

TMK-ARTROM S.A.

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

31 DECEMBER 2014

CONTENTS

STATEMENT OF COMPREHENSIVE INCOME.....	3
STATEMENT OF FINANCIAL POSITION.....	4
STATEMENT OF CHANGES IN EQUITY.....	5
CASH FLOW STATEMENT.....	6
1. CORPORATE INFORMATION	7
2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS	7
2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	7
3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS.....	16
4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES.....	17
4.2. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED	18
5. TURNOVER	21
6. COST OF SALES.....	22
7. SELLING AND DISTRIBUTION EXPENSES	23
8. PROMOTION AND ADVERTISING EXPENSES	23
9. GENERAL AND ADMINISTRATIVE EXPENSES.....	23
10. RESEARCH AND DEVELOPMENT EXPENSES.....	24
11. OTHER INCOME/EXPENSES AND ADJUSTMENTS	24
12. INCOME TAX.....	26
13. EARNINGS PER SHARE.....	28
14. PROPERTY, PLANT AND EQUIPMENT.....	28
15. INTANGIBLE ASSETS	30
16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES.....	30
17. OTHER NON-CURRENT ASSETS	37
18. INVENTORIES.....	37
19. TRADE AND OTHER RECEIVABLES (CURRENT)	38
20. PREPAYMENTS	40
21. CASH AND SHORT-TERM DEPOSITS	40
22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS	41
23. PENSIONS PLANS AND OTHER POST-EMPLOYMENT BENEFITS	43
24. TRADE AND OTHER PAYABLES (CURRENT).....	48
25. TRANSACTIONS WITH RELATED PARTIES.....	48
26. PROVISIONS.....	52
27. MANAGEMENT OF FINANCIAL RISK – OBJECTIVES AND POLICIES	53
28.COMMITMENTS AND CONTINGENT LIABILITIES	59
29.SUBSEQUENT EVENTS	59

TMK ARTROM S.A.
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Note	2014 RON	2013 RON
Turnover	5	972,488,567	876,753,359
Sales of goods	5	971,841,342	876,030,093
Rendering of services	5	647,225	723,266
Cost of Sales	6	(814,267,220)	(755,644,521)
Gross profit		158,221,347	121,108,838
Selling and distribution expenses	7	(65,632,705)	(58,963,396)
Advertising and promotion expenses	8	(9,660)	(152,808)
General and administrative expenses	9	(29,373,185)	(28,491,511)
Research and development expenses	10	(271,805)	(184,654)
Other operating expenses	11.2	(2,834,817)	(4,549,565)
Other operating income	11.1	319,044	263,828
Income from operations		60,418,219	29,030,732
Foreign exchange (loss) / gain, net		(4,522,224)	(3,866,984)
Finance income	11.4	10,187	77,552
Finance costs	11.3	(8,189,912)	(12,055,662)
Gains / (losses) on financial instruments		-	(61,908)
Profit before tax		47,716,270	13,123,730
Income tax	12	(7,098,715)	(1,302,344)
Profit for the year		40,617,555	11,821,386
Other comprehensive income - which can be reclassified to profit or loss			
Net movement on cash flow hedges	16	-	111,752
Income tax effect	12	-	(17,880)
Other comprehensive income - which cannot be reclassified to profit or loss			
Actuarial gains/(losses)	23	328,817	(1,373,902)
Income tax effect	12	101,843	-
Other comprehensive income (loss) for the year, net of tax		430,660	(1,280,030)
Total comprehensive income for the year, net of tax		41,048,215	10,541,356
Average number of shares		116,170,334	116,170,334
Earnings per share		0.35	0.10

TMK ARTROM S.A.
STATEMENT OF FINANCIAL POSITION
as of 31 December 2014

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

	Note	2014 RON	2013 RON
ASSETS			
Current assets			
Cash and cash equivalents	21	29,473,937	1,667,297
Trade and other receivables	19	203,310,913	208,789,369
Inventories	18	125,439,860	152,427,445
Prepayments	20	133,720,091	132,894,909
		491,944,801	495,779,020
Non-current assets			
Intangible assets	15	141,141	187,081
Property, plant and equipment	14	446,089,606	443,593,736
Financial assets	16.1.	288,350	-
Other non-current assets	17	11,371,656	3,505,132
		457,890,753	447,285,949
Total assets		949,835,554	943,064,969
LIABILITIES			
Current liabilities			
Trade and other payables	24	80,297,342	82,396,203
Advances from customers	24	1,940,497	938,883
Provisions and accruals	26	4,476,010	4,297,180
Interest-bearing loans and borrowings	16.2.	106,310,018	173,996,492
Finance lease liability	16.2.	216,515	647,014
Income tax payable	24	1,386,460	2,406,829
Total current liabilities		194,626,841	264,682,601
Non-current liabilities			
Interest-bearing loans and borrowings	16.2.	230,297,552	192,998,018
Finance lease liability	16.2.	75,453	162,639
Deferred tax liability	12	37,882,900	39,335,628
Provisions and accruals	26	429,472	210,122
Employee benefits liability	23	2,661,347	2,851,708
Other long-term liabilities	16.2.	12,599	23,078
Total non-current liabilities		271,359,323	235,581,193
Total liabilities		465,986,164	500,263,794
EQUITY			
Capital and reserves			
Share capital, from which:		291,587,538	291,587,538
- Subscribed and paid share capital	22	291,587,538	291,587,538
Other elements of equity-	22	(943,242)	(1,373,902)
Legal and other reserves	22	17,159,099	13,434,393
Retained earnings	22	135,428,440	127,331,760
Profit of the year		40,617,555	11,821,386
Total equity		483,849,390	442,801,175
Total liabilities and equity		949,835,554	943,064,969

TMK ARTROM S.A.
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

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

	Issued capital RON	Other reserves - legal reserves RON	Other reserves - other than legal reserves RON	Retained earnings RON	Other elements of equity - Cash flow hedge reserve RON	Other elements of equity - from applying IAS 19 RON	Total equity RON
For year ended as at 31 December 2014							
As at 1 January 2014	291,587,538	12,576,840	857,554	139,153,146	-	(1,373,902)	442,801,175
Profit of the year	-	-	-	40,617,555	-	-	40,617,555
Other comprehensive income / (loss) for the year, net of tax	-	-	-	-	-	430,660	430,660
Total comprehensive income	-	-	-	40,617,555	-	430,660	41,048,215
Set-up of legal reserves from profit of the year	-	2,315,345	-	(2,315,345)	-	-	-
Set-up of reserves for reinvested profit	-	70,468	1,338,893	(1,409,361)	-	-	-
At 31 December 2014	291,587,538	14,962,653	2,196,447	176,045,994	-	(943,242)	483,849,390
For year ended as at 31 December 2013							
As at 1 January 2013	899,681,339	11,920,654	857,554	(481,660,030)	(93,872)	-	430,705,644
Profit of the year	-	-	-	11,821,386	-	-	11,821,386
Other comprehensive income / (loss) for the year, net of tax	-	-	-	-	93,872	(1,373,902)	(1,280,030)
Total comprehensive income	-	-	-	11,821,386	93,872	(1,373,902)	10,541,356
Adjustment of share capital	(608,093,801)	-	-	608,093,801	-	-	-
Actuarial operations IAS 19 revised	-	-	-	1,554,175	-	-	1,554,175
Set-up of reserves from profit of the year	-	656,186	-	(656,186)	-	-	-
At 31 December 2013	291,587,538	12,576,840	857,554	139,153,146	-	(1,373,902)	442,801,175

According to the General Meeting of Shareholders decision from 26 April 2013 the Company accounted for covering of reported losses resulted from first time adoption of IFRS as well as from the first time application of IAS 29 from share capital adjustments (inflation period 1990-2003 and amounts recognized according to IFRS), in amount of RON 608,093,801.

In 2013, the Company applied IAS 19 revised and 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 resulted in a reduction of the provision for employees benefits at 1.1.2013 through equity in amount of RON 1,145,606. Furthermore, the Company transferred the actuarial losses accumulated in the previous years (period 2007-2012) in other items of equity in amount of RON 408,569 according to IAS 19 revised.

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

The Company applied IAS 19 revised and 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 employees benefits at 31.12.2012 on account of retained earnings in amount of RON 1,145,606. Furthermore, the Company transferred the actuarial losses accumulated in the previous years (period 2007-2012) in other items of equity on account of retained earnings in amount of RON 408,569 according to IAS 19 revised.

TMK ARTROM S.A.
CASH FLOW STATEMENT
for the year ended 31 December 2014
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

Indirect method	Note	1 January - 31 December 2014 RON	1 January - 31 December 2013 RON
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (Loss) before tax		47,716,270	13,123,730
Plus / minus adjustments for:			
Depreciation	14, 15	29,787,488	27,257,808
Increase / (reversal) of provisions	26	178,830	248,304
Increase / (reversal) of allowances for current assets	18, 19	613,145	239,018
Exchange rate differences		6,462,989	1,039,637
Variation of retirement benefits	23	245,068	281,717
Result from disposal of non-current assets		1,784,559	3,716,996
Interest and related expenses		7,468,501	11,978,110
Other non-monetary elements from hedge		-	61,908
Plus / minus adjustments for changes in working capital related to operating activities:			
Decrease / (increase) in inventories	18	22,538,206	(2,739,386)
Decrease / (increase) in trade and other receivables and prepayments	19	4,154,930	(71,442,714)
(Decrease) / increase in payables (except banks)	24	3,920,946	10,042,007
less:			
Interest paid		(7,705,443)	(12,129,739)
Income tax paid		(5,077,023)	(738,786)
Total inflows / (outflows) from operating activities (a)		112,088,467	(19,061,390)
CASH FLOWS FROM INVESTING ACTIVITIES			
Amount received from disposal of non-current assets		86,005	105,445
Purchase of tangible and intangible assets	14	(43,276,241)	(38,539,223)
Interest received	11.4	10,187	77,552
Total inflows / (outflows) from investing activities (b)		(43,180,049)	(38,356,226)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received		-	127,287,799
Repayment of loans		(40,589,550)	(97,892,458)
Repayment of finance leases (amortization)		(512,228)	(773,904)
Total inflows / (outflows) from financing activities (c)		(41,101,778)	28,621,437
Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c)		27,806,640	(28,796,179)
Cash and cash equivalents at beginning of period	21	1,667,297	30,463,476
Cash and cash equivalents at end of period	21	29,473,937	1,667,297

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

1. CORPORATE INFORMATION

These financial statements of TMK ARTROM S.A. (the "Company") for the year ended as at 31 December 2014 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 authorised for issue in accordance with the resolution of the Administrators dated 26 March 2015.

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. OAO TMK is ultimately controlled by Mr. D.A.Pumpyanskiy.

TMK Group's consolidated financial statements are available for inspection at www.tmk-group.com.

TMK ARTROM SA 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 85% of the plant's output is intended for sales outside of Romania, mainly within other EU countries, the 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.

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.

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) Going concern

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

b) Transactions in foreign currencies

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

	31 December 2013	31 December 2014
1 EUR	4.4847	4.4821
1 USD	3.2551	3.6868

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.

c) 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 ongoing 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.

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

d) 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 determinates 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.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

e) 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.

No provisions are set up for affiliates.

f) 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.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The tooling transferred from inventories to fixed assets are depreciated over the useful life estimated considering the specified use.

g) 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.

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.

h) Prepayments for property, plant, and equipment

Advances paid for acquisition of property plant and equipment are considered non-monetary assets and for cash flow presentation are assimilated to property, plant and equipment.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Finished goods and work in progress comprise of cost of direct materials and labor and a proportion of manufacturing overheads, allocated based on the normal operating capacity – the level of production equipment used (which is as full capacity). The allocation is made based on the quantity produced.

For the output of inventories, the cost is measured and register by applying the first in – first out method for raw material and consumables and weight average cost method for work in progress and finished goods.

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.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The interest cost is recognized in finance costs.

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.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

t) Reportable segments

The Company does not have reportable segments.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, 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 incurs costs mostly in the national currency RON;
- The Company earns revenues in a proportion of 17% in the national currency RON, and the balance in either 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.

➤ 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.

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 annually. In considering the value of retirement benefits the management considered the following changes in the estimates compared with prior year: I.e, discount rate decreased from 3.7% to 3.1%, , average salary increase was decreased from 3.5% to 2.6% and the decrease of social contributions of 5% was also considered..

➤ 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 2014:

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**
- **IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets**
- **IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting**
- **IFRIC Interpretation 21: Levies**

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 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 clarifies 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. This change has no impact on financial statements.

- **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. This change has no impact on 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. The change has no impact on 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. The management considers that this interpretation has no significant impact on financial statements.

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 2014, the following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted from the Company:

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IAS 19 Employee benefits (Amended): Employee Contributions**

The amendment is effective for annual periods beginning on or after 1 February 2015. 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. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 9 Financial Instruments – Classification and measurement**

The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Management of the Company is in the process of assessing the impact of the new standard 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. 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.

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

- **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.

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. 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.

The IASB has issued the **Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. Management has assessed the following:

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:** The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.
- **IFRS 7 Financial Instruments: Disclosures:** The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.
- **IAS 19 Employee Benefits:** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

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

- **IAS 34 Interim Financial Reporting:** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.
- **IAS 1: Disclosure Initiative (Amendment)**
The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. These amendments have not yet been endorsed by the EU. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

5. TURNOVER

The chiefs executives are monitoring overall the operational results of the Company, in the purpose to decide the allocation of the resources and to measure the performance. The performance is measured based on the operational result included in the financial statements.

	2014 RON	%	2013 RON	%
Domestic sales	251,271,522	25.84	191,274,480	21.82
Sales abroad	721,217,045	74.16	685,478,879	78.18
Total	972,488,567	100	876,753,359	100

	2014 RON	2013 RON
Sales of pipes produced by TMK-ARTROM from which:		
Domestic	130,758,051	150,663,950
Europe	502,381,381	490,009,218
North America	202,560,918	109,001,888
Other areas	12,066,094	8,908,165
Total sales of pipes	847,766,444	758,583,221
Sales of other goods and services from which:		
Sales of other goods on domestic market	119,912,786	40,043,735
Sales of other goods on external market	4,162,112	77,403,137
Rendering of services on domestic market	600,685	566,795
Rendering of services on external market	46,540	156,471
Total sales of other goods and services	124,722,123	118,170,138
Total turnover	972,488,567	876,753,359

Turnover increased with 11% in year 2014 compared to 2013 due to the increase of turnover from sold production with 11.8% and due to the increase in the sales of goods purchased to be resold with 3%.

The turnover from sold production increased due to the increase of physical volume of sold pipes produced by TMK ARTROM , but also due to the increase with 4.3% of their average selling price.

The selling volume of the goods purchased to be resold increased in year 2014 with 3% due to the increase of the wholesale trade activity in the free zone Constanta with metallurgical products (billets, blooms, pipes) purchased from related companies.

The sales were made in year 2014 directly and by related parties traders as follows:

- In Romania and Est Europe directly to customers;
- In North Europe especially direct sales using as agent TMK Europe, major shareholder, and also using TMK Europe as trader for the opened orders existing at the beginning of the year;
- In South and West Europe direct sales to customers but using the agent TMK Italia from Lecco;
- In USA by TMK-IPSCO, Houston, and in East respectively TMK Middle East – Dubai and directly to customers.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

5. TURNOVER (continued)

Geographical information

Gross margin on geographical areas

1 January - 31 December 2014	Romania RON	Europe RON	North America RON	Other countries RON	Total RON
Turnover (Sales)	251,271,522	506,590,033	202,560,918	12,066,094	972,488,567
Cost of Sales	(240,111,657)	(424,179,963)	(139,493,319)	(10,482,281)	(814,267,220)
Gross Margin	11,159,865	82,410,070	63,067,599	1,583,813	158,221,347

1 January - 31 December 2013	Romania RON	Europe RON	North America RON	Other countries RON	Total RON
Turnover (Sales)	191,274,480	567,568,826	109,001,888	8,908,165	876,753,359
Cost of Sales	(172,472,492)	(497,945,963)	(81,701,005)	(3,525,061)	(755,644,521)
Gross Margin	18,801,988	69,622,863	27,300,883	5,383,104	121,108,838

6. COST OF SALES

Cost of sales for the year ended as at 31 December, consisted of the following:

	2014 RON	2013 RON
Raw materials	512,870,015	507,799,644
Energy and utilities	57,280,468	53,648,720
Consumables	51,205,656	51,664,172
Staff cost (note 11.5)	46,340,351	43,239,066
Depreciation and amortisation	27,951,908	25,624,257
Social security expenses (note 11.5)	12,521,747	12,159,865
Other compensations for employees	4,469,846	4,337,586
Repairs and maintenance	3,818,870	3,322,170
Professional fees and services	2,389,965	1,714,310
Freight	1,878,992	1,807,013
Taxes	1,386,580	1,044,548
Travel	606,984	524,512
Insurance	92,859	126,299
Rent	143,205	117,894
Communications	76,830	64,653
Other expenses	17,394	1,359
Total production cost	723,051,670	707,196,068
Change in own finished goods and work in progress	15,674,524	(20,531,246)
Cost of sales of externally purchased goods	86,779,268	83,383,446
Capitalized production costs	(10,847,266)	(14,138,569)
Obsolete stock, write-offs / (reversal of write-offs) (note 18)	(390,976)	(265,178)
Cost of sales	814,267,220	755,644,521

7. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the year ended as at 31 December consisted of the following:

	2014 RON	2013 RON
Freight	41,847,324	41,837,647
Professional fees and services	15,395,134	9,884,596
Staff cost (note 11.5)	3,050,838	2,765,725
Bad debt expense (note 19)	1,004,121	504,957
Consumables	993,011	836,166
Social security expenses (note 11.5)	819,777	777,614
Insurance	694,565	978,112
Depreciation and amortisation	520,932	468,588
Travel	323,524	91,218
Other compensations for employees	316,012	294,820
Taxes	251,267	213,218
Utilities and maintenance	181,103	196,392
Other expenses	119,686	2,665
Communications	115,066	111,678
Rent	345	-
Selling and distribution expenses	65,632,705	58,963,396

8. PROMOTION AND ADVERTISING EXPENSES

Promotion and advertising expenses for the year ended as at 31 December, consisted of the following:

	2014 RON	2013 RON
Marketing expenses	9,660	147,640
Materials	-	5,168
Promotion and advertising expenses	9,660	152,808

9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended as at 31 December consisted of the following:

	2014 RON	2013 RON
Staff cost (note 11.5)	12,053,420	11,683,061
Professional fees and services	4,493,579	4,171,481
Social security expenses (note 11.5)	3,289,082	3,347,360
Other compensations for employees	2,287,226	2,450,557
Depreciation and amortisation	1,314,649	1,164,962
Rent	1,224,259	1,388,486
Travel	1,090,125	1,051,906
Utilities and maintenance	1,042,739	1,082,525
Consumables	994,394	886,402
Communications	836,351	530,291
Taxes	340,987	309,615
Other expenses	282,138	318,144
Insurance	124,236	106,721
General and administrative expenses	29,373,185	28,491,511

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the year ended as at 31 December consisted of the following:

	2014 RON	2013 RON
Professional fees and service	175,266	93,419
Staff cost (note 11.5)	71,942	69,352
Social security expenses (note 11.5)	19,417	19,622
Consumables	3,010	6
Other compensations for employees	2,170	2,255
Research and development expenses	271,805	184,654

11. OTHER INCOME/EXPENSES AND ADJUSTMENTS

11.1 Other operating income

Other operating income for the year ended as at 31 December consisted of the following:

	2014 RON	2013 RON
Green certificates damages (rate of adjustment for year 2013 from supplier CEZ Vanzare)	155,941	-
Damages, trial expenses	143,299	216,010
Special grants - subsidies	10,353	15,675
Other income	9,451	8,509
Sales of gas emission certificates	-	23,634
Total	319,044	263,828

11.2 Other operating expenses

Other operating expenses for the year ended as at 31 December consisted of the following:

	2014 RON	2013 RON
Loss on disposal of property, plant and equipment	1,784,560	3,716,996
Social actions expenses	715,200	552,781
Sponsorship and charitable donations	115,248	29,017
Staff costs - medical dispensary	96,655	97,408
Professional fees and services	66,000	66,000
Social security costs - medical dispensary	26,713	27,144
Penalties - legal entities	4,105	12,463
Fines and penalties	2,265	3,548
Travel non-deductible expenses	-	12,469
Other expenses	24,071	31,743
Total	2,834,817	4,549,565

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

11. OTHER INCOME/EXPENSES AND ADJUSTMENTS (continued)

11.3 Financial costs

Financial costs for the year ended as at 31 December consisted of the following:

	2014 RON	2013 RON
Interest on long-term loans and borrowings (note 16.2)	5,949,731	8,180,990
Interest on short-term loans (note 16.2)	1,462,087	2,312,519
Amortized cost of issuance fee	432,412	905,313
Other financial expenses	271,542	308,018
Interest on financial leasing	26,757	58,366
Discount fees and charges of promissory note	47,383	290,456
Total	8,189,912	12,055,662

11.4 Financial income

Financial income for the year ended as at 31 December consisted of the following:

	2014 RON	2013 RON
Interest on deposits	6,815	74,656
Other financial income	3,372	2,896
Total	10,187	77,552

Net gain / (net loss) from foreign exchange differences:

	2014 RON	2013 RON
Revenues from foreign exchange differences	24,937,149	37,717,096
Expenses from foreign exchange differences	29,459,373	41,584,080
	(4,522,224)	(3,866,984)

The variation of net result from foreign exchange differences is generated especially by the increase of EUR and USD which generated negative differences at the valuation of the bank liabilities in foreign currency.

11.5 Employee benefits expenses

Employee benefits expenses for the year ended as at 31 December consisted of the following:

	2014 RON	2013 RON
Wages and salaries (Notes 6,7,9,10,11.2)	61,613,206	57,854,611
Social security costs (Notes 6,7,9,10,11.2), out of which:	16,676,736	16,331,605
- Company's contributions to social security (pensions)	12,852,538	12,907,483
Other compensations for employees - meal tickets	2,533,196	2,443,373
Other compensations for employees - other	4,542,058	4,641,845
Total employee benefits expense	85,365,196	81,271,434

11. OTHER INCOME/EXPENSES AND ADJUSTMENTS (continued)

	2014	2013
Average number of employees	1,247	1,216
Actual number of employees at the end of financial year	1,269	1,227

12. INCOME TAX

For the year ended as at 31 December, the Company has calculated a current income tax of RON 8,449,600.

	2014	2013
Current income tax	(8,449,600)	(4,870,741)
Deferred income tax:	1,350,885	3,568,397
- Deferred income tax - revenues	1,785,082	4,100,101
- Deferred income tax - expenses	(434,197)	(531,704)
Income tax	(7,098,715)	(1,302,344)

The Company has computed deferred tax from different temporary differences for fixed assets and other items. In year 2014 deferred tax expenses were of RON 434,197 (2013: RON 531,704) and deferred tax income of RON 1,785,082 (2013: RON 4,100,101).

Reconciliation between current income tax expense and the accounting profit multiplied by Romanian domestic tax rate for the year ended as at 31 December is as follows:

	2014	2013
Profit before income tax	47,716,270	13,123,730
Income taxes calculated at the nominal applicable tax rate (16%)	7,634,603	2,099,797
Tax effect of deductible / non-taxable elements, out of which:	(9,572,237)	(6,569,202)
- Fiscal depreciation	(6,576,578)	(5,385,289)
- Legal reserve	(381,730)	(104,990)
- Revenues from reversal of allowances	(2,613,929)	(1,078,923)
Tax effect of taxable / non-deductible elements, out of which:	10,727,980	9,369,163
- Realization of revaluation reserve	3,125,882	3,563,731
- Accounting depreciation	4,765,998	4,361,249
- Allowances expenses	2,700,831	1,201,969
- Other items	135,269	242,214
Tax credit, out of which:	(340,746)	(29,017)
- sponsoring expense	(115,248)	(29,017)
- reinvested profit in equipment	(225,498)	-
Computed income tax / (tax loss)	8,449,600	4,870,741
Income tax reported in the statement of income	8,449,600	4,870,741

According to the Romanian regulations, in year 2014 the Company had an income tax credit for the profit reinvested in equipment of RON 1,409,361 which was purchased and put into operation in fourth quarter 2014. These income tax credit represents 16% from the reinvested profit and it was in amount of RON 255,498.

12. INCOME TAX (continued)

	2014	2013
Statement of comprehensive income		
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)
Actuarial (gains)/losses arising from changes in financial assumptions	101,843	-
Income tax charged directly to other comprehensive income	101,843	(17,880)

Deferred tax relates to the following:

Statement of financial position

	2014 RON	2013 RON
- Deferred income tax assets		
Allowance for doubtful accounts receivable	221,812	35,084
Employee benefits	323,973	456,273
Provisions for management bonuses	446,864	442,330
Provisions for quality complaints	302,917	278,839
Adjustments of inventories	758,999	821,553
Provisions for decommissioning property, plant and equipment	35,096	-
Recognized in other elements of equity		
Employee benefits recognized directly in other elements of equity	101,842	-
Total (a)	2,191,503	2,034,079
- Deferred income tax liabilities		
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	40,074,403	41,369,707
Total (b)	40,074,403	41,369,707
Net deferred tax income (a) - (b)	(37,882,900)	(39,335,628)

Statement of comprehensive income

	2014 RON	2013 RON
- Deferred income tax assets		
Allowance for doubtful accounts receivable	186,728	-
Employee benefits	(132,300)	16,231
Provisions for management bonuses	4,535	(40,506)
Provisions for quality complaints	24,079	261,832
Adjustments of inventories	(62,556)	(42,429)
Tax losses carried forward	-	-
Provisions for decommissioning property, plant and equipment	35,096	-
Recognized in other elements of comprehensive income		
Hedge instruments recognized directly in OCI	-	(17,880)
Hedge instruments recognized in current year profit and loss	-	9,905
Employee benefits recognized directly in OCI	101,842	-
Total (a)	157,424	187,153
- Deferred income tax liabilities		
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	(1,295,304)	(3,363,364)
Total (b)	(1,295,304)	(3,363,364)
Net deferred tax income (a) - (b)	1,452,728	3,550,517

13. EARNINGS PER SHARE

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

Earnings per share amounts in RON	2014	2013
Earnings		
Net profit	40,617,555	11,821,386
Average number of shares	116,170,334	116,170,334
Earnings per average number of shares	0.35	0.10

During year 2014 there were no transactions involving ordinary shares or potential ordinary shares.

14. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2014, ended as at 31 December, were 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
Cost						
At 1 January 2014	108,420,460	366,784,014	11,385,207	1,525,074	32,458,920	520,573,675
Additions	-	-	-	-	29,009,126	29,009,126
Disposals	(214,165)	(4,406,577)	(149,447)	(1,661)	(8,264)	(4,780,114)
Transfers	2,307,167	49,801,642	1,073,376	469,706	(53,651,891)	-
Provisions for decommissioning property, plant and equipment	219,350	-	-	-	-	219,350
Transfers from inventories	-	-	-	-	4,840,355	4,840,355
At 31 December 2014	110,732,812	412,179,079	12,309,136	1,993,119	12,648,246	549,862,392
Depreciation and impairment						
At 1 January 2014	(10,328,847)	(62,836,470)	(3,227,071)	(587,551)	-	(76,979,939)
Depreciation charge for the year	(3,479,650)	(24,786,361)	(1,224,593)	(222,782)	-	(29,713,386)
Disposals	39,420	2,803,638	75,820	1,661	-	2,920,539
At 31 December 2014	(13,769,077)	(84,819,193)	(4,375,844)	(808,672)	-	(103,772,786)
Net book value						
At 31 December 2014	96,963,735	327,359,886	7,933,292	1,184,447	12,648,246	446,089,606

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

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

At 31 December 2013	98,091,613	303,947,544	8,158,136	937,523	32,458,920	<u>443,593,736</u>
---------------------	------------	-------------	-----------	---------	------------	---------------------------

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

Property, plant and equipment increases were made in year 2014 by purchases of independent fixed assets and by putting into operation the contracting or self-made investments. Property, plant and equipment in progress decreased at 31 December 2014 towards 31 December 2013 because the equipments in progress were put into operation.

During year 2014 the Company made current repairs for developing the process flow at the designed parameters, but also capital repairs for equipments and buildings which were recognized in the carrying value of property, plant and equipment in amount of RON 10,651,654.

The Company reclassified from inventory to property, plant and equipment rolling tools with useful lives longer than one year in amount of RON 4,840,355 under equipment category.

In year 2014 a provision for decommissioning of the clarifier pond was set up in amount of RON 219,350 (see note 26).

The disposals of property, plant and equipment in year 2014 in amount of RON 4.780.114 are represented by the non-depreciated value of parts replaced for capital repairs made during year 2014 in amount of RON 1.766.446 (2013: RON 3.572.678) and also their depreciated value of RON 1.777.491 (2013: RON 1.191.894), sales of fixed assets in amount of RON 113.943 and disposals in amount of RON 1.122.234. The income resulted was of RON 86.005 as at 31 December 2014 (31 December 2013: RON 105.445).

The gross value of fully depreciated items of property, plant and equipment in use as at 31 December 2014 is of RON 3,663,237 (31 December 2013: RON 3,788,918).

Out of total property, plant and equipment as of 31 December 2014, properties with a net book value of 210,423,007 (2013: 214,418,624) were pledged in favour of TMK Europe.

Financial leasing and assets in progress

The carrying amount of property, plant and equipment held under finance lease at 31 December 2014 was of RON 855,751 (31 December 2013: RON 1,760,801). Assets held under lease are pledged as guarantees for finance lease.

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 year 2014 were as follows:

	Licenses and trademarks RON	Other intangible assets RON	Total RON
Cost			
At 1 January 2014	527,431	70,512	597,943
Additions	39,151	-	39,151
Disposals	(145,668)	(24,221)	(169,889)
At 31 December 2014	420,914	46,291	467,205
Amortisation and impairment			
At 1 January 2014	(350,776)	(60,086)	(410,862)
Amortisation	(68,663)	(5,439)	(74,102)
Disposals	134,679	24,221	158,900
At 31 December 2014	(284,760)	(41,304)	(326,064)

Movements in intangible assets during year 2013 were as follows:

	Licenses and trademarks RON	Other intangible assets RON	Total RON
Cost			
At 1 January 2013	428,848	70,512	499,360
Additions	98,583	-	98,583
At 31 December 2013	527,431	70,512	597,943
Amortisation and impairment			
At 1 January 2013	(294,326)	(54,647)	(348,973)
Amortisation	(56,450)	(5,439)	(61,889)
At 31 December 2013	(350,776)	(60,086)	(410,862)
Net book value			
At 31 December 2014	136,154	4,987	141,141
At 31 December 2013	176,655	10,426	187,081

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

16.1. Financial assets

	2014 RON	2013 RON
Other financial receivables		
Deposits for letters of guarantee	204,555	-
Granted guarantees, from which:	83,795	-
- Guarantees granted to related parties (note 25)	83,795	-
Total other financial receivables	288,350	-
Total other financial assets	288,350	-

The deposit opened serves as collateral for the issue of a guarantee letter for good performance, accordingly it is restricted.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

16.2. Other financial liabilities

Interest-bearing long-term loans and borrowings

	2014 RON	2013 RON
Long-term interest-bearing bank loans	164,053,614	119,124,843
Long-term interest-bearing borrowing - related parties (note 25)	66,500,802	74,376,902
Un-amortized long-term cost	(256,864)	(503,727)
Balance of long - term loans	230,297,552	192,998,018

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

Future repayments	2014 RON	2013 RON
Long- and short-term loans and borrowings-interests	336,213,343	366,583,699
Interest payable at reporting date	1,073,177	1,299,934
Un-amortized cost of debt origination	-678,950	-889,123
Total long- and short-term loans and related interest and un-amortized cost	336,607,570	366,994,510
Future interests	12,256,354	15,988,496
Total future repayments for loans and related interest	348,863,924	382,983,006

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Interest-bearing long-term loans and borrowings

Bank	Type of loan	Currency	31 December 2014		Interest rate	Amount repayable RON / equivalent RON	Amount repayable EUR/USD
			Amount received	Due date			
UNICREDIT TIRIAC BANK	Loan on 5 years - long part	EUR	15,000,000	11/16/2016	EURIBOR 1M+margin	44,821,000	10,000,000
BCR ERSTE	Loan on 5 years - long part	EUR	20,000,000	10/03/2016	EURIBOR 3M+margin	35,016,406	7,812,500
BCR ERSTE	Overdraft on 3 years	EUR	20,000,000	10/03/2017	EURIBOR 3M+marja	84,216,207	18,789,453
Total long-term bank loans						164,053,613	-
TMK EUROPE GmbH	Long-term borrowing	USD	22,837,540	09/25/2018	Libor+0.5%	66,500,803	18,037,540
		RON	38,425			-	-
Un-amortised long-term cost						(256,864)	-
Total						230,297,552	-

Bank	Type of loan	Currency	31 December 2013		Interest rate	Amount repayable RON / equivalent RON	Amount repayable EUR/USD
			Amount received	Due date			
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
Total long-term bank loans						119,124,844	-
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	-
Un-amortised long-term cost						(503,727)	-
Total						192,998,018	-

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Finance lease

	2014 RON	2013 RON
Lease payments less than 3 months, gross	73,461	207,537
Lease payments between 3 and 12 months, gross	150,976	465,025
Lease payments between 1 and 5 years, gross	76,525	166,138
Total minimum lease payments, gross	300,962	838,700
Less: future finance charges	8,994	29,047
Present value of minimum lease payments	291,968	809,653
Distributed as follows:		
Maturing within 1 year	216,515	647,014
Maturing between 1 and 2 years	75,453	162,639
Total	291,968	809,653

At 31 December 2014, TMK-Artrom had ongoing with Raiffeisen Leasing S.R.L. Bucharest 6 financial lease contracts for the purchase of six vehicles and with BCR Leasing IFN S.A. one financial lease contract for the purchase of one vehicle.

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

Future rent expenses:

	2014 RON	2013 RON
Less than one year	1,338,692	1,324,050
Between one and two years	831,246	1,107,560
Between two and three years	-	812,888
	2,169,938	3,244,498

Interest-bearing short-term loans and borrowings

	2014 RON	2013 RON
Long-term interest-bearing bank loans, current portion	16,807,875	101,577,632
Short-term bank loans	71,115,986	71,504,323
Long-term interest-bearing borrowing, current portion - from related parties	17,735,065	-
Interest related to long-term bank loans	914,869	1,138,832
Interest related to short-term bank loans	109,764	118,253
Interest related to long-term borrowings - from related parties	48,545	42,847
Un-amortized short-term cost	(422,086)	(385,395)
Total	106,310,018	173,996,492

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

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

			31 December 2014				
Bank	Type of loan	Currency	Amount received	Due date (mm/dd/yyyy)	Interest rate	Amount repayable RON / RON equivalent	Amount repayable EUR/USD
UNICREDIT TIRIAC BANK	Credit for funding general needs	EUR	27,000,000	15/11/2014	EURIBOR 1M+margin	71,115,986	15,866,667
Total short-term bank loans						71,115,986	
BCR ERSTE	Loan on 5 years - current portion	EUR	20,000,000	10/03/2016	EURIBOR 3M+margin	16,807,875	3,750,000
Total short part of long-term bank loans						16,807,875	
TMK EUROPE GmbH	Long-term borrowing - current portion	USD	22,837,540	09/25/2018	Libor+0.5%	17,696,640	4,800,000
		RON	38,425			38,425	-
Total						105,658,926	

Bank	Type of loan	Currency	31 December 2013		Interest rate	Amount repayable	
			Amount received	Due date (mm/dd/yyyy)		RON / RON equivalent	EUR
CREDIT EUROPE BANK	Loan limit on instruments	RON	4,000,000	10/18/2013	ROBOR 6M+margin	183,480	-
BANCA TRANSILVANIA	Loan limit on instruments	RON	5,000,000	11/19/2013	ROBOR 6M+margin	163,603	-
UNICREDIT TIRIAC BANK	Credit for funding general needs	EUR	27,000,000	15/11/2014	EURIBOR 1M+margin	71,157,240	15,866,667
Total short-term bank loans						71,504,323	15,866,667
BCR ERSTE	Loan on 5 years - current portion	EUR	20,000,000	10/03/2016	EURIBOR 3M+margin	16,817,625	3,750,000
BCR ERSTE	Credit line - overdraft - current portion	EUR	20,000,000	10/03/2014	EURIBOR 3M+margin	84,760,006	18,899,816
Total short part of long-term bank loans						101,577,631	22,649,816
Total						173,081,954	38,516,483

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

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 31.12.2014, 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.

The Company signed with BCR a limit of discounts for promissory notes in amount of RON 10,000,000 with ROBOR 3M+3% interest which can be changed in loan if customers do not settle the promissory notes which have reached the maturity.

The value of promissory notes discounted and warranted in this limit was at 31.12.2014 in amount of RON 3,473,469. This facility is 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.;

At 24.07.2014 TMK-ARTROM and TMK-RESITA have signed with Banca Comerciala Romana SA a Contract of Reverse Factoring without recourse - according to which BCR will accept for financing invoices issued by the suppliers of TMK-ARTROM and TMK-RESITA in overall limit approved of 45 million RON, in order to maintain an efficient supply network with the suppliers of the company. The guarantees granted by this contract are: security mortgage on the creditor balance of the current accounts opened at Banca Comerciala Romana by TMK-ARTROM S.A. and security mortgage on the creditor balance of the current accounts opened by TMK RESITA S.A. at Banca Comerciala Romana. At 31.12.2014 the Company did not used any of the limit for the suppliers of TMK-ARTROM S.A.

As at 31.12.2014, all financial ratios agreed through the loan contracts signed with banks were complied.

Other long-term liabilities

	2014	2013
	RON	RON
Long-term sundry creditors	10,901	12,725
Long-term guarantees	1,698	-
Investment subsidy	-	10,353
Balance of other long - term liabilities	12,599	23,078

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.

The evolution of RON exchange rate with EUR and USD during year 2014, led management of the Company not to consider useful signing, on a regular basis, forward contracts on exchange rate in year 2014.

16.4. Fair values

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 it was assumed that the carrying value is close to fair value. For borrowings fair value was estimated based on unobservable inputs, using discounted cash-flows technique and is presented in the table below.

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 2014 Carrying value RON	Fair value RON
Long-term bank loans - variable rate	3	180,861,489	172,365,101
Long-term intercompany borrowings - variable rate	3	84,235,866	77,314,250

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

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

17. OTHER NON-CURRENT ASSETS

	2014	2013
	RON	RON
Prepayments for property, plant, and equipment	11,371,656	3,505,132
Total	11,371,656	3,505,132

The prepayments represent advances paid to various third party suppliers, mainly for the acquisition of production equipment.

18. INVENTORIES

Inventories consist of the following:

	2014	2013
	RON	RON
Raw materials	34,542,399	45,630,607
Work in progress	37,783,192	41,123,298
Semi-finished goods	16,614	-
Finished goods	24,816,352	37,792,144
Consumables	11,488,759	13,846,003
Finished goods at third parties (in transit)	8,131,489	7,495,001
Other materials	7,216,738	11,340,092
Raw materials and consumables at third parties	280,342	234,127
Merchandise and packing	107,556	100,891
Merchandise at third parties (in transit)	5,800,161	-
Total	130,183,602	157,562,163

The finished goods, semi-finished goods and work in progress are valued considering the net realizable value. The management has analysed the ageing of the inventories and considered the implications in establishing the net realizable value of the old inventories. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution.

For raw materials specific analysis are made considering obsolescence of items in balance.

Ageing analysis of inventories:

	Below 1 year	1 - 2 years	2 - 3 years	Over 3 years	Total
	RON	RON	RON	RON	RON
2014	101,170,367	18,823,584	4,957,613	5,232,038	130,183,602
2013	126,585,054	19,200,930	4,605,174	7,171,005	157,562,163

In year 2014 were set up allowances for inventories considering net realizable value – the movement of the adjustments is presented below:

	2014	2013
	RON	RON
Balance January 1st	5,134,718	5,399,896
Additional allowances set	3,108,775	1,978,468
Allowances used	(3,499,751)	(2,243,646)
Balance at the end of reporting period	4,743,742	5,134,718

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

19. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables consist of the following:

	2014 RON	2013 RON
Trade receivables, from which:	187,749,093	193,975,756
- Receivables from other related parties (note 25)	49,837,236	76,924,839
Other receivables – VAT	16,274,085	13,906,925
Sundry debtors, from which:	866,957	349,709
- Sundry debtors - related parties (note 25)	11,041	223,463
Other Receivables - penalty and fines	-	725,881
Employee claims	480,191	461,710
Promissory notes	-	424,680
Less:		
Allowance for doubtful accounts receivable	(1,396,559)	(1,055,292)
Allowance for sundry debtors	(662,854)	-
Total	<u>203,310,913</u>	<u>208,789,369</u>

Trade receivables are non-interest bearing and generally have terms of 71 days (2013: 73 days).

The following summarises the changes in the allowance for sundry debtors:

	RON
At 1 January 2014	-
Impairment adjustments expenses	662,854
Used	-
At 31 December 2014	<u>662,854</u>

The Company set up at 31.12.2014 an allowance for sundry debtors in amount of RON 662,854 for the receivable representing the VAT of the advance not reimbursed by Metalkid 2008 SRL Iasi.

Because the date of the delivery was not followed for the equipment - Boring and rolling pipes machine for hydraulic cylinders – the contract was canceled, the company Metalkid 2008 SRL Iasi being notified to reimburse the advance received in year 2013. Metalkid company issued a credit invoice for the advance received but they did not reimburse the money. TMK-ARTROM performed some steps in order to recover this advance from the insurance company at which the debtor was insured. The debit regarding the advance given was recovered from the insurance company but the related VAT could not be recovered. Thus TMK ARTROM acted in court the company METALKID 2008 SRL to recover the amount. The allowance for sundry debtors was set up in a percentage of 100% from the amount recorded because Metalkid 2008 SRL entered in insolvency process and the number of creditors enlisted at statement of affairs is high.

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

	RON
At 1 January 2014	1,055,292
Impairment adjustments expenses	387,292
Used	(46,025)
At 31 December 2014	<u>1,396,559</u>

19. TRADE AND OTHER RECEIVABLES (CURRENT) (continued)
Ageing analysis of trade receivables

	Neither past due nor impaired	Past due but not impaired						Total
	< 30 days	30–60 days	61–90 days	91–120 days	> 120 days (impaired)	> 120 days (not impaired)		
	RON	RON	RON	RON	RON	RON		
2014	168,475,607	15,208,179	1,352,650	171,948	-	1,396,559	1,144,150	187,749,093
2013	182,135,152	7,840,565	418,195	860,646	1,608,106	1,055,292	57,800	193,975,756

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

Receivables	Currency	2014		2013	
		RON	Foreign currency	RON	Foreign currency
Domestic customers	RON	38,040,653	-	58,100,525	-
	EUR	11,776,835	2,627,526	4,210,087	938,767
Foreign customers	EUR	89,808,968	20,249,132	127,685,894	22,103,786
	USD	44,145,862	11,974,032	-	8,772,893
Doubtful customers	RON	1,591,041	-	1,101,371	-
	EUR	949,667	211,880	-	-
Bills of exchange receivables	RON	1,436,067	-	2,877,879	-
TOTAL	RON	187,749,093		193,975,756	

As of 31 December 2014 the Company registered doubtful customers receivables in amount of RON 2,540,708 (2013: RON 1,101,371). Out of RON 2,540,708, receivables amounting to RON 1,144,150 are not impaired. For the amounts registered in this category were constituted value adjustments in amount of RON 1,396,559, because they are considered to have high risk on non-cashing.

From the amount of RON 168,765,607 trade receivables at 31.12.2014 neither past due nor impaired, the amount of RON 142,592,678 is considered without risk, and includes the following categories:

- RON 80,711,560, respectively 48% representing receivables insured by COFACE Germany;
- RON 12,664,757, respectively 8% receivables covered by export letters;
- RON 49,216,361, respectively 29% intercompany receivables.

The difference of RON 25,882,929, respectively 15%, are considered to have a lower risk in aggregate because those customers are in general located in different countries and industries independent market.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

20. PREPAYMENTS

Prepayments consist of the following:

	2014 RON	2013 RON
Prepayments for services, inventories, from which:	132,509,304	131,417,553
- Prepayments for services, inventories - related parties (note 25)	131,866,156	130,697,433
Prepaid expenses, from which:	1,210,787	1,477,356
- Prepaid expenses - related parties (note 25)	260,106	356,104
Total	133,720,091	132,894,909

The amount of RON 131,866,156 (without VAT) (2013: RON 123,393,647) represents advances given to TMK Resita S.A.

21. CASH AND SHORT-TERM DEPOSITS

In coherence of the statement of cash flows, cash and cash equivalents comprise the following:

	2014 RON	2013 RON
Cash on hand	33,978	25,080
Cash at banks in Ron	2,044,499	366,579
Cash at banks in foreign currency	25,751,132	973,292
Other cash equivalents	363,577	297,632
Short-term deposits	1,280,751	4,714
Total	29,473,937	1,667,297

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

TMK-Artrom constituted interest-bearing overnight deposits, depending on the availability of cash in bank account at the end of the day. These deposits are constituted at banks, partners of the Company.

Short-term deposits	2014	2013
in RON	1,280,751	4,714

There is no restricted cash.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

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	Total RON
Balance 1 January 2014	116,170,334	2.51	291,587,538	291,587,538
Balance 31 December 2014	116,170,334	2.51	291,587,538	291,587,538

Legal and other reserves

	Legal reserve RON	Other reserves RON	Total RON
Balance at 1 January 2013	11,920,654	857,553	12,778,207
Increase from the profit of the year	656,186	-	656,186
Balance 31 December 2013	12,576,840	857,553	13,434,393
Increase from the profit of the year	2,315,345	-	2,315,345
Increase from reinvested profit	70,468	1,338,893	1,409,361
Balance 31 December 2014	14,962,653	2,196,446	17,159,099

The legal reserve is set in accordance with the provisions of the Romanian Company Law, which requires that minimum 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.

The Company reinvested RON 1,409,361 from the profit of the financial year in equipment which was purchased and put into operation in fourth quarter 2014. For entire reinvested profit the Company benefits of an income tax credit, according to Romanian law OUG no. 19/2014. For deferred tax impact, please see note 12.

The amount of the reinvested profit for which the Company received an income tax credit, less the part of legal reserve in amount of RON 70,468, it was transferred at the end of financial year at other reserves.

22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS (continued)

Retained earnings

The structure of retained earnings at 31 December 2014:

Account name	Balance at 31 December 2014	Nature
Retained earnings concerning uncovered losses	(11,470,643)	it should be nil before distributing dividends
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	14,455	can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings from the changes of accounting policies	1,554,175	can be distributed or used to cover losses
Retained earnings representing the surplus realized from revaluation reserves	11,225,078	can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost	120,193,190	It has to be realized (through sale and / or depreciation) before distributing dividends
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	23,795,810	can be distributed or used to cover losses
Retained earnings from adopting for the first time of IAS 29	(6,158,919)	it should be nil before distributing dividends
Distribution from profit of the year to legal reserve	(3,724,706)	
Total retained earnings	<u>135,428,440</u>	

The structure of retained earnings at 31 December 2013:

Account name	Balance at 31 December 2013	Nature
Retained earnings concerning uncovered losses	(22,632,843)	it should be nil before distributing dividends
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	14,455	can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings from the changes of accounting policies	1,554,175	can be distributed or used to cover losses
Retained earnings from the correction of accounting errors	(3,000)	It has to be covered before distributing dividends
Retained earnings representing the surplus realized from revaluation reserves	16,464,820	can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings from transition to IFRS, less IAS 29	(9,592,283)	It has to be covered before distributing dividends
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost	128,232,585	It has to be realized (through sale and / or depreciation) before distributing dividends
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	27,645,318	can be distributed or used to cover losses
Retained earnings from adopting for the first time of IAS 29	(13,695,281)	it should be nil before distributing dividends
Distribution from profit of the year to legal reserve	(656,186)	
Total retained earnings	<u>127,331,760</u>	

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

23. PENSIONS PLANS AND OTHER POST-EMPLOYMENT BENEFITS

Retirement compensations are given according to the collective labor contract signed at the level of the Company as presented below.

- **Retirement benefits:** all employees receive two gross monthly salaries in force at retirement date;
- **Benefits for death of an employee for any cause:** in case of death of an employee, the families of the employees receive two average monthly salaries per Company. The average monthly salary is computed for all employees at 31 December 2014 and is adjusted with inflation each year.

These employee benefits are classified as long-term benefits according to IAS 19 revised

	2014 RON	2013 RON
Net liability at the beginning of the year	2,851,708	2,750,264
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	245,068	319,205
Benefits paid	(106,612)	(37,488)
Components of defined benefit costs recorded in OCI	(328,817)	965,333
Net liability at the end of the year	2,661,347	2,851,708
Short-term liabilities	284,247	341,688
Long-term liabilities	2,377,100	2,510,020

As at 31.12.2014 the Company estimated the obligation regarding actuarial provision for employee benefits, accounting the following:

- Expenses accounted in profit or loss in amount of RON 245,068;
- Benefits paid in amount of RON 106,612.

Total net liability at 31.12.2014 is of RON 2,661,347.

The key assumptions used in the actual computation from the beginning of current period for the pension and post-employment benefit obligations of the Company are:

Mortality: mortality rates were 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 1.88 % for the employees.

Discount rate: the discount rate applied is the risk free rate at 31 December 2014 considered to be the RON zero curve determined on zero coupon government bonds issued in Romanian lei according to Bloomberg.

Salaries and long-term inflation: base salaries are assumed to increase by 2.1% in 2015 and by 2.6% starting with 2016 in line with the inflation for 2016 projected by the National Bank of Romania.

For the computation of the death benefit, we have used the average monthly salary of RON 2,241 / employee for the employees.

Taxes: the amended IAS 19 requires social charges and other taxes on benefit plans to be included in the measurement of the benefit obligation to the extent that they relate to benefits in respect of service before the balance sheet date. Social charges are levied in Romania for both benefits included in our valuation. The rate of 22.35% was used for the purpose of our actuarial valuation, meaning that the benefit obligation and corresponding periodic components were increased by this rate.

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

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. This information is extracted from the revised law on pensions number 263/2010 issued by the Labour Ministry.

The management considers that the going concern assumption is applicable for the Company as at 31 December 2014 and confirmed there are no restructuring plans announced as at this date.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

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 – Experience:

	PV of retirement benefits RON	PV of employee death benefits RON	Total 31 December 2014 RON	Total 31 December 2013 RON
Opening defined benefit obligation as at 1 January	2,313,186	538,522	2,851,708	2,750,264
Service cost - previous years recognized in retained earnings as a result of benefits changes considered eligible	-	-	-	(1,145,606)*
Current service cost	141,558	29,044	170,602	217,942
Interest cost	61,792	12,674	74,466	101,263
Remeasurement (gains)/losses:	(223,458)	(105,359)	(328,817)	965,333
- Remeasurement (gains)/losses - Experience	208,051	(29,709)	178,342	(111,793)
- Remeasurement (gains)/losses - Experience (change in employee benefit plan)	-	-	-	785,964
- Remeasurement (gains)/losses arising from changes in financial assumptions	(152,842)	(39,166)	(192,008)	291,162
- Remeasurement (gains)/losses arising from changes in demographic assumptions	(278,667)	(36,484)	(315,151)	-
Benefits paid (including releases in reserve due to involuntary termination)	(97,812)	(8,800)	(106,612)	(37,488)
Closing defined benefit obligation	2,195,266	466,081	2,661,347	2,851,708

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

	PV of retirement benefits RON	PV of employee death benefits RON	Total 31 December 2014 RON	Total 31 December 2013 RON
Current service cost	141,558	29,044	170,602	217,942
Net interest expense	61,792	12,674	74,466	101,263
Components of defined benefit costs recorded in profit or loss	203,350	41,718	245,068	319,205

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

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 RON	PV of employee death benefits RON	Total 31 December 2014 RON	Total 31 December 2013 RON
Opening net liability arising from defined benefit obligation	2,313,186	538,522	2,851,708	2,750,264
Service cost - previous years recognized in retained earnings as a result of benefits changes considered eligible	-	-	-	(1,145,606)*
Components of defined benefit costs recorded in profit or loss	203,350	41,718	245,068	319,205
Components of defined benefit costs recorded in OCI	(223,458)	(105,359)	(328,817)	965,333
Benefits paid	(97,812)	(8,800)	(106,612)	(37,488)
Closing balance of the discounted value of liabilities	2,195,266	466,081	2,661,347	2,851,708

* See explanations from Statement of changes in equity

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

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

Estimation of the Profit or Loss Account for the financial year 2015:

	PV of retirement benefits RON	PV of death benefits RON	Total RON
Current service cost	147,993	36,674	185,667
Net interest expense 2015	83,925	14,655	98,580
Total	231,918	51,329	284,247

The estimation of the Profit or Loss Account for the financial year 2015 assumes an average discount rate of 3.1% and an salary growth rate of 2.1%.

Sensitivity analysis for each significant actuarial assumption:

Sensitivity analysis	2014	PBO 31.12.2014 Retirement	2013	PBO 31.12.2013 Retirement
Turnover	+1 %	1,925,986	+ 3 %	1,593,749
	-1 %	2,511,348	- 1 %	2,686,298
Discount rate	+1 %	1,952,715	+ 1 %	2,301,335
	-1 %	2,481,750	- 1 %	2,325,114
Mortality	110 %	2,151,478	110 %	2,271,919
	90 %	2,240,097	90 %	2,355,498
Salary increase rate	+1 %	2,481,545	+ 1 %	2,638,889
	-1 %	1,948,336	- 1 %	2,035,614

Sensitivity analysis	2014	PBO 31.12.2014 Death	2013	PBO 31.12.2013 Death
Turnover	+1 %	429,463	+ 3 %	319,371
	-1 %	507,367	- 1 %	589,756
Discount rate	+1 %	429,898	+ 1 %	538,906
	-1 %	507,502	- 1 %	538,439
Mortality	110 %	507,685	110 %	586,183
	90 %	423,629	90 %	489,867
Salary increase	+1 %	509,726	+ 1 %	586,790
	-1 %	427,325	- 1 %	495,865
Inflation	-	-	+ 1 %	586,850
	-	-	- 1 %	496,351

Other disclosures

	31.12.2014	31.12.2013
Average benefit duration	20	21
Average age of employees	44	44
Average discount rate	3.1%	3.7%
Average salary increase	2.6%	3.5%

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

24. TRADE AND OTHER PAYABLES (CURRENT)

Trade and other payables consist of the following:

	2014	2013
	RON	RON
Current trade payables, from which:	64,284,378	57,576,160
- Intercompany trade payables (note 25)	27,232,381	5,780,988
Bills of exchange payable	5,144,798	11,675,557
Accrued and withheld taxes on payroll	5,686,838	4,311,528
Payables for non-current assets	3,231,026	7,056,213
Salaries and Wages	1,587,205	1,469,598
Advances from customers	1,940,497	938,883
Short-term guarantees	76,878	139,472
Liabilities for other taxes	110,010	63,485
Accrued and other liabilities	176,209	104,190
Total	82,237,839	83,335,086

Concerning the Company's debts to the fiscal authorities, as of 31 December 2014, there is a balance to be paid RON 5,796,848 (31 December 2013: RON 4,375,013), 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 income tax owed as at 31 December 2014 is in amount of RON 1,386,460.

Trade payables are non-interest bearing and are, normally, settled on an average of 31 day terms.

25. TRANSACTIONS WITH RELATED PARTIES

TMK EUROPE GmbH Germania, company which is 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, Rusia, Romania and Kazakhstan and 2 R&D centers (Research and Development) in Rusia 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 Rusia – MICEX-TRS. GDR's sales are traded at London Stock Exchange and ADR's – at OTCQX International Trading Premier in USA.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

25. TRANSACTIONS WITH RELATED PARTIES (continued)

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

Society	Country home	Relationship
- OAO TMK Rusia;	Rusia	final parent
- TMK Europe GmbH Koln, Germania	Germany	parent (major shareholder)
- TMK IPSCO INTERNATIONAL, L.L.C., USA;	USA	Related, under common control
- TMK IPSCO CANADA L.T.D., Canada;	Canada	Related, under common control
- TMK Middle East, Dubai, United Arab Emirates	United Arab Emirates	Related, under common control
- TMK-RESITA S.A. Resita;	Romania	Related, under common control
- TMK Italia s.r.l. Lecco, Italia	Italy	Related, under common control
- Seversky pipe plant RUSIA	Rusia	Related, under common control
- OJSC Volzsky Pipe Plant RUSIA	Rusia	Related, under common control
- RosNITI JSC RUSIA	Rusia	Related, under common control
- TMK-Inox RUSIA	Rusia	Related, under common control
- Trade House TMK	Rusia	Related, under common control
- TMK Real Estate SRL	Romania	Related, under common control
- TMK Assets SRL	Romania	Related, under common control
- TMK Land SRL	Romania	Related, under common control
- TMK Gulf International Pipe Industry L.L.C.	Sultanate of Oman	Related, under common control
- SCEA Domaine de Bebian	France	Related, under common control

The balances of transactions with related parties

Trade Receivables	2014 RON	2013 RON
TMK IPSCO International USA	40,963,224	27,986,429
TMK - RESITA S.A.	5,686,786	14,666,975
TMK Middle East Dubai	3,182,638	570,215
TMK Real Estate Bucharest	2,480	620
TMK Assets Bucharest	1,116	372
TMK Europe GmbH Germany	-	33,697,748
TMK Land Bucharest	992	2,480
Total	49,837,236	76,924,839

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

25. TRANSACTIONS WITH RELATED PARTIES (continued)

Other Assets	2014 RON	2013 RON
TMK - RESITA S.A. (advances for purchase of goods)	131,866,156	123,393,647
TMK Europe GmbH Germany (advances for purchase of goods)	-	7,303,786
TMK Real Estate Bucharest (long-term receivables - guarantees)	83,795	-
TMK - RESITA S.A. (sundry debtors)	7,068	8,391
Trade House TMK Russia (sundry debtors)	2,017	-
TMK Real Estate Bucharest (sundry debtors)	1,128	215,072
TMK Gulf International Pipe Industry Oman (sundry debtors)	828	-
Total	131,960,992	130,920,896

Trade Payables	2014 RON	2013 RON
Trade House TMK Russia	19,856,276	3,759,900
TMK Europe GmbH Germany	6,376,089	872,230
TMK Italia s.r.l. Italy	657,093	610,725
TMK-Inox Russia	127,953	-
TMK IPSCO International USA	75,862	-
SCEA Domaine de Bebian France	72,014	-
OAO TMK Russia	55,302	48,826
TMK Real Estate Bucharest	11,792	26,372
RosNITI JSC Russia	-	37,609
Syntera Investment System LTD	-	44,126
OJSC Volzsky Pipe Plant Russia	-	381,200
Total	27,232,381	5,780,988

Other liabilities	2014 RON	2013 RON
TMK Europe GmbH Germany (loan)	84,235,868	74,376,902
TMK Europe GmbH (interest owed at reporting date)	48,545	42,847
Total	84,284,413	74,419,749

Transactions with related parties

Sales (Turnover)	2014 RON	2013 RON
TMK IPSCO International USA (pipes)	202,311,035	108,917,887
TMK-RESITA S.A. (pipes, re-invoiced materials from TMK Europe and domestic market, perceives commission, customs commission for Schenker, Cargus, management services, extra charges for quality claims)	35,465,816	31,004,116
TMK Europe GmbH Germany (pipes, audit services)	10,334,106	207,011,701
TMK Middle East Dubai (pipes)	7,173,751	4,094,439
TMK IPSCO Canada (pipes)	249,883	84,001
TMK Real Estate Bucharest (management services)	6,000	6,000
TMK Italia s.r.l. Italy (audit services)	24,329	24,020
TMK Assets Bucharest (management services)	3,600	3,600
TMK Land Bucharest (management services)	2,400	2,400
TMK-Inox Russia (mandrel parts)	-	493,189
TMK GLOBAL Switzerland (pipes)	-	(14,009)
Sinarsky pipe plant Russia (sole representative services)	-	3,750
Taganrog metallurgical Works Russia (sole representative services)	-	3,750
Seversky pipe plant Russia (sole representative services)	-	3,675
Total	255,570,920	351,638,519

25. TRANSACTIONS WITH RELATED PARTIES (continued)

Purchases	2014 RON	2013 RON
TMK RESITA S.A. (billets - raw materials, spare parts, repair services)	490,209,212	549,213,618
Trade House TMK Russia (billets and pipes for resale)	91,714,160	9,249,328
TMK Europe GmbH Germany (materials re-invoiced to TMK Resita, pipes and billets selling commission, materials for own consumption, extra charges for quality claims)	51,901,137	55,402,299
TMK Italia s.r.l. Italy (extra charges for quality claims, pipes and billets selling commission)	9,097,633	8,856,712
TMK Real Estate Bucharest (rent and apartment maintenance)	1,072,804	1,283,184
RosNITI JSC Russia (research and development services)	232,101	108,635
OAO TMK Russia (advisory services, publishing servicing Your Tube magazine)	201,908	226,351
TMK INOX Russia (steel pipes for own consumption and resale)	126,186	-
OJSC Volzsky Pipe Plant Russia (guarantee fees)	45,879	377,052
TMK Ipsco International USA (extra charges for quality claims)	103,538	25,983
Scea Domaine de Bebian France (protocol expenses)	71,140	-
Syntera Investment System LTD (pipe selling commission)	-	297,648
Seversky pipe plant Russia (registration fee 13th International Congress of Steelmakers)	10,405	-
TMK GLOBAL Switzerland (extra charges for quality claims)	-	15,242
Total	644,786,103	625,056,052

Loans within the Group

TMK Europe GmbH Germany (former TMK Sinara Handel GmbH), the parent company, it is creditor with the amount of RON 84,235,867 (31 December 2013: RON 74,376,902) 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:

- 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 15th of each month for the previous month.

At 31.12.2014 short-term value of the loan was RON 17,735,065 and long-term value was RON 66,500,802.

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 25.09.2019. 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 2014.

The interest owed by TMK-ARTROM S.A. at 31 December 2014 is of USD 13,167 (31 December 2013: USD 13,163) and respectively RON 48,545 (31 December 2013: RON 48,847).

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

25. TRANSACTIONS WITH RELATED PARTIES (continued)

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.

The value of pledged asstes is in amount of 199,660 thousand RON as at 31 December 2014.

Cash compensations granted to key-employees registered in year 2014 are in amount of RON 13,186,795 (2013: RON 13,033,973).

26. PROVISIONS

Other short-term provisions	2014 RON	2013 RON
Provisions for quality complaints material cost ST	1,525,398	1,226,748
Provisions for quality complaints additional cost ST	157,708	305,870
Provisions for managers bonuses ST	2,792,904	2,764,562
Total	4,476,010	4,297,180

Other long-term provisions	2014 RON	2013 RON
Provisions for quality complaints material cost LT	197,691	197,691
Provisions for quality complaints additional cost LT	12,431	12,431
Provisions for dicommissioning property, plant and equipment LT	219,350	-
Total	429,472	210,122

The movement in short-term provisions is as follows:

Short-term provisions	Provisions for quality complaints material cost	Provisions for quality complaints additional cost	Provisions for manager bonuses	Total
At 1st January 2013	937,296	93,855	3,017,725	4,048,876
Expense with provisions recognized in statement of income	1,446,675	369,567	2,764,562	4,580,804
Used	(1,157,223)	(157,552)	(3,017,725)	(4,332,500)
At 31 December 2013	1,226,748	305,870	2,764,562	4,297,180
Expense with provisions recognized in statement of income	2,056,976	407,126	2,792,904	5,257,006
Used	(1,758,326)	(555,288)	(2,764,562)	(5,078,176)
At 31 December 2014	1,525,398	157,708	2,792,904	4,476,010

26. PROVISIONS (continue)

The movement in long-term provisions is as follows:

Long-term provisions	Provisions for quality complaints material cost	Provisions for quality complaints additional cost	Provisions for dismantling cost	Total
At 1st January 2013	197,691	12,431	0	210,122
Expense with provisions recognized in statement of income	0	0	0	0
Used	0	0	0	0
At 31 December 2013	197,691	12,431	0	210,122
Expense with provisions recognized in statement of income	0	0	0	0
Recognition in counterparty with fixed assets	0	0	219,350	219,350
Used	0	0	0	0
At 31 December 2014	197,691	12,431	219,350	429,472

27. MANAGEMENT OF FINANCIAL RISK – 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 risk. 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 of raw materials and utilities that affect its assets, liabilities and anticipated future transactions.

Interest rate risk

Interest rate risk is the risk that the 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 2014, 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 22.5 % of portfolio at 31.12.2014 and 18.5% at 31 December 2013, and those which had ROBOR as calculation basis represented 0 at 31 December 2014 and 0.10% of portfolio at 31 December 2013. The market evolution in the last 3 years of EURIBOR and LIBOR made the Company not to consider necessary to use hedge instruments, 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 2014, the Company did not have financial assets with variable interest rate. 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.

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

	Variation in margin	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
31 December 2014			
increase in EURIBOR	10	(38.6)	(32.4)
decrease in EURIBOR	(10)	38.6	32.4
increase in LIBOR	10	(12.1)	(10.2)
decrease in LIBOR	(10)	12.1	10.2
31 December 2013			
increase in EURIBOR	10	(47)	(39)
decrease in EURIBOR	(10)	47	39
increase in LIBOR	10	(14)	(12)
decrease in LIBOR	(10)	14	12

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 in year 2014 one agreement regarding derivative transactions on foreign exchange which were treated according to IFRS as cash flow hedging operations. The agreement was signed with UNICREDIT TIRIAC BANK in 05.09.2014 for the exchange of USD 1,000,000 in 27.10.2014 at the negotiated exchange rate of 3.4050 USD/RON, because the management considers that the evolution of exchange rate cannot bring variations that will produce significant losses to the Company.

The exposure to the risk of exchange rate is detailed in Note 27 the paragraph "Financial instruments, cash and deposits" below.

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)
31 December 2014			
EUR/RON	10%	(18,723)	(15,727)
EUR/RON	-10%	18,723	15,727
USD/RON	10%	(1,808)	(1,519)
USD/RON	-10%	1,808	1,519
31 December 2013			
EUR/RON	10%	(20,826)	(17,494)
EUR/RON	-10%	20,826	17,494
USD/RON	10%	(4,590)	(3,856)
USD/RON	-10%	4,590	3,856

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.

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

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. As at 31.12.2014 under 31% from the total of loans and borrowings are due in the following 12 months, because the indebtedness rate is monitored in the way it do not exceed the limit established by the management. We also mention that the access to the financing sources it is available, and the bank loans due in 12 months can be extended with the existing creditors according to the contracts in force.

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
31.12.2014					
Interest bearing loans (including future interest)	9,536,245	102,598,509	223,955,209	13,452,911	349,542,874
Leasing	73,461	150,976	76,525	-	300,962
Other non-current liabilities	-	-	12,599	-	12,599
Trade and other payables	73,281,679	7,014,931	732	-	80,297,342
Other current liabilities	1,386,460	-	-	-	1,386,460
Total	84,277,845	109,764,416	224,045,065	13,452,911	431,540,237
31.12.2013					
Interest bearing loans (including future interest)	5,308,678	176,237,618	190,450,580	11,875,252	383,872,128
Leasing	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
Total	90,141,077	176,890,096	190,630,513	14,726,960	472,388,646

Financial indicators of the loan contracts were respected as at 31 December 2014 and up to the date of the approval of the financial statements.

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 increased in year 2014 towards previous period due to the increase of the profit before tax, the increase of turnover, the decrease of inventory as well as due to the decrease of the interest.

Net cash from operating activities decreased in year 2013 towards previous period due to the increase of the payments made to suppliers and the advances to TMK RESITA SA as well as the increase of the turnover in the fourth quarter of year 2013 towards the same quarter of year 2012.

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

Net cash from investing activities increased in year 2014 towards year 2013 due to the lower volume of payments made for purchases of property, plant and equipment mainly to continue the investments in the equipment for non-destructible inspection of pipes, for a capacity to cut the pipes at fixed lengths as well as for equipment advances to equip a new production workshop "Workshop no.5 Pipes for Hydraulic Cylinders".

Net cash from investing activities decreased in year 2013 towards year 2012 due to 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 "Workshop no.5 Pipes for Hydraulic Cylinders".

Net cash from financing activities turned negative in year 2014 due to the reimbursements made for long-term loans, EUR 3,750,000 at BCR according to the payments schedule, and also EUR 5,000,000 in advance to UNICREDIT TIRIAC BANK.

In November 2013, the balance of the loan received from VTB Bank Austria of EUR 14.1 mil, was repaid in advance through the 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.

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' 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.

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

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 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 is submitted to the Company's Management and the Board of Directors for approval.

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 and agent TMK EUROPE as well as directly on adjacent markets from 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 120 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. In December 2014 the Company decided to extend the insurance contract signed with COFACE Germany with one more year. Credit limits granted by Coface S.A covered 73% of requested limits for external clients and on internal market 61.5% of requested limits.

As at 31.12.2014 63% from the receivables which are insured were covered by Coface. Customers 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.

As at 31.12.2014 the only customer which had a percentage higher than 10% from the turnover of year 2014 was TMK IPSCO INTERNATIONAL with RON 202,311,035 (21%) representing sales of pipes.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

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

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.

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

31 December 2014

Financial position	RON	EUR	USD	GBP	JPY	TOTAL
Cash and cash equivalents	3,432,256	3,062,153	22,979,398	99	31	29,473,937
Other current assets	-	-	-	-	-	-
Other non-current receivables	-	288,350	-	-	-	288,350
Trade receivables	39,939,019	102,267,653	44,145,862	-	-	186,352,534
Other receivables	16,907,574	24,901	25,904	-	-	16,958,379
Total assets	60,278,849	105,643,057	67,151,164	99	31	233,073,200
Interest-bearing loans and borrowings (including future interests)	38,425	263,899,787	85,604,662	-	-	349,542,874
Leasing	-	300,962	-	-	-	300,962
Trade and other payables	39,471,306	39,837,810	988,226	-	-	80,297,342
Other long - term liabilities	2,663,045	10,901	-	-	-	2,673,946
Other current liabilities	1,386,460	-	-	-	-	1,386,460
Total liabilities	43,559,236	304,049,460	86,592,888	-	-	434,201,584

31 December 2013

Financial position	RON	EUR	USD	GBP	TOTAL
Cash and cash equivalents	450,216	1,050,408	165,236	1,438	1,667,297
Trade receivables	61,449,162	103,339,338	28,556,644	-	193,345,144
Other receivables	15,222,584	220,580	1,061	-	15,444,225
Total assets	77,121,962	104,610,326	28,722,941	1,438	210,456,666
Interest-bearing loans and borrowings (including future interests)	403,335	307,353,509	76,115,284	-	383,872,128
Leasing	-	838,700	-	-	838,700
Trade and other payables	63,261,182	18,935,231	199,790	-	82,396,203
Other long - term liabilities	2,862,061	12,725	-	-	2,874,786
Other current liabilities	2,406,829	-	-	-	2,406,829
Total liabilities	68,933,407	327,140,165	76,315,074	-	472,388,646

Negative differences existing between monetary assets and liabilities in foreign currency are due to the loans portfolio denominated in foreign currency; the risk is mitigated because the Company has revenues denominated in EUR and USD, as described in Note 5.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2014

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

28.COMMITMENTS AND CONTINGENT LIABILITIES

Total commitments for the acquisition of property, plant and equipment as at 31 December 2014 are of RON 19,481,252 (31 December 2013: RON 18,504,919).

The fiscal audit of TMK Artrom for the income tax, VAT and transfer pricing for the period 2005-2009 started in prior years was postponed indefinitely, being determined by the finalization of the results of the fiscal audit at TMK Resita. After the end of the fiscal audit, TMK Artrom may appear liable for additional taxes and penalties.

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

29.SUBSEQUENT EVENTS

No significant subsequent events after 31 December 2014.

Chief Executive Officer,
Ing. Popescu Adrian

Chief Economical and Accountancy Officer,
Ec. Vaduva Cristiana