>

During year 2013 there were no transactions involving ordinary shares or potential ordinary shares.

During year 2012 the decrease in share capital ended according to the Decision of Extraordinary General Meeting of Shareholders from 26.04.2012 when the decrease of share capital with RON 203,209.6 representing 80,960 shares was approved.



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## 14. PROPERTY, PLANT AND EQUIPMENT

Movement in property, plant and equipment in 2013 was as follows:

	Land and buildings RON	Machinery and equipment RON	Transport and motor vehicles RON	Furniture and fixtures RON	Construction in progress RON	Total RON
<b>Cost</b>						
<b>At 1 January 2013</b>	<b>106,025,070</b>	<b>345,080,308</b>	<b>10,339,453</b>	<b>1,433,627</b>	<b>18,729,789</b>	<b>481,608,247</b>
Additions	-	1,460,936	-	-	41,706,634	<b>43,167,570</b>
Disposals	(217,573)	(4,915,458)	(62,963)	-	-	<b>(5,195,994)</b>
Revaluations	-	-	-	-	-	-
Transfers	2,612,963	25,158,228	1,108,717	91,447	(28,971,355)	-
Transfers from inventories	-	-	-	-	993,852	<b>993,852</b>
<b>At 31 December 2013</b>	<b>108,420,460</b>	<b>366,784,014</b>	<b>11,385,207</b>	<b>1,525,074</b>	<b>32,458,920</b>	<b>520,573,675</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2013</b>	<b>(6,648,738)</b>	<b>(42,152,961)</b>	<b>(2,008,270)</b>	<b>(347,606)</b>	-	<b>(51,157,575)</b>
Depreciation charge for the year	(3,705,212)	(22,000,239)	(1,250,521)	(239,945)	-	<b>(27,195,917)</b>
Disposals	25,103	1,316,730	31,720	-	-	<b>1,373,553</b>
<b>At 31 December 2013</b>	<b>(10,328,847)</b>	<b>(62,836,470)</b>	<b>(3,227,071)</b>	<b>(587,551)</b>	-	<b>(76,979,939)</b>

Movement in property, plant and equipment in 2012 was as follows:

	Land and buildings RON	Machinery and equipment RON	Transport and motor vehicles RON	Furniture and fixtures RON	Constructio n in progress RON	Total RON
<b>Cost</b>						
<b>At 1 January 2012</b>	<b>93,585,215</b>	<b>334,314,068</b>	<b>8,749,820</b>	<b>760,986</b>	<b>16,230,085</b>	<b>453,640,174</b>
Additions	2,585,923	13,497,817	-	-	14,740,126	<b>30,823,866</b>
Disposals	(273,504)	(3,958,163)	-	(11,658)	(33,438)	<b>(4,276,763)</b>
Transfers	10,127,436	1,226,586	1,589,633	684,299	(13,627,954)	-
Transfers from inventories	-	-	-	-	1,420,970	<b>1,420,970</b>
<b>At 31 December 2012</b>	<b>106,025,070</b>	<b>345,080,308</b>	<b>10,339,453</b>	<b>1,433,627</b>	<b>18,729,789</b>	<b>481,608,247</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2012</b>	<b>(3,264,100)</b>	<b>(20,425,999)</b>	<b>(870,948)</b>	<b>(169,980)</b>	-	<b>(24,731,027)</b>
Depreciation charge for the year	(3,410,429)	(22,615,565)	(1,137,322)	(182,342)	-	<b>(27,345,658)</b>
Disposals	25,791	888,603	-	4,716	-	<b>919,110</b>
<b>At 31 December 2012</b>	<b>(6,648,738)</b>	<b>(42,152,961)</b>	<b>(2,008,270)</b>	<b>(347,606)</b>	-	<b>(51,157,575)</b>
<b>Net book value</b>						
<b>At 31 December 2013</b>	<b>98,091,613</b>	<b>303,947,544</b>	<b>8,158,136</b>	<b>937,523</b>	<b>32,458,920</b>	<b>443,593,736</b>
<b>At 31 December 2012</b>	<b>99,376,332</b>	<b>302,927,347</b>	<b>8,331,183</b>	<b>1,086,021</b>	<b>18,729,789</b>	<b>430,450,672</b>

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**14. PROPERTY, PLANT AND EQUIPMENT (continued)**

Lands owned by the Company are located in Slatina city, with an area of 416,081.03 square meters.

In year 2013 the Company has reclassified major spare parts, which are not components and meet the definition of property, plant and equipment, from inventories into property, plant and equipment, in an amount RON 993,852, according to changes made to paragraph 8 IAS 16 "Property, plant and equipment".

Fixed assets increases were achieved in first semester of year 2013 by acquisitions of independent fixed assets, by putting into operation the contracting or self-made investments, by making capital repairs for equipment and constructions which were recognized in the carrying amount of property, plant and equipment in value of RON 14,102,560 (31 December 2012: RON 16,083,740) and by inputs of mandrel TPA as fixed assets in amount of RON 1,136,322.

The Company has retired equipment in an amount of RON 431,422 and the income from disposals was of RON 105,445 as of 31 December 2013 (2012: RON 2,913).

Non-depreciated value of parts replaced for capital repairs made during first semester of 2013, which were recognized in the carrying amount of property, plant and equipment was of RON 3,572,678 (31 December 2012: RON 3,174,301), their depreciated value was of RON 1,191,894 (31 December 2012: RON 854,798).

Fully depreciated items of property, plant and equipment in use as at 31 December 2013 amount to RON 3,788,918 (31 December 2012: RON 538,830).

**Financial lease and assets in progress**

The carrying amount of property, plant and equipment held under a finance lease at 31 December 2013 was of RON 760,801 (1 January 2013: RON 1,926,565).

Assets held under a lease are pledged as guarantees for finance leasing.

**15. INTANGIBLE ASSETS**

Intangible assets consist of licenses, software, technical certificates valued at cost at reporting date and depreciation. Accounting and fiscal depreciation method used is the straight-line method.

Movements in intangible assets during 2013 were as follows:

	<b>Licenses and trademarks RON</b>	<b>Other intangible assets RON</b>	<b>Total RON</b>
<b><u>Cost</u></b>			
<b>At 1 January 2013</b>	<b>428,847</b>	<b>70,512</b>	<b>499,359</b>
Additions	98,583	-	98,583
Disposals	-	-	-
<b>At 31 December 2013</b>	<b>527,430</b>	<b>70,512</b>	<b>597,942</b>
<b><u>Amortisation and impairment</u></b>			
<b>At 1 January 2013</b>	<b>(294,325)</b>	<b>(54,647)</b>	<b>(348,972)</b>
Amortisation	(56,450)	(5,439)	(61,889)
Impairment	-	-	-
<b>At 31 December 2013</b>	<b>(350,775)</b>	<b>(60,086)</b>	<b>(410,861)</b>

## 15. INTANGIBLE ASSETS (continued)

Movements in intangible assets during 2012 were as follows:

	<b>Licenses and trademarks RON</b>	<b>Other intangible assets RON</b>	<b>Total RON</b>
<b><u>Cost</u></b>			
At 1 January 2012	<b>349,149</b>	<b>70,512</b>	<b>419,662</b>
Additions	79,698	-	<b>79,698</b>
Disposals	-	-	-
<b>At 31 December 2012</b>	<b>428,847</b>	<b>70,512</b>	<b>499,360</b>
<b><u>Amortisation and impairment</u></b>			
At 1 January 2012	<b>(260,914)</b>	<b>(44,746)</b>	<b>(305,660)</b>
Amortisation	(33,411)	(9,901)	<b>(43,312)</b>
Impairment	-	-	-
<b>At 31 December 2012</b>	<b>(294,325)</b>	<b>(54,647)</b>	<b>(348,972)</b>
<b>Net book value</b>			
At 31 December 2013	176,655	10,426	<b>187,081</b>
At 31 December 2012	134,522	15,865	<b>150,387</b>

## 16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 16.1. Financial assets

	<b>2013 RON</b>	<b>2012 RON</b>
<b>Financial instruments at fair value through profit or loss</b>		
Cash flow hedges	-	51,158
- Foreign exchange forward contracts	-	51,158
<b>Total financial instruments at fair value</b>	<b>-</b>	<b>51,158</b>
<b>Total other financial assets</b>	<b>-</b>	<b>51,158</b>

### 16.2. Other financial liabilities

	<b>2013 RON</b>	<b>2012 RON</b>
<b>Financial liabilities from hedging transactions</b>		
Cash flow hedges	-	101,002
- Foreign exchange forward contracts	-	101,002
<b>Total financial liabilities at fair value through other comprehensive income</b>	<b>-</b>	<b>101,002</b>
<b>Total other financial liabilities</b>	<b>-</b>	<b>101,002</b>
<b>Total current</b>	<b>-</b>	<b>101,002</b>

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**16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

**Interest-bearing long-term loans and borrowings**

	<b>2013 RON</b>	<b>2012 RON</b>
Long-term interest-bearing bank loans	119,124,843	219,737,156
Long-term interest-bearing borrowing – related parties (note 25)	74,376,902	76,715,466
Un-amortized long-term cost	(503,727)	(982,348)
<b>Balance of long-term loans</b>	<b>192,998,018</b>	<b>295,470,273</b>

The un-amortized short-term cost paid at granting of loans is amortized during the loan duration.

	<b>2013 RON</b>	<b>2012 RON</b>
<b>Long- and short-term loans and borrowings-principals, from which:</b>		
Within 1 year <3 month	4,204,407	9,687,781
Within 1 year between 3 and 12 months	168,877,546	29,554,609
2 - 5 years	181,661,190	284,239,581
After 5 years	11,840,556	12,213,041
<b>Total</b>	<b>366,583,699</b>	<b>335,695,012</b>
<b>Long- and short-term loans and borrowings-interests, from which:</b>		
Within 1 year <3 month	1,104,271	2,476,077
Within 1 year between 3 and 12 month	7,360,072	7,387,521
2 - 5 years	8,789,390	18,438,464
After 5 years	34,696	39,507
<b>Total</b>	<b>17,288,429</b>	<b>28,341,569</b>
Loans and borrowings payable on the long and short term –principals, from which:	366,583,699	335,695,012
Total interest payable, including future interest, from which:	17,288,430	28,341,569
- Future interests	15,988,496	26,967,560
- Interest payable at reporting date	1,299,934	1,374,009
Un-amortized cost	(889,123)	(1,449,750)
<b>Total long- and short-term loans and un-amortized cost</b>	<b>366,994,510</b>	<b>335,619,271</b>

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**16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

**Long-term interest-bearing loans and borrowings**

2013						Amount repayable RON equivalent	Amount repayable EUR/USD
Bank	Type of loan	Currency	Amount given	Due date	Interest rate		
UNICREDIT TIRIAC BANK	Loan on 5 years - long part	EUR	15,000,000	11/16/2016	EURIBOR 1M+margin	67,270,500	15.000.000
BCR ERSTE	Loan on 5 years - long part	EUR	20,000,000	10/03/2016	EURIBOR 3M+margin	51,854,344	11.562.500
<b>Total long-term bank loans</b>						<b>119.124.844</b>	
TMK EUROPE GmbH	Long-term borrowing	USD	22,837,540	09/25/2018	Libor+0.5%	74,338,476	22.837.540
		RON	38,425			38,425	-
<b>Total</b>						<b>193.501.745</b>	

2012						Amount repayable RON equivalent	Amount repayable EUR/USD
Bank	Type of loan	Currency	Amount given	Due date	Interest rate		
VTB BANK AUSTRIA	Loan on 5 years - long part	EUR	20,000,000	08/08/2016	EURIBOR 1M+margin	59,049,333	13,333,333
UNICREDIT TIRIAC BANK	Loan on 5 years - long part	EUR	15,000,000	11/16/2016	EURIBOR 1M+margin	66,430,500	15,000,000
BCR ERSTE	Loan on 5 years - long part	EUR	20,000,000	10/03/2016	EURIBOR 3M+margin	67,814,469	15,312,500
BCR ERSTE	Loan line overdraft	EUR	20,000,000	10/03/2016	EURIBOR 3M+margin	26,442,854	5,970,794
<b>Total long-term bank loans</b>						<b>219.737.155</b>	
TMK EUROPE GmbH	Long-term borrowing	USD	22,837,540	09/25/2018	Libor+0.5%	76,677,041	22,837,540
		RON	38,425			38,425	-
<b>Total</b>						<b>296.452.621</b>	

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**16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

**Finance lease**

	<b>2013</b>	<b>2012</b>
Lease payments less than 3 months, gross	207,537	178,833
Lease payments between 3 and 12 months, gross	465,025	536,494
Lease payments between 1 and 5 years, gross	166,138	723,355
<b>Total minimum lease payments, gross</b>	<b>838,700</b>	<b>1,438,682</b>
Less: Future finance charges	29,047	90,682
<b>Present value of minimum lease payments</b>	<b>809,653</b>	<b>1,348,000</b>
Distributed as follows:		
Maturing within 1 year	647,014	651,423
Maturing between 1 and 2 years	162,639	317,740
Maturing between 2 and 3 years	-	378,837
<b>Total</b>	<b>809,653</b>	<b>1,348,000</b>

At 31 December 2013, TMK-ARTROM S.A. Slatina had 15 finance lease contracts on-going with Raiffeisen Leasing S.R.L. Bucharest for the purchase of a spectrometer and 14 vehicles.

There are no restrictions imposed by the lease arrangements to the Company.

<b>Future rent expenses</b>	<b>2013 RON</b>	<b>2012 RON</b>
Less than one year	1,324,050	1,436,719
Between one and two years	1,107,560	562,729
Between two and three years	812,888	551,657
	<b>3,244,498</b>	<b>2,551,105</b>

**Short-term interest-bearing loans and borrowings**

	<b>2013 RON</b>	<b>2012 RON</b>
Long-term bank loans, current portion	101,577,632	38,751,125
Short-term bank loans	71,504,323	491,265
Interest related to short-term bank loans	118,253	-
Interest related to long-term bank loans	1,138,832	1,326,994
Interest related to long-term borrowings	42,847	47,015
Un-amortized short-term cost	(385,395)	(467,402)
<b>Total</b>	<b>173,996,492</b>	<b>40,148,998</b>

The un-amortized short-term cost paid at granting of loans is amortized during their period.

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**16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

Bank	Type of loan	Currency	Amount given	Due date	2013 Interest rate	Amount repayable RON/ RON equivalent	Amount repayable EUR
CREDIT EUROPE BANK	Loan limit on instruments	RON	4,000,000	10/17/2014	ROBOR 6M+3%	183,480	-
BANCA TRANSILVANIA	Loan limit on instruments	RON	5,000,000	11/17/2014	ROBOR 6M+3%	163,603	-
UNICREDIT TIRIAC BANK	Credit for funding general needs	EUR	27,000,000	12/02/2014	EURIBOR 1M+1.9%	71,157,240	15,866,667
<b>Total short-term bank loans</b>						<b>71,504,323</b>	<b>15,866,667</b>
BCR ERSTE	Loan on 5 years - current portion	EUR	20,000,000	10/03/2016	EURIBOR 3M+3%	16,817,625	3,750,000
BCR ERSTE	Credit line - overdraft - current portion	EUR	20,000,000	10/03/2014	EURIBOR 3M+1.9%	84,760,006	18,899,816
<b>Total short part of long-term bank loans</b>						<b>101,577,631</b>	<b>22,649,816</b>
<b>Total</b>						<b>173,081,954</b>	<b>38,516,483</b>

Bank	Type of loan	Currency	Amount given	Due date	2012 Interest rate	Amount repayable RON/ RON equivalent	Amount repayable EUR
CREDIT EUROPE BANK	Loan limit on instruments	RON	4,000,000	10/18/2013	ROBOR 6M+3%	250,000	-
BANCA TRANSILVANIA	Loan limit on instruments	RON	5,000,000	11/19/2013	ROBOR 6M+3%	241,265	-
<b>Total short-term bank loans</b>						<b>491,265</b>	<b>-</b>
BCR ERSTE	Loan on 5 years - current portion	EUR	20,000,000	10/03/2016	EURIBOR 3M+3.5%	16,607,625	3,750,000
VTB BANK AUSTRIA	Loan on 5 years - current portion	EUR	20,000,000	08/08/2016	EURIBOR 1M+4%	22,143,500	5,000,000
<b>Total short part of long-term bank loans</b>						<b>38,751,125</b>	<b>8,750,000</b>
<b>Total</b>						<b>39,242,390</b>	<b>8,750,000</b>

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**16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

Bank loans received by TMK-ARTROM S.A. are guaranteed as follows:

- Loans granted by BCR in total initial amount of EUR 40 mil. are guaranteed with:
  - Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK-Artrom S.A.
  - Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK Resita S.A.
  - Company warranty issued by OAO TMK, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract.
- Loans granted by Unicredit Tiriatic Bank, as follows:
  - o Long-term loan in initial amount of EUR 15 mil. guaranteed with:
    - Pledge without dispossession on credit balance of current bank accounts opened at Unicredit Tiriatic Bank by TMK-ARTROM S.A.
    - Company warranty issued by OAO TMK, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract.
  - o Loan in amount of EUR 27 mil. , from which, at 31.12.2013, the amount used was EUR 15,866,667 guaranteed with:
    - Pledge without dispossession on credit balance of current bank accounts opened at Unicredit Tiriatic Bank by TMK-ARTROM S.A.
    - Company warranty issued by Pipe Plant Volzsky Russia, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract.
- Limit of discounts in amount of RON 4,000,000 contracted from Credit Europe Bank guaranteed with:
  - Pledge without dispossession on current accounts opened at Credit Europe Bank by TMK-ARTROM S.A.
- Limit of discounts in amount of RON 2,000,000 contracted from Banca Transilvania guaranteed with:
  - Pledge without dispossession on current accounts opened at Banca Transilvania by TMK-Artrom S.A.
  - Two promissory notes in white in favor of Banca Transilvania up to limit of RON 5,644,375.

As at 31.12.2013, all financial ratios agreed through the loan contracts signed with banks were complied.

**Other long-term liabilities**

	2013	2012
	RON	RON
Investment subsidy	10,353	26,027
Long-term sundry creditors	12,725	86,234
Long-term guarantees	-	121,996
<b>Balance of other long-term liabilities</b>	<b>23,078</b>	<b>234,257</b>

Government grants were received for the acquisition of certain tangible items. There are no unfulfilled conditions or contingent attached to these grants.



## **16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

### **16.3. Hedging activities and derivatives**

#### **Foreign currency risk**

Hedging activity's objective is to protect the value in RON of future sales of TMK-Artrom in foreign currency, respective in EUR and USD, against unfavorable movements in currency exchange EUR/RON and USD/RON.

Foreign exchange forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales in USD and EUR.

TMK Artrom has signed with BCR a framework contract "Master Agreement ISDA / 17.11.2011" through which are carried forward transactions but also other transactions with BCR within a limit of EUR 3 mil. – overdraft facility. On December 2011, 12 agreements for forward transactions were signed, each in value of EUR 500.000 on a fixed exchange rate of 4.4165 EUR/RON (RON 2,208,250). The 12 agreements cumulated a nominal value of EUR 6,000,000 (RON 26,499,000).

During 2012, the Company has signed other three sets of agreements for forward transactions, as follows:

- on January 2012, 12 agreements were signed, each of USD 1,000,000, on a fixed exchange rate of 3.3875 USD/RON. The agreements cumulated nominal value of USD 12,000,000 (RON 40,650,000).
- on February 2012, another set of 12 monthly USD transactions was signed, each of USD 500,000, but this time on a variable exchange rate, with values between 3.4232 and 3.4760 USD/RON. The agreements cumulated the amount of USD 6,000,000 (RON 20,694,950).
- on April 2012, 12 agreements were signed, each of EUR 500,000, on a fixed exchange rate of 4.427 EUR/RON. The agreements cumulated value of EUR 6,000,000 (RON 24,348,500).

All forward contracts concluded in 2012 were settled as of 31 December 2013.

In 2013, the Company has signed two other sets of agreements for forward transactions, as follows:

- in April 2013, 3 agreements of EUR 500,000 each, at a variable monthly rate, with values between 4.4313 and 4.4567, in an aggregate amount of EUR 1,500,000 (RON 6,666,850 thousand) were signed; all agreements were concluded as of 31 December 2013;
- in June 2013, 3 agreements of EUR 500,000 each, at a variable monthly exchange rate, with values between 4.44 and 4.464, in an aggregate amount of EUR 1,500,000 (RON 6,677,250) were signed. All these 3 agreements were concluded as of 31 December 2013.

Balances of forward contract on exchange rate vary according to the level of estimated sales in foreign currency and to changes of forward exchange rates.

	<b>2013</b>		<b>2012</b>	
	<b>Assets RON</b>	<b>Liabilities RON</b>	<b>Assets RON</b>	<b>Liabilities RON</b>
Forward contracts on exchange rate	-	-	51,158	101,002

### **16.4. Fair values**

The terms of foreign currency forward contracts were negotiated in order to be identical with the terms of commitments.

At the end of December 2012, hedging operations of cash flows of future sales forecast in EUR expected in the first quarter of 2013 were evaluated as being effective and an unrealized loss of RON 111,752 was included in other elements of comprehensive income concerning these forward contracts in EUR, as well as an account receivable with a deferred tax of RON 16,160, fact which led to a corresponding increase of other elements of comprehensive income.

## 16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

In 2012, as a result of the effective reimbursement of forward operations in EUR, the turnover was decreased with RON 674,300 through reclassification from losses resulted from exchange.

At the end of December 2012, hedge accounting was ineffective and an unrealized gain of RON 51,158 was included in income statement concerning this forward contract in USD, as well as an expense with deferred tax of 8,185 RON.

At 31 December 2013, there were no cash flow hedge operations related to sales in euro from next period.

In 2012, as a result of the effective reimbursement of forward operations in USD, the turnover decreased with RON 854,150 as a result of reclassification of exchange differences.

In 2013, as a result of effective settlement of forward operations in EUR an increase of turnover by RON 164,000 was registered by reclassification of foreign exchange gains.

The value eliminated from other elements of comprehensive income, during the financial year and included in carrying value of hedging elements as a main adjustment was insignificant for 2012 and also for 2013.

The Company is using the determination and presentation of fair value of financial instruments only through techniques of evaluation which use hypothesis which have a significant effect on recorded fair value and which do not rely on observable market data, but are using data extrapolations issued by Bloomberg agency.

### 16.5. Fair value of financial instruments which are not accounted for at fair value

For the financial assets and financial liabilities which are liquid or have a short-term maturity (cash and cash equivalents, short-term receivables, short-term borrowings) it was assumed that the carrying value is close to fair value.

The Company also has financial instruments, respectively long-term loans and borrowings the carrying amount of which is different from the fair value.

The fair value of borrowings was estimated by discounting future cash flows using the current rates available for borrowings in similar conditions, the same credit risk and the same due dates.

Financial liability	Hierarchy of fair value	31 December 2013	
		Carrying value RON	Fair value RON
Long-term bank loans - variable rate	3	220,702,475	220,458,787
Long-term intercompany borrowings - variable rate	3	74,376,903	72,726,654

## 17. OTHER NON-CURRENT ASSETS

	2013 RON	2012 RON
Prepayments for property, plant, and equipment, from which:	3,505,132	5,035,531
- Prepayments for property, plant, and equipment - related parties (note 25)	-	304,165
<b>Total</b>	<b>3,505,132</b>	<b>5,035,531</b>

**18. INVENTORIES**

Inventories consist of the following:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>RON</b>
Raw materials	45,630,607	39,768,886
Work in progress	41,123,298	30,495,960
Finished goods	37,792,144	34,406,212
Consumables	13,846,003	13,097,920
Other materials	11,340,092	11,066,978
Raw materials and consumables at third parties	234,127	155,775
Finished goods at third parties	7,495,001	229,985
Merchandise at third parties (in transit)	-	26,481,576
Merchandise and packaging	100,891	110,082
Materials to be purchased	-	3,255
<b>Total inventories at the lower of cost and net realizable value</b>	<b>157,562,163</b>	<b>155,816,629</b>

TMK Resita SA is the exclusive supplier of raw material (billets) of TMK-Artrom SA. The inventory of raw materials as at 31.12.2013 has increased as compared to 31.12.2012 from 15,367 tons to 19,578 tons.

In 2013, value adjustments were made for inventories of slow moving production in progress with in the amount of RON 1,978,468 – the movement of the adjustments is presented below:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>RON</b>
<b>Balance 1st January</b>	<b>5,399,896</b>	<b>185,965</b>
Additional adjustments set	1,978,468	5,399,896
Value adjustments used	(2,243,646)	(185,965)
<b>Balance at 31st December</b>	<b>5,134,718</b>	<b>5,399,896</b>

**19. TRADE AND OTHER RECEIVABLES (CURRENT)**

Trade receivables consist of the following:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>RON</b>
Trade receivables, from which:	193,975,756	157,826,399
- Receivables from other related parties (note 25)	76,924,839	48,438,722
Other receivables - VAT	13,906,925	25,356,059
Other Receivables - Penalty and fines	725,881	725,881
Employee claims	461,710	484,132
Promissory notes	424,680	-
Sundry debtors, from which:	349,709	663,747
- Sundry debtors - related parties (note 25)	223,463	296,457
<b>Less:</b>		
Allowance for doubtful accounts receivable	1,055,292	551,096
<b>Total</b>	<b>208,789,369</b>	<b>184,505,121</b>

Trade receivables are non-interest bearing and generally have terms of 73 days (2012: 60 days).

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**19. TRADE AND OTHER RECEIVABLES (CURRENT) (continued)**

The following summarises the changes in the allowance for doubtful receivable:

	<b>2013</b> <b>RON</b>	<b>2012</b> <b>RON</b>
<b>At January 1st</b>	<b>551,096</b>	<b>334,881</b>
Charge for the year	633,832	219,215
Used	(129,636)	(3,000)
<b>At December 31st</b>	<b>1,055,292</b>	<b>551,096</b>

**Ageing analysis of trade receivables**

	<b>Neither past due nor impaired RON</b>	<b>&lt; 30 days RON</b>	<b>30–60 days RON</b>	<b>Past due but not impaired 61–90 days RON</b>	<b>91–120 days RON</b>	<b>&gt; 120 days RON</b>
<b>31 December 2013</b>	182,135,152	7,840,565	418,195	860,646	1,608,106	1,113,092
<b>31 December 2012</b>	146,839,816	7,753,803	1,368,827	755,076	-	1,108,877

From the amount of RON 182.135.152 representing current receivables as at 31.12.2013 the management of the Company considers that the amount of RON 784.000 it is having a moderate cashing risk.

TMK-Artrom SA Slatina highlighted in trade receivables these amounts:

		<b>2013</b>		<b>2012</b>	
	<b>Currency</b>	<b>RON</b>	<b>Foreign currency</b>	<b>RON</b>	<b>Foreign currency</b>
Internal customers	LEI	58,100,524		48,875,809	48,875,809
	EUR	4,210,087	938,767	-	-
External customers	EUR	127,685,894	18,669,744	107,373,914	21,225,428
	USD		8,772,893		3,982,851
Doubtful customers	LEI	1,101,371		1,101,371	1,101,371
Notes issued by customers	LEI	2,877,879		475,304	-
<b>Total</b>		<b>193,975,755</b>		<b>157,826,398</b>	

As of 31 December 2013 the Company registered doubtful customers receivables in amount of RON 1.101.371 (2012: RON 1.101.371).

**20. PREPAYMENTS**

Prepayments consist of the following:

	<b>2013</b> <b>RON</b>	<b>2012</b> <b>RON</b>
Prepayments for services, inventories, from which:	131,417,553	83,182,439
- Prepayments for services, inventories - related parties (note 25)	130,697,433	82,652,053
Prepaid Expenses, from which:	1,477,356	1,112,023
- Prepaid Expenses - related parties (note 25)	356,104	-
<b>Total</b>	<b>132,894,909</b>	<b>84,294,462</b>

The amount of RON 130,697,433 (exclusive of VAT) represents advances given to TMK Resita S.A. in amount of RON 123,393,647 (2012: RON 82,652,053) and advances given to TMK Europe GmbH in amount of RON 7,303,786 (2012: RON 0).

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**21. CASH AND SHORT-TERM DEPOSITS**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>RON</b>
Cash on hand	25,080	10,192
Cash at banks in RON	366,579	507,992
Cash at banks in foreign currency	973,292	3,217,681
Other cash equivalents	297,632	253,214
Short-term deposits	4,714	25,869,765
Promissory notes	-	604,631
<b>Total</b>	<b>1,667,297</b>	<b>30,463,476</b>

The cash includes cash on hand and cash at banks, in RON and in foreign currency (EUR, USD, GBP) and also other cash equivalents (cash in transit, vouchers).

TMK-ARTROM has liquidated several short-term deposits on balance at 31.12.2012.

<b>Short-term deposits</b>	<b>2013</b>	<b>2012</b>
in RON	4,714	925,248
in USD	-	23,502,500
in EURO	-	1,442,017

**Other current assets**

	<b>2013</b>	<b>2012</b>
	<b>RON</b>	<b>RON</b>
Deposit of letter of bank guarantee for custom duties	-	500,000
<b>Total</b>	<b>-</b>	<b>500,000</b>

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## 22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS

### Share capital

Subscribed and paid share capital	Number of shares	Nominal Value RON / share	Subscribed share Capital RON	Share premium RON	Total RON
Balance at 31 December 2012	116,170,334	2.51	291,587,538	-	291,587,538
Balance at 31 December 2013	116,170,334	2.51	291,587,538	-	291,587,538

### Legal and other reserves

	Legal reserves RON	Other reserves RON	Total RON
Balance at January 1st, 2012	9,374,473	847,998	10,222,471
Increase from the profit of the year	2,546,180	-	2,546,180
Capitalization of the reserves	-	9,556	9,556
Balance at December 31st, 2012	11,920,654	857,554	12,778,207
Increase from the profit of the year	656,186	-	656,186
Balance at December 31st, 2013	12,576,840	857,554	13,434,393

The legal reserve is set in accordance with the provisions of the Romanian Company Law, which requires that 5% of the annual accounting profit before tax is transferred to "legal reserve" until the balance of this reserve reaches 20% of the share capital of the Company. Legal reserves are not distributable.

From Other reserves, the amount of RON 242,255 represents reserves for fiscal facilities, which could be distributed after taxation only. There are no restrictions on the remaining balance in the "Other reserves" line.

**22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS (continued)**
**Retained earnings**
**The structure of retained earnings at 31 December 2013**

Account name	Balance at 31 December 2013	Nature
<b>Retained earnings concerning uncovered losses</b>	<b>(22,632,843)</b>	It has to be covered before distributing dividends
<b>Retained earnings from adopting IAS for the first time (OMFP 94/2001)</b>	<b>14,455</b>	Can be used
<b>Retained earnings from the changes of accounting policies</b>	<b>1,554,175</b>	Can be used
<b>Retained earnings from the correction of accounting errors</b>	<b>(3,000)</b>	It has to be covered before distributing dividends
<b>Retained earnings representing the surplus realized from revaluation reserves from which:</b>	<b>16,464,820</b>	
- Retained earnings representing the surplus realized from revaluation reserves which will be taxed in the moment of change of destination of reserves (use of reserves)	11,225,077	Can be used, it is taxable at use of reserve
- Retained earnings representing the surplus realized from revaluation reserves in years 2004-2006 which weren't fiscally recognized (non-taxable at the change of destination)	5,239,743	Can be used
Retained earnings from transition to IFRS, less IAS 29	(9,592,283)	It has to be covered before distributing dividends
<b>Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost</b>	<b>128,232,585</b>	It has to be realized before distributing dividends
<b>Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost, from which:</b>	<b>27,645,318</b>	Can be used
- Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – items such as taxable revenue in 2012 included in deemed cost at transition to IFRS restated 1.01.2011	5,775,989	Can be used
- Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – items such as taxable revenue in 2013 included in deemed cost at transition to IFRS restated 1.01.2011	6,112,913	Can be used
- Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost which are not taxed in income tax statement according to OUG 34/2009, included in deemed cost at transition to IFRS restated 1.01.2011	15,756,416	Can be used, it is taxable at use of reserve
<b>Retained earnings from adopting for the first time of IAS 29</b>	<b>(13,695,281)</b>	It has to be covered before distributing dividends
<b>Distribution from profit of the year to legal reserve</b>	<b>(656,186)</b>	
<b>Total retained earnings</b>	<b>127,331,760</b>	

**22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS (continued)**
**The structure of retained earnings at 31 December 2012**

Account name	Balance at 31 December 2012	Nature
<b>Retained earnings concerning uncovered losses</b>	<b>(62,580,295)</b>	It has to be covered before distributing dividends
<b>Retained earnings from adopting IAS for the first time (OMFP 94/2001)</b>	<b>14,455</b>	Can be used
<b>Retained earnings from the correction of accounting errors</b>	<b>(3,000)</b>	It has to be covered before distributing dividends
<b>Retained earnings representing the surplus realized from revaluation reserves from which:</b>	<b>22,395,000</b>	
- Retained earnings representing the surplus realized from revaluation reserves made after 01.01.2004, taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – items such as taxable revenue (8 months 2009+2010)	5,930,180	Can be used
- Retained earnings representing the surplus realized from revaluation reserves which will be taxed in the moment of change of destination of reserves (use of reserves)	11,225,077	Can be used, it is taxable at use of reserve
- Retained earnings representing the surplus realized from revaluation reserves in years 2004-2006 which weren't fiscally recognized (non-taxable at the change of destination)	5,239,743	Can be used
Retained earnings from transition to IFRS, less IAS 29	(17,639,092)	It has to be covered before distributing dividends
<b>Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost</b>	<b>137,948,206</b>	It has to be made before distributing dividends
<b>Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost, from which:</b>	<b>20,046,326</b>	
- Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – items such as taxable revenue in 2011 included in deemed cost at transition to IFRS restated 1.01.2011	2,116,629	Can be used
- Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – items such as taxable revenue in 2012 included in deemed cost at transition to IFRS restated 1.01.2011	5,775,989	Can be used
- Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost which are not taxed in income tax statement according to OUG 34/2009, included in deemed cost at transition to IFRS restated 1.01.2011	12,153,708	Can be used, it is taxable at use of reserve
<b>Retained earnings from adopting for the first time of IAS 29</b>	<b>(621,789,082)</b>	It has to be covered before distributing dividends
<b>Distribution from profit of the year to legal reserve</b>	<b>(2,546,180)</b>	
<b>Total retained earnings</b>	<b>(524,153,662)</b>	



### 23. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The Company has implemented a defined employee's benefits plan. The plan requires contributions to be made for employees to the Public State Pension Fund.

	2013 RON	2012 RON
<b>Net liability at the beginning of the year</b>	<b>2,750,264</b>	<b>2,012,077</b>
Service cost - previous years recognized in retained earnings as a result of benefits changes considered eligible	(1,145,606)	-
Expense recognized in statement of income	319,205	858,392
Benefits paid	(37,488)	(120,205)
Components of defined benefit costs recorded in OCI	965,333	-
<b>Net liability at the end of the year</b>	<b>2,851,708</b>	<b>2,750,264</b>
Short-term liabilities	341,688	168,455
Long-term liabilities	2,510,020	2,581,809

The Company applied IAS 19 revised and rectified the amount of the post-employment benefit liability by excluding components that were related to short-term benefits granted to employees, not included in the definition of post-employment benefit. This operation lead to the reduction of the obligation concerning the actuarial provision calculated for employee benefits at 31.12.2012 on account of retained earnings in amount of RON 1,145,606. The following categories of benefits paid to employees were eliminated from computation of actuarial provisions starting with 01.01.2013 according to IAS 19R:

- Benefits paid for fatal accidents;
- Benefits paid for the death of a member from the family (wife);
- Benefits paid for the death of a member from the family (father);
- Benefits paid for the death of a member from the family (mother);
- Benefits paid for giving birth.

Thus, employee benefits classified as long-term benefits according IAS 19 revised and included in the computation of the actuarial provision at 31 December 2013 are the following:

- **Retirement benefits:** all employees who retire, receive two basic monthly salaries in force at retirement date, ranted once;
- **Benefits for death of an employee for any cause:** in case of the death of an employee, the family of the employee receives two negotiated average monthly salaries per Company. The average monthly salary is computed for all employees, including the management employees and adjusted annually with the inflation.

As at 31.12.2013 the Company updated the obligation regarding actuarial provision for employee benefits, based on the Actuarial Report issued by the independent actuary PricewaterhouseCoopers Management Consultants SRL Bucharest, accounting the following:

- Expenses accounted in profit or loss in amount of RON 319,205;
- Losses accounted in other comprehensive income due to the changes of financial assumptions in amount of RON 965,333;
- Benefits paid in amount of RON 37,488.

Total net liability at 31.12.2013 is of RON 2,851,708.

### **23. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)**

The key assumptions used in determining pension and post-employment benefit obligations of the Company are:

**Mortality:** mortality rates are based on separate mortality tables for male and female published by the Romanian National Institute of Statistics in 2010.

**Staff turnover:** the turnover rate used in the actuarial projections is of 1% for the employees, including the management.

**Discount rate:** the discount rate of future cash flows used in actuarial evaluation is the risk free rate represented by the average interest rate at 31 December 2013 of government bonds issued in Romanian lei.

**Salaries and long-term inflation:** the current basic salary level for employees who are not part of the management board is assumed to increase every six months. For 2014, the increase will be 1.39% on 1 January 2014 and 2.1% starting 1 July 2014. Starting 2015, an increase of 2.1% every six months is expected.. For the management board, it was estimated that the salaries will increase only with the increase in EUR exchange rate. This increase is estimated at 0.6% per annum.

For the computation of the death benefit, we have used the average basic salary of RON 2,182 / employee for the employees, including management. This benefit is adjusted annually. A long-term inflation rate of 3.5% per annum was estimated starting with 2014.

**Taxes:** IAS 19 revised requires social charges and other related taxes to be included in the measurement of employee benefit. Both benefits included in the evaluation generate costs with social contributions. The rate of 27.35% was used for social contributions for assessing the employee benefits, meaning that the obligation value and the corresponding periodical components were increased by this rate. This rate is the current rate of contributions applied by the Company.

**Other assumptions:** retirement age for women born after 1967 is expected to be 63, while for men born after 1950 is expected to be 65, representing retirement ages expected in future.

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**23. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)**

Disclosures according to IFRS on the basis that all changes in the employee benefits are treated as Actuarial gains/losses – Change in benefits considered payable upon retirement:

	PV of retirement benefits	PV of death benefits	Other benefits	Total 2013	Total 2012
	RON	RON	RON	RON	RON
<b>Opening defined benefit obligation as at 1 January</b>	1,123,345	481,313	1,145,606	2,750,264	2,012,077
Service cost - previous years recognized in retained earnings as a result of benefits changes considered eligible	-	-	(1,145,606)	(1,145,606)	-
Current service cost	167,080	50,862	-	217,942	219,386
Interest cost	82,316	18,947	-	101,263	180,696
<b>Remeasurement (gains)/losses:</b>	965,333	-	-	965,333	458,310
- Remeasurement (gains)/losses - Experience	(73,920)	(37,873)	-	(111,793)	385,325
- Remeasurement (gains)/losses - Experience (change in employee benefit plan)	785,963	-	-	785,963	-
- Remeasurement (gains)/losses arising from changes in financial assumptions	253,290	37,872	-	291,162	72,985
Benefits paid (including releases in reserve due to involuntary termination)	(24,888)	(12,600)	-	(37,488)	(120,205)
<b>Closing defined benefit obligation as at 31 December</b>	<b>2,313,186</b>	<b>538,522</b>	<b>-</b>	<b>2,851,708</b>	<b>2,750,264</b>

The amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

	PV of retirement benefits	PV of death benefits	Total 2013	Total 2012
	RON	RON	RON	RON
Current service cost	167,080	50,862	217,942	219,386
Net interest expense	82,316	18,947	101,263	180,696
<b>Components of defined benefit costs recorded in profit or loss</b>	<b>249,396</b>	<b>69,809</b>	<b>319,205</b>	<b>400,082</b>

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**23. PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)**

The movements of net liabilities in the current period have been the following:

	PV of retirement benefits	PV of death benefits	Other benefits	Total 2013	Total 2012
	RON	RON	RON	RON	RON
Opening net liability arising from defined benefit obligation at 1 January	1,123,345	481,313	1,145,606	2,750,264	2,012,076
Service cost - previous years recognized in retained earnings as a result of benefits changes considered eligible	-	-	(1,145,606)	(1,145,606)	-
Components of defined benefit costs recorded in profit or loss	249,396	69,809	-	319,205	400,082
Components of defined benefit costs recorded in OCI	965,333	-	-	965,333	458,310
Benefits paid	(24,888)	(12,600)	-	(37,488)	(120,204)
<b>Closing balance of the discounted value of liabilities</b>	<b>2,313,186</b>	<b>538,522</b>	<b>-</b>	<b>2,851,708</b>	<b>2,750,264</b>

Estimation of the Profit or Loss Account for the financial year 2014:

	PV of retirement benefits	PV of death benefits	Total
	RON	RON	RON
Current service cost	150,965	72,952	223,917
Net interest expense 2014	95,032	22,739	117,771
<b>Total</b>	<b>245,997</b>	<b>95,691</b>	<b>341,688</b>

The estimation of the Profit or Loss Account for the financial year 2014 was computed by taking into account an average discount rate of 4% and an inflation rate of 3.5%.

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## 23. PENSIONS PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

Sensitivity analysis for each significant actuarial assumption:

Sensitivity analysis		PBO 31.12.2013 Retirement
Turnover	+ 3 %	1,593,749
	- 1 %	2,686,298
Discount rate	+ 1 %	2,301,335
	- 1 %	2,325,114
Mortality	+ 10 %	2,271,919
	- 10 %	2,355,498
Salary increase rate	+ 1 %	2,638,889
	- 1 %	2,035,614

  

Sensitivity analysis		PBO 31.12.2013 Death
Turnover	+ 3 %	319,371
	- 1 %	589,756
Discount rate	+ 1 %	538,906
	- 1 %	538,439
Mortality	+ 10 %	586,183
	- 10 %	489,867
Salary increase rate	+ 1 %	586,790
	- 1 %	495,865
Inflation	+ 1 %	586,850
	- 1 %	496,351

  

Other disclosures		31.12.2013
Average benefit duration		21
Average age of employees		44
Average discount rate		3.7%

## 24. TRADE AND OTHER PAYABLES (CURRENT)

Trade and other payables consist of the following:

	2013 RON	2012 RON
Current trade payables, from which:	57,576,160	39,329,539
- Intercompany trade payables (note 25)	5,780,988	7,722,292
Company issued notes to other entities, from which:	11,675,557	12,954,442
Payables for non-current assets, from which:	7,056,213	4,004,982
- Intercompany payables for non-current assets (note 25)	-	771,186
Accrued and withheld taxes on payroll	4,311,528	5,518,248
Salaries and wages	1,469,598	1,629,141
Advances from customers, from which:	938,883	1,002,696
- Intercompany advances from customers (note 25)	573,372	-
Accrued and other liabilities	104,190	485,432
Liabilities for other taxes	63,485	161,390
Short-term guarantees	139,472	332,921
<b>Total</b>	<b>83,335,086</b>	<b>65,418,791</b>

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## 24. TRADE AND OTHER PAYABLES (CURRENT) (continued)

Other short-term liabilities include short-term guarantees received, which at 31 December 2013 are in amount of RON 139,472 (31 December 2012: RON 332,921).

Concerning the Company's debts to the fiscal authorities, as of 31 December 2013, there is a balance to be paid of RON 4,375,013 (31 December 2012: RON 5,679,638), which represents the current debts of taxes and social debts of salaries, income tax of legal non-resident person which were required for compensation with input VAT from fiscal authorities. Current tax income as at 31 December 2013 is in amount of RON 2,406,829.

Trade payables are non-interest bearing and are, normally, settled on an average of 35 day terms.

## 25. TRANSACTIONS WITH RELATED PARTIES

TMK EUROPE GmbH Germania, part of OAO TMK is the major shareholder of TMK-ARTROM SA and of TMK - Resita SA.

The Company is part of OAO TMK group. OAO TMK is a producer of steel pipes in top 3 at worldwide level and it has 24 units of production in United States, Russia, Romania and Kazakhstan and 2 R&D centres (Research and Development) in Russia and United States. The biggest part of TMK sales refers to steel pipes for oil and natural gas industry and pipes for industrial purposes with high margin, in 85 countries.

TMK delivers its products, together with a large package of services (especially on heat treatment, tubes coated with corrosion protection systems for large depths, premium threaded connections, and other). OAO TMK is a public company registered in Russian Federation. TMK shares are listed on the main stock exchange from Russia – MICEX-TRS. GRD's sales are traded at London Stock Exchange and ADR's – at OTCQX International Trading Premier in USA.

The Company has relations with the following related parties from TMK group:

Society	Country home	Relationship
- OAO TMK Russia;	Russia	final parent
- TMK Europe GmbH, Germany (former TMK SINARA HANDEL GmbH)	Germany	parent (major shareholder)
- TMK IPSCO INTERNATIONAL, L.L.C., USA;	USA	related
- TMK IPSCO CANADA L.T.D., Canada;	Canada	related
- TMK Middle East, Dubai, United Arab Emirates	United Arab Emirates	related
- MK-RESITA S.A. Resita;	Romania	related
- TMK GLOBAL AG Zurich, Switzerland;	Switzerland	related
- TMK Italia s.r.l. Lecco, Italia	Italy	related
- Sinarsky pipe plant RUSIA	Russia	related
- Seversky pipe plant RUSIA	Russia	related
- Taganrog metallurgical Works RUSIA	Russia	related
- OJSC Volzsky Pipe Plant RUSIA	Russia	related
- RosNITI JSC RUSIA	Russia	related
- TMK-Inox RUSIA	Russia	related
- Trade House TMK	Russia	related
- TMK Real Estate SRL	Romania	related
- TMK Assets SRL	Romania	related
- TMK Land SRL	Romania	related
- Syntera Investment System LTD (former Sinara BG Eood)	Bulgaria	related

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**25. TRANSACTIONS WITH RELATED PARTIES (continued)**

**The balances of transactions with related parties**

<b>Trade Receivables</b>	<b>2013 RON</b>	<b>2012 RON</b>
TMK Europe GmbH	33,697,748	28,182,978
IPSCO International	27,986,429	12,987,604
TMK - RESITA S.A.	14,666,975	6,864,558
TMK Middle East	570,215	384,817
TMK Land	2,480	-
TMK Real Estate	620	-
TMK Assets	372	-
Seversky Pipe Plant	-	11,259
Taganrog metallurgical Works	-	3,753
OJSC Volzsky Pipe Plant	-	3,753
<b>Total</b>	<b>76,924,839</b>	<b>48,438,722</b>

<b>Other receivables</b>	<b>2013 RON</b>	<b>2012 RON</b>
TMK - RESITA S.A. (advances for purchase of goods)	123,393,647	82,652,053
TMK Europe GmbH (advances for purchase of goods)	7,303,786	304,165
TMK Real Estate (sundry debtors)	215,072	212,069
TMK - RESITA S.A. (sundry debtors)	8,391	84,388
<b>Total</b>	<b>130,920,896</b>	<b>83,252,675</b>

<b>Trade Payables</b>	<b>2013 RON</b>	<b>2012 RON</b>
Trade House TMK	3,759,900	-
TMK Europe GmbH	872,230	7,081,173
TMK Italia s.r.l.	610,725	1,102,888
OJSC Volzsky Pipe Plant	381,200	-
OAo TMK	48,826	82,421
Syntera Investment System LTD	44,126	11,799
RosNITI JSC RUSIA	37,609	-
TMK Real Estate	26,372	215,197
<b>Total</b>	<b>5,780,988</b>	<b>8,493,478</b>

<b>Other liabilities</b>	<b>2013 RON</b>	<b>2012 RON</b>
TMK Europe GmbH (loan)	74,376,902	76,715,466
TMK Europe GmbH (interest owed at reporting date)	42,847	47,015
<b>Total</b>	<b>74,419,749</b>	<b>76,762,481</b>

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**25. TRANSACTIONS WITH RELATED PARTIES (continued)**

**Transactions with related parties**

<b>Sales (Turnover)</b>	<b>2013 RON</b>	<b>2012 RON</b>
TMK Europe GmbH	207,011,701	234,505,041
TMK IPSCO International	108,917,887	140,272,358
TMK-RESITA S.A.	31,004,116	33,388,084
TMK Middle East	4,094,439	6,153,885
TMK-Inox RUSSIA	493,189	14,874
TMK IPSCO Canada	84,001	-
TMK Italia s.r.l.	24,020	312,120
TMK Real Estate	6,000	-
Sinarsky pipe plant	3,750	18,886
Taganrog metallurgical Works	3,750	18,886
Seversky pipe plant	3,675	18,886
TMK Assets	3,600	-
TMK Land	2,400	-
OJSC Volzsky Pipe Plant	-	22,639
TMK GLOBAL	(14,009)	935,698
<b>Total</b>	<b>351,638,519</b>	<b>415,661,357</b>

<b>Purchases</b>	<b>2013 RON</b>	<b>2012 RON</b>
TMK RESITA S.A.	549,213,618	592,016,880
TMK Europe GmbH	55,402,299	73,154,940
Trade House TMK	9,249,328	-
TMK Italia s.r.l.	8,856,712	9,189,652
TMK Real Estate	1,283,184	2,151,818
OJSC Volzsky Pipe Plant	377,052	-
Syntera Investment System LTD	297,648	320,239
OAo TMK	226,351	297,867
RosNITI JSC	108,635	51,475
TMK Ipsco International	25,983	-
TMK GLOBAL	15,242	23,803
<b>Total</b>	<b>625,056,052</b>	<b>677,206,674</b>

**Loans within the Group**

TMK Europe GmbH Germany (former TMK Sinara Handel GmbH), the parent company, it is creditor with the amount of RON 74,376,902 (31 December 2012: RON 76,715,466) representing USD 22,837,540 and RON 38,425.

The amounts are related to the loan given by parent company at 01.12.2008, as a result of AGEA from 17 November 2008, when were approved the changes of the nature and the delay from payment of the receivable owed by Company to TMK Europe GmbH in amount of USD 22,837,540 and RON 38,425 in the following conditions:



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**25. TRANSACTIONS WITH RELATED PARTIES (continued)**

- the loan will be paid in 57 instalments starting from 25 January 2014 to 25 September 2018 inclusively the debit in value of RON 38,425 of Company towards TMK Europe GmbH payable on 25 January 2014 will be settled in USD at the official exchange rate RON/USD of National Bank of Romania from the last working day of year 2013. The receivable has an interest of LIBOR + 0.5% p.a. starting from 1 January 2009. The interest is calculated and it is paid on the 15<sup>th</sup> of each month for the previous month.

On 21.11.2013, Addendum no.1 to the contract from 01.12.2008 was concluded by which it was established that the reimbursement of the loan will be made in 57 instalments starting from 25.01.2015 to 25.09.2018 and the value of RON 38,425 of the Company owed to TMK Europe GmbH payable on 25 January 2015 will be settled in USD at the official exchange rate RON/USD of the National Bank of Romania from the last business day of 2013.

The interest owed by TMK-ARTROM S.A. at 31 December 2013 is of USD 13,163.13 (31 December 2012: USD 15,668) and RON 42,847 RON (31 December 2012: RON 47,015), respectively.

For the loan presented above the Company has guarantees in favor of TMK Europe GmbH Germany (former TMK SINARA HANDEL GmbH), as follows:

1. First rank mortgage on lands in surface of 203.651,82 square meters and buildings.
2. Pledge without dispossession of goods of first rank on the hot rolling line, HPT 250 rolling mill, installation for non-destructive control with ultrasounds; Assel AWW250 mill, D 38-90 dressing mill; TTF furnace, Pilger SKW75 mill, induction heating system, normalizing heat treatment furnace and first-lien guarantee on the other assets of TMK Artrom S.A. according to registration no. 2004-1080142242453-QJU/March 24, 2004.
3. First rank mortgage on lands in surface of 211.614,54 square meters and related buildings inside TMK-Artrom S.A. according to agreement no. 1869/October 14.10.2003.
4. Real guarantee without dispossession of first rang goods on the other goods of TMK-Artrom S.A. according to the registration at the Electronic Archive for Security Interests in Movable Property, no. 2002-1034612284359-IUD/October 14.10.2003.

According to IAS 24.17, cash compensations granted to key-employees registered in 2013 are in amount of RON 13,033,973 (2012: RON 12,629,157).

**26. PROVISIONS**

Other short-term provisions	2013 RON	2012 RON
Provisions for quality complaints material cost	1,226,748	937,296
Provisions for quality complaints additional cost	305,870	93,855
Provisions for managers bonuses	2,764,562	3,017,725
<b>Total</b>	<b>4,297,180</b>	<b>4,048,876</b>

  

Other long-term provisions	2013 RON	2012 RON
Provisions for quality complaints material cost LT	197,691	197,691
Provisions for quality complaints additional cost LT	12,431	12,431
<b>Total</b>	<b>210,122</b>	<b>210,122</b>

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**26. PROVISIONS (continued)**

The movements in short-term provisions are as follows:

Short-term provisions	Provisions for quality complaints material cost	Provisions for quality complaints additional cost	Provisions for manager bonuses	Total
<b>At 1st January 2012</b>	<b>275,356</b>	<b>6,716</b>	<b>2,433,865</b>	<b>2,715,937</b>
Provisions set during the period	2,155,429	401,157	3,017,725	5,574,311
Used	(1,493,489)	(314,018)	(2,433,865)	(4,241,372)
<b>At 31st December 2012</b>	<b>937,296</b>	<b>93,855</b>	<b>3,017,725</b>	<b>4,048,876</b>
Provisions set during the period	1,446,675	369,567	2,764,562	4,580,804
Used	(1,157,223)	(157,552)	(3,017,725)	(4,332,500)
<b>At 31st December 2013</b>	<b>1,226,748</b>	<b>305,870</b>	<b>2,764,562</b>	<b>4,297,180</b>

There were no movements in long-term provisions during 2012 and 2013.

**27. FINANCIAL RISK MANAGEMENT – OBJECTIVES AND POLICIES**

The main financial liabilities of TMK-Artrom S.A. include bank loans, trade payables, loans from Group and leasing contracts. The main purpose of these financial liabilities is to increase the financing for Company's operations. The Company has also financial assets such as trade account receivables, cash and deposits, which result directly from its operations.

During its current activity, the Company is exposed to a number of financial risks: market risk (which includes interest rate risk, foreign currency risk and other price risk), liquidity risk and credit risk. The disclosure shows the Company's sensitivity towards all of each risks. The Management Committee establishes and revises the policies in order to supervise each category of risks presented below.

**Market risk**

The Company is exposed to risks from movements in interest rate, foreign currency exchange rates and market prices that affect its assets, liabilities and anticipated future transactions.

**Interest rate risk**

Interest rate risk is the risk that the fair value of cash flows of financial instruments will fluctuate because of changes in the market of interest rates. The policy of minimizing this risk is supervised by Financial Management and it is coordinated also by Financial Department of OAO TMK Group.

TMK-ARTROM borrows mainly on variable interest rates. In 2013, all loans had variable interest rates. In 2012, all loans had variable interest rates, EURIBOR serves mainly as the basis for the calculation of interest rate. Loans which had LIBOR as calculation basis for the interest rate represented 18.5% of portfolio at 31 December 2013 and 22% at the end of 2012, and those which had ROBOR as calculation basis represented 0.10% of portfolio at 31 December 2013 and 0.14% at the end of 2012. The market evolution in the last 3 years of EURIBOR and LIBOR made the Company not to consider necessary to use instruments to hedge, but the Company monitors interest rates level and it is disposed to use hedging instruments if it considers that it is necessary.

On 31 December 2013, the Company did not have financial assets with variable interest rate.

**TMK ARTROM S.A.**  
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**27. FINANCIAL RISK MANAGEMENT – OBJECTIVES AND POLICIES (continued)**

The following table demonstrates the analysis of sensitivity to possible changes in interest rate, with all other variables held constant of the profit before tax.

	Percentage points	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
<b>31 December 2013</b>			
increase in EURIBOR	10	(47)	(47)
decrease in EURIBOR	(10)	47	47
increase in LIBOR	10	(14)	(14)
decrease in LIBOR	(10)	14	14
<b>31 December 2012</b>			
increase in EURIBOR	10	(147)	(147)
decrease in EURIBOR	(10)	147	147
increase in LIBOR	10	(19)	(19)
decrease in LIBOR	(10)	19	19

**Foreign currency risk**

The Company's exposure to foreign currency risk relates to sales, purchases and borrowings denominated in a currency other than the functional currency of the Company. The currencies in which these transactions and balances are denominated are EUR and USD.

The Company signed EUR/RON and USD/RON forward contracts in order to cover the exposure to foreign currency risk. The fair value of EUR/RON forward contracts in the amount of RON 10,750 was included at the end of 2011 in other financial assets, and at the end of 2012 in other financial assets for USD/RON forward contracts in the amount of RON 51,158 and at other financial debts for EUR/RON forward contracts in the amount of RON 101,002. At 31 December 2013, the Company does not have cash flow hedging operations for sales in EUR and USD in the following period.

## **27. FINANCIAL RISK MANAGEMENT – OBJECTIVES AND POLICIES (continued)**

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the profit before tax.

	Percentage volatility	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
<b>31 December 2013</b>			
EUR/RON	10%	(20,826)	(20,826)
EUR/RON	(10 %)	20,826	20,826
USD/RON	10%	(4,590)	(4,590)
USD/RON	-10%	4,590	4,590
<b>31 December 2012</b>			
EUR/RON	10%	(18,495)	(18,495)
EUR/RON	-10%	18,495	18,495
USD/RON	10%	(3,908)	(3,908)
USD/RON	-10%	3,908	3,908

### **Liquidity risk**

Liquidity risk arises when the Company encounters difficulties to fulfill commitments associated with liabilities. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities, under both normal and stressed conditions, without incurring unacceptable losses to Company's reputation.

The Company tries to target an optimal ration between equity and total debt. And to maintain an appropriate level of liquidity and financial capacity as to minimize interest expenses and to have an optimal profile of composition and duration of liabilities.

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**27. FINANCIAL RISK MANAGEMENT – OBJECTIVES AND POLICIES (continued)**

The table below summarizes the maturity profile of the Company's financial liabilities, including interest payments.

Liquidity risk	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
<b>31 December 2013</b>					
Interest bearing loans payable (including future interest)	5,308,678	176,237,618	190,450,580	11,875,252	383,872,128
Lease	207,537	465,025	166,138	-	838,700
Other non-current liabilities	-	9,283	13,795	2,851,708	2,874,786
Trade and other payables	82,218,033	178,170	-	-	82,396,203
Other current liabilities	2,406,829	-	-	-	2,406,829
<b>Total</b>	<b>90,141,077</b>	<b>176,890,096</b>	<b>190,630,513</b>	<b>14,726,960</b>	<b>472,388,646</b>
<b>31 December 2012</b>					
Interest bearing loans payable (including future interest)	12,163,858	36,942,130	302,678,045	12,252,548	364,036,581
Lease	178,831	536,495	723,355	-	1,438,681
Other non-current liabilities	26,028	121,995	86,234	2,750,264	2,984,521
Trade and other payables	64,416,095	-	-	-	64,416,095
Other current liabilities	2,545,168	101,002	-	-	2,646,170
<b>Total</b>	<b>79,329,980</b>	<b>37,701,622</b>	<b>303,487,634</b>	<b>15,002,812</b>	<b>435,522,048</b>

**Credit risk**

Credit risk represents the potential exposure of the Company to losses that would be recognized if counterparties failed to fulfill their commitments on due date, according to a financial instrument, to a contract, therefor leading to a financial loss.

The Company is exposed to credit risk from its operating activities (mainly for trade receivables) and from its financing activities, including deposits in banks and in financial institutions, currency exchange transactions and other financial instruments.

**Net cash**

Net cash from operating activities decreased in year 2013 compared to prior period because of an increase of payments made to suppliers and of advances to TMK Resita SA and also to an increase in turnover in the 4<sup>th</sup> quarter of 2013 as compared to the same quarter of 2012.

Net cash from operating activities increased in 2012 as compared to the previous period due to the payments made to TMK-Resita SA for the acquisition of profiles intended for reselling to export.

Net cash from investing activities decreased in 2013 as compared to 2012 because of the increase of payments made for the purchase of Property, plant and equipment mainly for new non-damageable pipe control equipment, for a fixed length pipe-cutting device and also for equipment purchased in advance to equip a new production unit "Department no.4 Pipes for Hydraulic Cylinders".

Net cash from investment activities increased in 2012 as compared to 2011 due to the reimbursement of the loan by TMK-Resita SA..

## **27. FINANCIAL RISK MANAGEMENT – OBJECTIVES AND POLICIES (continued)**

Net cash from financing activities increased in 2013 as compared to 2012 due to the increase in using the BCR overdraft line of credit from EUR 5.9 mil. as of 31.12.2012 to EUR 18.9 mil. as of 31.12.2013 and of EUR 1.7 mil. received from Unicredit Tiriatic Bank for financing current needs.

In November 2013, the balance of the loan received from VTB Bank Austria of EUR 14.1 mil. was reimbursed in advance through refinancing from Unicredit Tiriatic Bank in order to reduce the financing costs (there was a decrease of the fixed interest margin from 4% to 1.9%).

### **Trade receivables**

Client's credit risk is monitored according to established policy, to procedures and to supervision regarding clients' credit risk management.

Starting 1 July 2011 a Commercial Credit Committee was elected and its regulation started to take effect for a better coordination of financial discipline and for Company's receivables security.

The provisions of this regulation are applied on sales done directly to third parties, on both internal and external parties, on sales for client with TMK Italy as well as for East Europe.

The monitoring activity of credit risk is performed according to a set of guidelines and technique measurements which qualify and monitor counterparty risk.

The Company sells its products to external and internal partners and it offers them credit limits from 30 to 90 days, depending on their reliability.

The offered credit limits are approved by Commercial Credit Committee and they are revised quarterly, but they can be updated during the year when it is necessary. They are set in order to minimize concentration of risks and to reduce, therefor, financial losses caused by potential non-payment.

In order to limit the credit risk, the Company signed with COFACE S.A. on 1 October 2012 a contract to secure the non-payment risk for almost the entire portfolio of sales to third parties. In 2013, the Company decided to maintain the contract of securing the non-payment risk with Coface, but this time with the subsidiary from Germany which offered an insurance premium significantly lower under the same conditions as those from the previous year. Credit limits granted by Coface S.A covered 70% of requested limits for external clients and on internal market 51.5% of requested limits, so that clients which are not covered by Coface S.A in percentage of 100% are carefully monitored in order to limit the possible losses from non-collection.

### **Financial instruments, cash and deposits**

Credit risk which derives from cash and deposits from banks (Banca Comerciala Romana) is coordinated by the Financial Management according to the Company's and Group's policy. A part from the cash and deposit from banks are pledged in favor of banks for securing loans.

**27. FINANCIAL RISK MANAGEMENT – OBJECTIVES AND POLICIES (continued)**

The split of the balances of monetary receivables and liabilities by foreign currency:

**31 December 2013**

Financial position	RON	EUR	USD	GBP	TOTAL
Cash and cash equivalents	450,216	1,050,408	165,236	1,438	<b>1,667,297</b>
Trade and other receivables	76,671,746	103,559,918	28,557,705	-	<b>208,789,369</b>
<b>Total assets</b>	<b>77,121,961</b>	<b>104,610,326</b>	<b>28,722,941</b>	<b>1,438</b>	<b>210,456,666</b>
Interest-bearing loans and borrowings payable (including future interests)	403,335	307,353,509	76,115,284	-	<b>383,872,128</b>
Lease	-	838,700	-	-	<b>838,700</b>
Trade and other payables	63,261,182	18,935,231	199,790	-	<b>82,396,203</b>
Other long-term liabilities	2,862,061	12,725	-	-	<b>2,874,786</b>
Other short-term liabilities	2,406,829	-	-	-	<b>2,406,829</b>
<b>Total liabilities</b>	<b>68,933,407</b>	<b>327,140,165</b>	<b>76,315,074</b>	<b>-</b>	<b>472,388,646</b>

**31 December 2012**

Financial position	RON	EUR	USD	GBP	TOTAL
Cash and cash equivalents	2,107,635	2,798,772	25,555,709	1,361	<b>30,463,476</b>
Other current assets	500,000	-	51,158	-	<b>551,158</b>
Trade and other receivables	76,809,173	94,394,018	13,301,930	-	<b>184,505,121</b>
<b>Total assets</b>	<b>79,416,808</b>	<b>97,192,790</b>	<b>38,908,797</b>	<b>1,361</b>	<b>215,519,755</b>
Interest-bearing loans and borrowings payable (including future interests)	531,005	284,723,252	78,782,324	-	<b>364,036,581</b>
Lease	-	1,438,681	-	-	<b>1,438,681</b>
Other long-term liabilities	2,984,521	-	-	-	<b>2,984,521</b>
Trade and other payables	43,850,535	19,836,509	396,129	-	<b>64,083,174</b>
Other short-term liabilities	2,878,089	101,002	-	-	<b>2,979,091</b>
<b>Total liabilities</b>	<b>50,244,150</b>	<b>306,099,444</b>	<b>79,178,453</b>	<b>-</b>	<b>435,522,048</b>

Negative differences existing between monetary assets and liabilities are justified by the existing of a long-term loans portfolio for which repayments were taken into account the cash flows resulted from future sales. The administration of the company is controlled by the shareholders and by the financial auditor, according to legal regulations valid in Romania.

The Internal Audit Service of TMK-Artrom SA, which, starting with July 2013, was transformed into the Department of Internal Audit and Risk Analysis is subordinated to the CEO of TMK-Artrom SA and it operates to assess, through a systematic and methodical approach, the existing processes of internal control, risk management and corporate governance. To ensure an efficient risk management system and the compliance with the international regulations, starting with July 2013, the Risk Management Compliance Committee which coordinates these activities for the companies within TMK European Division was also formed.

In December 2013, the collaboration with Marsh Broker Asigurare-Reasigurare from Romania has begun, which will perform the following:

1. Auditing the risk and preparing a report underlining the major risks faced by the company and the measures for reducing these risks;
2. Identifying the risks transferable to reinsurance;
3. Requesting solutions from the insurance market, negotiating offers, presenting the comparative report with valid options for TMK ARTROM;
4. Managing the insurance program (notifications, expiry, renewals).

## **27. FINANCIAL RISK MANAGEMENT – OBJECTIVES AND POLICIES (continued)**

5. Assistance in case of damage and assistance in the recovering of damage and a consultant for each event.
6. Providing continued reports and informs regarding the changes of insurance market from Romania and not only.

The internal audit is performed based on the provisions of Art. 20 of OUG no.75/1999 regarding the financial audit activity, having as purpose an objective review of the overall activities of the economic entity for providing an independent assessment on risk management, control and its managing processes.

The purposes of internal audit agreed with the Company management and the Audit Committee of the Board of Directors according to the legal provisions in force are:

- a) verifying the compliance of the audited economic entity's activities with its policies, programs and management, according to the legal provisions;
- b) assessing the extent of adequacy and applicability of the financial and non-financial controls, disposed and made by the entity management for increasing the efficiency of the economic entity's activity;
- c) assessing the adequacy of the financial and non-financial data/information for management to see the reality from the economic entity;
- d) protecting the balance sheet and off-balance sheet patrimonial items and identification of the methods of preventing the frauds and any other type of losses.

## **28. FUTURE COMMITMENTS AND CONTINGENT LIABILITIES**

Total commitments for the acquisition of fixed assets as at 31 December 2013 are of RON 18,504,919 (31 December 2012: 12,777,619).

The interest related to lease contracts represents a contingent liability. At 31 December 2013, the Company registers the amount of RON 29,047 (EUR 6,477) as interest payable for lease contracts which have not reached maturity yet.

There are no other significant contingent liabilities or commitments to be presented.

## **29. EVENTS AFTER THE REPORTING PERIOD**

The Board of Directors proposes accounting profit distribution of year 2013, in amount of RON 11,821,386, to the reserve fund in the amount of RON 656,186, according to law 31/1990, annually 5% from gross profit (but not more than 20% of share capital) and the difference of RON 11,165,200 for covering the accounting losses from previous years.

Retained earnings from the changes in accounting policies due to changes in IAS 19 – profit – in amount of RON 1,554,175 is proposed to cover the accounting losses from previous years. Thus, uncovered accounting losses from previous years related to the activity which will have to be covered from the profits of the future years are of RON 9,916,468.

According to provisions of OMFP 1690/12.12.2012 with additions and changes from OMFP 1286/2012 and provisions of OMFP 213/15.02.2013 with additions brought to OMFP 1286/2012 for approving the Accounting regulations according to international financial reporting standards, applicable to companies of which securities are admitted to trading on a regulated market the articles:

"1291. – The accounting loss carried forward from the transition to IFRS, from the first time adoption of IAS 29, and also that resulted from using fair value as deemed cost, at the date of transition to IFRS, is covered from equity, according to the decisions of the shareholders general meeting, in compliance with the legal provisions."



## **29. EVENTS AFTER THE REPORTING PERIOD (continued)**

"1292. – In applying these regulations, equity which can be used for covering the reported accounting loss include also the amounts reflected in the credit of the account 1028 "Adjustments of share capital."

The Board of Directors proposes to cover the accounting losses carried forward from the transition to IFRS and also from the first time adoption of IAS 29 from:

- retained earnings representing the realized surplus from revaluation reserves in 2004-2006 which were not recognized from a fiscal point of view (at the change of destination they are non-taxable) in amount of RON 5,239,743.
- retained earnings representing realized surplus from revaluations reserves made after 01.01.2004 taxed in statement of income tax according to OUG 34/2009 starting with 01.05.2009, elements of taxable revenues (2012 + 2013) in amount of RON 11,888,902.
- Thus, retained earnings representing accounting losses carried forward from the transition to IFRS and also from the first time adoption of IAS 29 will be of RON 6,158,919.

**Chief Executive Officer,**  
**Ing. Popescu Adrian**

**Chief Economical and Accountancy Officer,**  
**Ec. Vaduva Cristiana**