

# TMK-ARTROM S.A.

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

**31 DECEMBER 2015**

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**TMK ARTROM S.A.**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**as of 31 December 2015**

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

|                                                                                    | Note | 2015<br>RON        | 2014<br>RON        |
|------------------------------------------------------------------------------------|------|--------------------|--------------------|
| <b>Turnover</b>                                                                    | 5    | <b>902.936.301</b> | <b>972.488.567</b> |
| Sale of goods                                                                      | 5    | 902.433.653        | 971.841.342        |
| Rendering of services                                                              | 5    | 502.648            | 647.225            |
| Cost of sales                                                                      | 6    | (789.832.330)      | (814.267.220)      |
| <b>Gross profit</b>                                                                |      | <b>113.103.971</b> | <b>158.221.347</b> |
| Selling and distribution expenses                                                  | 7    | (64.849.043)       | (65.632.705)       |
| Advertising and promotion expenses                                                 | 8    | (271.069)          | (9.660)            |
| General and administrative expenses                                                | 9    | (28.166.327)       | (29.373.185)       |
| Research and development expenses                                                  | 10   | (609.328)          | (271.805)          |
| Other operating expenses                                                           | 11.2 | (3.694.546)        | (2.834.817)        |
| Other operating income                                                             | 11.1 | 428.983            | 319.044            |
| <b>Operating profit</b>                                                            |      | <b>15.942.641</b>  | <b>60.418.219</b>  |
| Foreign exchange (loss) / gain, net                                                |      | (6.047.997)        | (4.522.224)        |
| Finance income                                                                     | 11.4 | 4.084              | 10.187             |
| Finance costs                                                                      | 11.3 | (6.710.402)        | (8.189.912)        |
| <b>Profit before tax</b>                                                           |      | <b>3.188.326</b>   | <b>47.716.270</b>  |
| Income Tax                                                                         | 12   | (691.840)          | (7.098.715)        |
| <b>Profit for the year</b>                                                         |      | <b>2.496.486</b>   | <b>40.617.555</b>  |
| <b>Other comprehensive income - which cannot be reclassified in profit or loss</b> |      |                    |                    |
| Actuarial gains / (losses)                                                         |      | (57.187)           | 328.817            |
| Income tax effect                                                                  |      | (101.843)          | 101.843            |
| <b>Other comprehensive income (loss) for the year, net of tax</b>                  |      | <b>(159.030)</b>   | <b>430.660</b>     |
| <b>Total comprehensive income for the year, net of tax</b>                         |      | <b>2.337.456</b>   | <b>41.048.215</b>  |
| Average number of shares                                                           |      | 116.170.334        | 116.170.334        |
| <b>Earnings per share</b>                                                          |      | <b>0,02</b>        | <b>0,35</b>        |

**TMK ARTROM S.A.**  
**STATEMENT OF FINANCIAL POSITION**  
**as of 31 December 2015**

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

|                                       | Note  | 2015<br>RON        | 2014<br>RON        |
|---------------------------------------|-------|--------------------|--------------------|
| <b>ASSETS</b>                         |       |                    |                    |
| <b>Current assets</b>                 |       |                    |                    |
| Cash and cash equivalents             | 21    | 4.078.542          | 29.473.937         |
| Trade and other receivables           | 19    | 220.564.230        | 203.310.913        |
| Inventories                           | 18    | 132.326.524        | 125.439.860        |
| Prepayments                           | 20    | 100.154.777        | 133.720.091        |
|                                       |       | <b>457.124.073</b> | <b>491.944.801</b> |
| <b>Non-current assets</b>             |       |                    |                    |
| Intangible assets                     | 15    | 1.519.161          | 141.141            |
| Property, plant and equipment         | 14    | 459.542.424        | 446.089.606        |
| Financial assets                      | 16.1. | 50.653             | 288.350            |
| Other non-current assets              | 17    | 9.227.177          | 11.371.656         |
|                                       |       | <b>470.339.415</b> | <b>457.890.753</b> |
| <b>Total assets</b>                   |       | <b>927.463.488</b> | <b>949.835.554</b> |
| <b>LIABILITIES</b>                    |       |                    |                    |
| <b>Current liabilities</b>            |       |                    |                    |
| Trade and other payables              | 24    | 121.764.809        | 80.297.341         |
| Advances from customers               | 24    | 1.490.850          | 1.940.497          |
| Provisions and accruals               | 26    | 3.749.275          | 4.476.010          |
| Interest-bearing loans and borrowings | 16.2. | 120.873.604        | 106.310.018        |
| Finance lease liability               | 16.2. | 205.139            | 216.515            |
| Income tax payable                    | 24    | -                  | 1.386.460          |
| <b>Total current liabilities</b>      |       | <b>248.083.677</b> | <b>194.626.841</b> |
| <b>Non-current liabilities</b>        |       |                    |                    |
| Interest-bearing loans and borrowings | 16.2. | 152.192.228        | 230.297.552        |
| Finance lease liability               | 16.2. | 189.847            | 75.453             |
| Deferred tax liability                | 12    | 37.610.607         | 37.882.900         |
| Provisions and accruals               | 26    | 227.281            | 429.472            |
| Employee benefits liability           | 23    | 2.927.896          | 2.661.347          |
| Other long-term liabilities           | 16.2. | 45.107             | 12.599             |
| <b>Total Non-current liabilities</b>  |       | <b>193.192.966</b> | <b>271.359.323</b> |
| <b>Total liabilities</b>              |       | <b>441.276.643</b> | <b>465.986.164</b> |
| <b>EQUITY</b>                         |       |                    |                    |
| <b>Capital and reserves</b>           |       |                    |                    |
| <b>Share capital, from which:</b>     |       | <b>291.587.538</b> | <b>291.587.538</b> |
| - Subscribed and paid share capital   | 22    | 291.587.538        | 291.587.538        |
| Other items of equity                 | 22    | (1.102.272)        | (943.242)          |
| Legal and other reserves              | 22    | 17.603.476         | 17.159.099         |
| Retained earnings                     | 22    | 175.601.617        | 135.428.440        |
| Profit of the year                    |       | 2.496.486          | 40.617.555         |
| <b>Total equity</b>                   |       | <b>486.186.845</b> | <b>483.849.390</b> |
| <b>Total liabilities and equity</b>   |       | <b>927.463.488</b> | <b>949.835.554</b> |

**TMK ARTROM S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
**as of 31 December 2015**

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

|                                                              | Share capital      | Legal reserves    | Other reserves   | Retained earnings  | Other elements of equity - from applying IAS 19 | Total equity       |
|--------------------------------------------------------------|--------------------|-------------------|------------------|--------------------|-------------------------------------------------|--------------------|
|                                                              | RON                | RON               | RON              | RON                | RON                                             | RON                |
| <b>For year ended as at 31 December 2015</b>                 |                    |                   |                  |                    |                                                 |                    |
| <b>As at 1 January 2015</b>                                  | <b>291.587.538</b> | <b>14.962.653</b> | <b>2.196.446</b> | <b>176.045.994</b> | <b>(943.242)</b>                                | <b>483.849.389</b> |
| Profit of the year                                           | -                  | -                 | -                | 2.496.486          | -                                               | <b>2.496.486</b>   |
| Other comprehensive income / (loss) for the year, net of tax | -                  | -                 | -                | -                  | (159.030)                                       | <b>(159.030)</b>   |
| <b>Total comprehensive income</b>                            | <b>-</b>           | <b>-</b>          | <b>-</b>         | <b>2.496.486</b>   | <b>(159.030)</b>                                | <b>2.337.456</b>   |
| Set-up of legal reserves from profit of the year             | -                  | 144.419           | -                | (144.419)          | -                                               | -                  |
| Set-up of reserves for reinvested profit                     | -                  | 14.997            | 284.961          | (299.958)          | -                                               | -                  |
| <b>At 31 December 2015</b>                                   | <b>291.587.538</b> | <b>15.122.069</b> | <b>2.481.407</b> | <b>178.098.103</b> | <b>(1.102.272)</b>                              | <b>486.186.845</b> |
| <b>For year ended as at 31 December 2014</b>                 |                    |                   |                  |                    |                                                 |                    |
| <b>As at 1 January 2014</b>                                  | <b>291.587.538</b> | <b>12.576.840</b> | <b>857.553</b>   | <b>139.153.146</b> | <b>(1.373.902)</b>                              | <b>442.801.175</b> |
| Profit of the year                                           | -                  | -                 | -                | 40.617.555         | -                                               | <b>40.617.555</b>  |
| Other comprehensive income / (loss) for the year, net of tax | -                  | -                 | -                | -                  | 430.660                                         | <b>430.660</b>     |
| <b>Total comprehensive income</b>                            | <b>-</b>           | <b>-</b>          | <b>-</b>         | <b>40.617.555</b>  | <b>430.660</b>                                  | <b>41.048.215</b>  |
| 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)        | -                                               | -                  |
| <b>At 31 December 2014</b>                                   | <b>291.587.538</b> | <b>14.962.653</b> | <b>2.196.446</b> | <b>176.045.995</b> | <b>(943.242)</b>                                | <b>483.849.390</b> |

**TMK ARTROM S.A.**  
**CASH FLOW STATEMENT**  
**as of 31 December 2015**

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

| Indirect method                                                                                     | Note          | 1 January - 31<br>December 2015<br>RON | 1 January - 31<br>December 2014<br>RON |
|-----------------------------------------------------------------------------------------------------|---------------|----------------------------------------|----------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                         |               |                                        |                                        |
| <b>Profit / (Loss) before tax</b>                                                                   |               | <b>3.188.326</b>                       | <b>47.716.270</b>                      |
| <b>Plus / minus adjustments for:</b>                                                                |               |                                        |                                        |
| Depreciation                                                                                        | 14, 15        | 35.676.766                             | 29.787.488                             |
| Increase / (reversal) of provisions                                                                 | 26            | (928.926)                              | 178.830                                |
| Increase / (reversal) of allowances for current assets                                              | 18, 19        | 1.242.476                              | 613.145                                |
| Exchange rate differences for financing activities                                                  |               | 11.419.331                             | 9.771.400                              |
| Variation of retirement benefits                                                                    | 23            | 300.892                                | 245.068                                |
| Result from disposal of non-current assets                                                          | 11.2          | 551.164                                | 1.784.559                              |
| Interest and related expenses                                                                       | 11.3,<br>11.4 | 5.941.963                              | 7.468.501                              |
| <b>Plus / minus adjustments for changes in working capital<br/>related to operating activities:</b> |               |                                        |                                        |
| Decrease / (increase) in inventories                                                                | 18            | (10.854.228)                           | 22.538.206                             |
| Decrease / (increase) in trade and other receivables and<br>prepayments                             | 19            | 13.517.162                             | 1.721.640                              |
| (Decrease) / increase in payables (except banks)                                                    | 24            | 40.747.645                             | 3.045.826                              |
| <b>less:</b>                                                                                        |               |                                        |                                        |
| Interest paid                                                                                       |               | (6.186.271)                            | (7.705.443)                            |
| Income tax paid                                                                                     |               | -                                      | (5.077.023)                            |
| <b>Total inflows / (outflows) from operating activities (a)</b>                                     |               | <b>94.616.300</b>                      | <b>112.088.467</b>                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                         |               |                                        |                                        |
| Amount received from disposal of non-current assets                                                 |               | 967.403                                | 86.005                                 |
| Purchase of tangible and intangible assets                                                          | 14            | (45.878.130)                           | (43.276.241)                           |
| Interest received                                                                                   | 11.4          | 4.084                                  | 10.187                                 |
| <b>Total inflows / (outflows) from investing activities (b)</b>                                     |               | <b>(44.906.643)</b>                    | <b>(43.180.049)</b>                    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                         |               |                                        |                                        |
| Repayment of loans                                                                                  |               | (74.719.296)                           | (40.589.550)                           |
| Repayment of finance leases (amortisation)                                                          |               | (385.756)                              | (512.228)                              |
| <b>Total inflows / (outflows) from financing activities (c)</b>                                     |               | <b>(75.105.052)</b>                    | <b>(41.101.778)</b>                    |
| <b>Net increase / (decrease) in cash and cash equivalents<br/>(a) + (b) + (c)</b>                   |               | <b>(25.395.395)</b>                    | <b>27.806.640</b>                      |
| <b>Cash and cash equivalents at beginning of period</b>                                             | 21            | <b>29.473.937</b>                      | <b>1.667.297</b>                       |
| <b>Cash and cash equivalents at end of period</b>                                                   | 21            | <b>4.078.542</b>                       | <b>29.473.937</b>                      |

**TMK ARTROM S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2015**

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

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## **1. CORPORATE INFORMATION**

These financial statements of TMK-ARTROM S.A. (the "Company") for financial year ended at 31 December 2015 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 additions and authorised for issue in accordance with the resolution of the Administrators dated 24 March 2016.

The Company has no subsidiaries or associates, and, therefore, it prepares only separate financial statements. Separate financial statements are consolidated at the parent entity, PAO TMK (former OAO TMK), headquartered in Moscow, Russian Federation. PAO TMK is ultimately controlled by D.A.Pumpyanskiy. Starting with 9 July 2015 the name of the final parent OAO TMK was changed to PAO TMK.

TMK Group's consolidated financial statements are available for inspection at [www.tmk-group.com](http://www.tmk-group.com).

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

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

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

These financial statements are presented in Romanian Lei ("RON"). The financial statements have been prepared under the historical cost convention.

### **Statement of Compliance**

Separate 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 additions. 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.

At 31 December 2015, the Company's net current assets are RON 209.040.396 (31 December 2014 RON 297.317.960) and has recorded a net profit of RON 2.496.486 for the year then ended. The Company has generated positive cash flows from operations (before changes in working capital) in 2015 and in 2014 and has budgeted a further increase in its operating cash flow in 2016.

The Company has complied with the covenants set at 31 December 2015.

Based on the above factors, management is confident that the Company will continue in operational existence for the foreseeable future and the going concern basis for preparing the financial statements is appropriate, therefore no adjustments relating to this uncertainty have been included in these financial statements.

### **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).

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:

|       | <b>31 December 2015</b> | <b>31 December 2014</b> |
|-------|-------------------------|-------------------------|
| 1 EUR | 4,5245                  | 4,4821                  |
| 1 USD | 4,1477                  | 3,6868                  |

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



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

### **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 on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that

period or in the period of the revision and future periods if the revision affects both current and future periods.

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. Financial liabilities include trade and other payables, interest bearing borrowings and finance lease obligations.

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.

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.

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

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.

### *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, are capitalized. Other borrowing costs are recognized as an expense.

### *Amortized cost*

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

### *Derecognition of financial instruments*

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

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

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

### *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.

### *Reverse factoring*

Reverse factoring liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. When the reverse factoring facility is used by the suppliers, the Company recognizes the liability towards the bank and decreases the liability towards the suppliers. Liability toward the bank 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 liabilities are derecognized or impaired, as well as during the amortization process.

### **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 impairment value is determined considering the financial position of the client, the result of the negotiations with the client, and the assessment of the lawyers. 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 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.

The initial cost of a tangible asset could also include the decommissioning and restoration costs initially estimated, when this value can be reliably measured and there is an obligation in this regard. The estimated decommissioning and restoration costs are recognized in the value of the non-current asset and at the same time as a provision. 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 |
| Transport and motor vehicles      | 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   |

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

### **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**

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.

Advances paid for services and inventories are considered monetary assets and for cash flow presentation are assimilated to trade receivables.

#### **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.

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

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 fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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

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

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

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

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

### **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.

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

For the output of inventories, the cost is measured and registered 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.

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 are recognized in other comprehensive income in the period in which they occur. The interest cost is recognized in finance costs.

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

### **q) Taxes**

#### **► Current income tax**

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

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

#### **► Deferred tax**

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

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

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

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

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

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

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



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

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 Group has identified the Board of Directors as its chief operating decision maker and as the internal reporting reviewed by the Board focuses on the operations of the Company as a whole and does not identify individual operating segments, the Company has only one reportable segment based on criteria from IFRS 8:

- Products sold on different markets are homogenous;
- Customers class is for all markets;
- The methods used to distribute the products are similar for all markets.

### **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 LEU (RON) considering the following aspects:

- The Company records costs mostly in the national currency LEI (RON);
- The Company records revenues in a proportion of 18% in the national currency RON, and the other revenues recorded in EUR and USD.

The sales prices of the Company are denominated and settled in EUR (74%), RON (18%) and USD (8%). The prices of raw materials, consisting in billets mostly purchased from TMK Resita, are established in RON.

Labor costs are in RON since salaries are negotiated, calculated and settled in RON.

At 31 Decembrie 2015 TMK-Artrom held credits and loans as follows: 27% in USD (entirely from Group) and 73% in EUR (from banks).

#### **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**

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.

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

Sensitivity analysis for each significant actuarial assumption:

| Sensitivity analysis        | 2015  | PBO<br>31.12.2015<br>Retirement | 2014  | PBO<br>31.12.2014<br>Retirement |
|-----------------------------|-------|---------------------------------|-------|---------------------------------|
|                             |       |                                 |       |                                 |
| Turnover                    | +1 %  | 2.061.066                       | + 1 % | 1.925.986                       |
|                             | -1 %  | 2.654.153                       | - 1 % | 2.511.348                       |
| Discount rate               | +1 %  | 2.079.033                       | + 1 % | 1.952.715                       |
|                             | -1 %  | 2.636.283                       | - 1 % | 2.481.750                       |
| Mortality                   | 110 % | 2.296.780                       | 110 % | 2.151.478                       |
|                             | 90 %  | 2.376.423                       | 90 %  | 2.240.097                       |
| Salary increase / inflation | +1 %  | 2.634.992                       | + 1 % | 2.481.545                       |
|                             | -1 %  | 2.075.290                       | - 1 % | 1.948.336                       |

| Sensitivity analysis        | 2015  | PBO<br>31.12.2015<br>Death | 2014  | PBO<br>31.12.2014<br>Death |
|-----------------------------|-------|----------------------------|-------|----------------------------|
|                             |       |                            |       |                            |
| Turnover                    | +1 %  | 542.886                    | + 1 % | 429.463                    |
|                             | -1 %  | 651.251                    | - 1 % | 507.367                    |
| Discount rate               | +1 %  | 546.031                    | + 1 % | 429.898                    |
|                             | -1 %  | 648.302                    | - 1 % | 507.502                    |
| Mortality                   | 110 % | 642.804                    | 110 % | 507.685                    |
|                             | 90 %  | 539.127                    | 90 %  | 423.629                    |
| Salary increase / inflation | +1 %  | 648.031                    | + 1 % | 509.726                    |
|                             | -1 %  | 545.356                    | - 1 % | 427.325                    |

#### ➤ Inventories

The finished goods, semi-finished goods and work in progress are valued considering the net realizable value. The management has analyzed 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.

The management analysed the net realizable value of finished goods, semi-finished goods and work in progress considering the market sales prices and market trends.

For raw materials specific analysis are made considering obsolescence of items in balance.  
All assumptions are reviewed annually.

#### **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 2015:

- **IAS 19 Employee benefits (Amended): Employee Contributions**
- **IFRS 13 Fair Value Measurement**

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 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 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.

#### **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 2015 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 Defined Benefit Plans (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.

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

- **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 2018. 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.

- **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.

- **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 February 2015. 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 8 Operating Segments:** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- **IFRS 13 Fair Value Measurement:** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- **IAS 16 Property Plant & Equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

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

- **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 2015. Management has assessed that these improvements will have no effect on the financial statements.

- **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.

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IAS 12 Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The objective of these amendments is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. For example, the amendments clarify the accounting for deferred tax assets when an entity is not allowed to deduct unrealised losses for tax purposes or when it has the ability and intention to hold the debt instruments until the unrealised loss reverses. Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IAS 7 Statement of Cash Flows (Amendments): Disclosure Initiative**

The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments have not yet been endorsed by the EU. 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 2015**

*(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.

|                | <b>2015</b>        | <b>%</b>   | <b>2014</b>        | <b>%</b>   |
|----------------|--------------------|------------|--------------------|------------|
|                | <b>RON</b>         |            | <b>RON</b>         |            |
| Domestic sales | 281.730.515        | 31,20      | 251.271.522        | 25,84      |
| Sales abroad   | 621.205.786        | 68,80      | 721.217.045        | 74,16      |
| <b>Total</b>   | <b>902.936.301</b> | <b>100</b> | <b>972.488.567</b> | <b>100</b> |

|                                                          | <b>2015</b>        | <b>2014</b>        |
|----------------------------------------------------------|--------------------|--------------------|
|                                                          | <b>RON</b>         | <b>RON</b>         |
| <b>Sales of pipes produced by TMK-ARTROM from which:</b> |                    |                    |
| Domestic                                                 | 120.666.854        | 130.758.051        |
| Europe                                                   | 501.274.476        | 502.381.381        |
| North America                                            | 63.674.194         | 202.560.918        |
| Other areas                                              | 15.076.257         | 12.066.094         |
| <b>Total sales of pipes produced by TMK-ARTROM</b>       | <b>700.691.781</b> | <b>847.766.444</b> |
| <b>Sales of other goods and services from which:</b>     |                    |                    |
| Sales of other goods on domestic market                  | 160.615.332        | 119.912.786        |
| Sales of other goods on external market                  | 41.126.539         | 4.162.112          |
| Rendering of services on domestic market                 | 448.329            | 600.685            |
| Rendering of services on external market                 | 54.320             | 46.540             |
| <b>Total sales of other goods and services</b>           | <b>202.244.520</b> | <b>124.722.123</b> |
| <b>Total turnover</b>                                    | <b>902.936.301</b> | <b>972.488.567</b> |

Total turnover decreased with 7% in year 2015 towards year 2014 due to the decrease of turnover from sold production with 17% and due to the increase in the sales of goods purchased to be resold with 90%.

The turnover from sold production decreased due to the decrease of physical volume of sold pipes from 190.158 tons to 172.298 tons (a decrease with 9,4%), but also due to the decrease with 8,8% of their average selling price determined by the decrease of the pipes delivered on TMK IPSCO (USA) market.

The selling volume of the goods purchased to be resold increased in year 2015 with 90% due to the selling on internal and external market of 94.154 tons of metallurgical products (billets, blooms, pipes) purchased from related companies (2014: 43.780 tons).

The sales were made in year 2015 directly and by related parties traders as follows:

- In Romania and East Europe directly to customers;
- In North Europe especially direct sales using as agent TMK Europe from Dusseldorf, 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 Middle East respectively TMK Middle East – Dubai and directly to customers.



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**5. TURNOVER (continued)**

**Geographical information**

*Gross margin on geographical areas*

| 1 January - 31<br>December 2015 | Romania           | Europe            | North<br>America  | Other<br>countries | Total                |
|---------------------------------|-------------------|-------------------|-------------------|--------------------|----------------------|
|                                 | RON               | RON               | RON               | RON                | RON                  |
| Turnover (Sales)                | 281.730.515       | 519.090.338       | 63.674.194        | 38.441.254         | <b>902.936.301</b>   |
| Cost of Sales                   | (267.648.661)     | (444.783.058)     | (41.967.940)      | (35.432.671)       | <b>(789.832.330)</b> |
| <b>Gross Margin</b>             | <b>14.081.854</b> | <b>74.307.280</b> | <b>21.706.254</b> | <b>3.008.583</b>   | <b>113.103.971</b>   |

| 1 January - 31<br>December 2014 | Romania           | Europe            | North<br>America  | Other<br>countries | Total                |
|---------------------------------|-------------------|-------------------|-------------------|--------------------|----------------------|
|                                 | RON               | RON               | RON               | RON                | RON                  |
| Turnover (Sales)                | 251.271.522       | 506.590.033       | 202.560.918       | 12.066.094         | <b>972.488.567</b>   |
| Cost of Sales                   | (240.111.657)     | (424.179.963)     | (139.493.319)     | (10.482.281)       | <b>(814.267.220)</b> |
| <b>Gross Margin</b>             | <b>11.159.865</b> | <b>82.410.070</b> | <b>63.067.599</b> | <b>1.583.813</b>   | <b>158.221.347</b>   |

**6. COST OF SALES**

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

|                                                                 | 2015<br>RON        | 2014<br>RON        |
|-----------------------------------------------------------------|--------------------|--------------------|
| Raw materials                                                   | 453.988.883        | 512.870.015        |
| Energy and utilities                                            | 52.011.100         | 57.280.468         |
| Staff cost (note 11.5)                                          | 45.410.797         | 46.340.351         |
| Consumables                                                     | 37.359.540         | 51.205.656         |
| Depreciation and amortisation                                   | 33.978.896         | 27.951.908         |
| Social security expenses (note 11.5)                            | 11.136.548         | 12.521.747         |
| Other compensations for employees                               | 4.291.049          | 4.469.846          |
| Repairs and maintenance                                         | 2.688.784          | 3.818.870          |
| Professional fees and services                                  | 1.936.191          | 2.389.965          |
| Freight                                                         | 1.758.469          | 1.878.992          |
| Taxes                                                           | 1.385.337          | 1.386.580          |
| Travel                                                          | 449.449            | 606.984            |
| Rent                                                            | 156.064            | 143.205            |
| Insurance                                                       | 87.715             | 92.859             |
| Communications                                                  | 77.658             | 76.830             |
| Other expenses                                                  | 18.079             | 17.394             |
| <b>Total production cost</b>                                    | <b>646.734.559</b> | <b>723.051.670</b> |
| Change in own finished goods and work in progress               | (7.890.551)        | 15.674.524         |
| Cost of sales of externally purchased goods                     | 160.438.326        | 86.779.268         |
| Capitalized production costs                                    | (10.112.384)       | (10.847.266)       |
| Obsolete stock, write-offs / (reversal of write-offs) (note 18) | 662.380            | (390.976)          |
| <b>Cost of sales</b>                                            | <b>789.832.330</b> | <b>814.267.220</b> |

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## 7. SELLING AND DISTRIBUTION EXPENSES

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

|                                          | <b>2015</b>       | <b>2014</b>       |
|------------------------------------------|-------------------|-------------------|
|                                          | <b>RON</b>        | <b>RON</b>        |
| Freight                                  | 40.716.379        | 41.847.324        |
| Professional fees and services           | 16.155.955        | 15.395.134        |
| Staff cost (note 11.5)                   | 3.295.144         | 3.050.838         |
| Insurance                                | 1.091.514         | 694.565           |
| Consumables                              | 845.600           | 993.011           |
| Social security expenses (note 11.5)     | 803.326           | 819.777           |
| Bad debt expense (note 19)               | 580.096           | 1.004.121         |
| Depreciation and amortisation            | 388.591           | 520.932           |
| Other compensations for employees        | 358.183           | 316.012           |
| Utilities and maintenance                | 184.021           | 181.103           |
| Travel                                   | 147.124           | 323.524           |
| Taxes                                    | 115.147           | 251.267           |
| Communications                           | 114.436           | 115.066           |
| Other expenses                           | 53.286            | 119.686           |
| Rent                                     | 241               | 345               |
| <b>Selling and distribution expenses</b> | <b>64.849.043</b> | <b>65.632.705</b> |

## 8. PROMOTION AND ADVERTISING EXPENSES

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

|                                           | <b>2015</b>    | <b>2014</b>  |
|-------------------------------------------|----------------|--------------|
|                                           | <b>RON</b>     | <b>RON</b>   |
| Marketing expenses                        | 241.439        | 9.660        |
| Media expenses                            | 24.297         | -            |
| Materials                                 | 5.333          | -            |
| <b>Promotion and advertising expenses</b> | <b>271.069</b> | <b>9.660</b> |

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## 9. GENERAL AND ADMINISTRATIVE EXPENSES

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

|                                            | <b>2015</b><br><b>RON</b> | <b>2014</b><br><b>RON</b> |
|--------------------------------------------|---------------------------|---------------------------|
| Staff cost (note 11.5)                     | 12.417.101                | 12.053.420                |
| Professional fees and services             | 4.246.965                 | 4.493.579                 |
| Social security expenses (note 11.5)       | 2.996.420                 | 3.289.082                 |
| Other compensations for employees          | 1.460.369                 | 2.287.226                 |
| Depreciation and amortisation              | 1.309.279                 | 1.314.649                 |
| Travel                                     | 1.089.595                 | 1.090.125                 |
| Rent                                       | 1.071.360                 | 1.224.259                 |
| Consumables                                | 1.034.678                 | 994.394                   |
| Utilities and maintenance                  | 981.808                   | 1.042.739                 |
| Communications                             | 809.061                   | 836.351                   |
| Taxes                                      | 327.007                   | 340.987                   |
| Other expenses                             | 316.320                   | 282.138                   |
| Insurance                                  | 106.364                   | 124.236                   |
| <b>General and administrative expenses</b> | <b>28.166.327</b>         | <b>29.373.185</b>         |

## 10. RESEARCH AND DEVELOPMENT EXPENSES

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

|                                          | <b>2015</b><br><b>RON</b> | <b>2014</b><br><b>RON</b> |
|------------------------------------------|---------------------------|---------------------------|
| Consumables                              | 438.494                   | 3.010                     |
| Professional fees and services           | 77.511                    | 175.266                   |
| Staff cost (note 11.5)                   | 73.285                    | 71.942                    |
| Social security expenses (note 11.5)     | 17.814                    | 19.417                    |
| Other compensations for employees        | 2.224                     | 2.170                     |
| <b>Research and development expenses</b> | <b>609.328</b>            | <b>271.805</b>            |

The research expenses performed were made to develop its own technology for the production of pipes for hydraulic cylinders in Workshop no. 5 – ACH; for the development of the rolling pipes technology of for steel type TMK-C as well as for improvement of the technological process in rolling mill reducer from Workshop no. 2 – CPE the last two being in cooperation with the company RosNITI.

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

### **11.1 Other operating income**

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

|                                                                   | <b>2015</b>    | <b>2014</b>    |
|-------------------------------------------------------------------|----------------|----------------|
|                                                                   | <b>RON</b>     | <b>RON</b>     |
| Damages, trial expenses                                           | 247.140        | 143.299        |
| Other income                                                      | 5.042          | 9.451          |
| Green certificates damages (rate of adjustment for previous year) | 176.801        | 155.941        |
| Special grants - subsidies                                        | -              | 10.353         |
| <b>Total</b>                                                      | <b>428.983</b> | <b>319.044</b> |

### **11.2 Other operating expenses**

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

|                                                           | <b>2015</b>      | <b>2014</b>      |
|-----------------------------------------------------------|------------------|------------------|
|                                                           | <b>RON</b>       | <b>RON</b>       |
| Expenses with provisions for taxes (note 26)              | 893.743          | -                |
| Expenses with provisions for risks and expenses (note 26) | 843.546          | -                |
| Social actions expenses                                   | 814.710          | 715.200          |
| Loss on disposal of property, plant and equipment         | 551.164          | 1.784.560        |
| Professional fees and services                            | 135.121          | 66.000           |
| Staff costs - medical dispensary                          | 98.140           | 96.655           |
| Sponsorship and charitable donations`                     | 34.829           | 115.248          |
| Social security costs - medical dispensary                | 23.947           | 26.713           |
| Fines and penalties                                       | 12.283           | 2.265            |
| Penalties - legal entities                                | 11.111           | 4.105            |
| Other expenses                                            | 275.952          | 24.071           |
| <b>Total</b>                                              | <b>3.694.546</b> | <b>2.834.817</b> |

### **11.3 Financial costs**

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

|                                                        | <b>2015</b>      | <b>2014</b>      |
|--------------------------------------------------------|------------------|------------------|
|                                                        | <b>RON</b>       | <b>RON</b>       |
| Interest on short-term loans (note 16.2)               | 4.072.982        | 1.462.087        |
| Interest on long-term loans and borrowings (note 16.2) | 1.857.782        | 5.949.731        |
| Amortisation of issuance fee                           | 421.950          | 432.412          |
| Other financial expenses                               | 322.409          | 271.542          |
| Discount fees and charges of promissory note           | 19.996           | 47.383           |
| Interest on financial leasing                          | 15.283           | 26.757           |
| <b>Total</b>                                           | <b>6.710.402</b> | <b>8.189.912</b> |

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

**11.4 Financial income**

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

|                        | <b>2015</b>  | <b>2014</b>   |
|------------------------|--------------|---------------|
|                        | <b>RON</b>   | <b>RON</b>    |
| Interest on deposits   | 1.817        | 6.815         |
| Other financial income | 2.267        | 3.372         |
| <b>Total</b>           | <b>4.084</b> | <b>10.187</b> |

Net gain / (net loss) from foreign exchange differences

|                       | <b>2015</b>        | <b>2014</b>        |
|-----------------------|--------------------|--------------------|
|                       | <b>RON</b>         | <b>RON</b>         |
| Foreign exchange gain | 34.455.973         | 24.937.149         |
| Foreign exchange loss | 40.503.970         | 29.459.373         |
|                       | <b>(6.047.997)</b> | <b>(4.522.224)</b> |

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 financial year ended at 31 December, consisted of the following:

|                                                            | <b>2015</b>       | <b>2014</b>       |
|------------------------------------------------------------|-------------------|-------------------|
|                                                            | <b>RON</b>        | <b>RON</b>        |
| Wages and salaries (Notes 6,7,9,10,11.2)                   | 61.294.467        | 61.613.206        |
| Social security costs (Notes 6,7,9,10,11.2), out of which: | 14.978.055        | 16.676.736        |
| - Company's contributions to social security (pensions)    | 10.383.798        | 12.852.538        |
| Other compensations for employees - meal tickets           | 2.588.952         | 2.533.196         |
| Other compensations for employees - other                  | 3.522.873         | 4.542.058         |
| <b>Total employee benefits expense</b>                     | <b>82.384.347</b> | <b>85.365.196</b> |

|                                                         | <b>2015</b> | <b>2014</b> |
|---------------------------------------------------------|-------------|-------------|
| Average number of employees                             | 1.267       | 1.247       |
| Actual number of employees at the end of financial year | 1.285       | 1.269       |

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## 12. INCOME TAX

For year ended at 31 December 2015, the Company has calculated a current income tax of 1.065.976 RON.

|                              | 2015               | 2014               |
|------------------------------|--------------------|--------------------|
| <b>Current income tax</b>    | <b>(1.065.976)</b> | <b>(8.449.600)</b> |
| <b>Deferred income tax:</b>  | <b>374.136</b>     | <b>1.350.885</b>   |
| - Deferred income tax credit | 1.327.048          | 1.785.082          |
| - Deferred income tax charge | (952.912)          | (434.197)          |
| <b>Income tax</b>            | <b>(691.840)</b>   | <b>(7.098.715)</b> |

The Company has computed deferred tax from different temporary differences for fixed assets and other items. In year 2015 deferred tax expenses were of RON 952.912 (2014: RON 434.197) and deferred tax income of RON 1.327.048 (2014: RON 1.785.082).

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

|                                                                  | 2015             | 2014              |
|------------------------------------------------------------------|------------------|-------------------|
| <b>Profit before income tax</b>                                  | <b>3.188.326</b> | <b>47.716.270</b> |
| Income taxes calculated at the nominal applicable tax rate (16%) | 510.132          | 7.634.603         |
| Tax effect of deductible / non-taxable elements, out of which:   | (9.823.902)      | (9.572.237)       |
| - Fiscal depreciation                                            | (8.259.687)      | (6.576.578)       |
| - Legal reserve                                                  | (25.507)         | (381.730)         |
| - Revenues from reversal of allowances                           | (1.538.708)      | (2.613.929)       |
| Tax effect of taxable / non-deductible elements, out of which:   | 10.462.568       | 10.727.980        |
| - Realization of revaluation reserve                             | 2.854.203        | 3.125.882         |
| - Accounting depreciation                                        | 5.708.282        | 4.765.998         |
| - Allowances expenses                                            | 1.624.948        | 2.700.831         |
| - Other items                                                    | 275.135          | 135.269           |
| Tax credit, out of which:                                        | (82.822)         | (340.746)         |
| - sponsoring expense                                             | (34.829)         | (115.248)         |
| - reinvested profit in equipment                                 | (47.993)         | (225.498)         |
| <b>Computed income tax</b>                                       | <b>1.065.976</b> | <b>8.449.600</b>  |
| <b>Income tax reported in the statement of income</b>            | <b>1.065.976</b> | <b>8.449.600</b>  |

According to the Romanian regulations, in year 2015 the Company had an income tax credit for the profit reinvested in equipment of RON 194.992 which was purchased and put into operation in first quarter 2015 and of RON 104.967 which was purchased and put into operation in fourth quarter 2015. These income tax credit represents 16% from the reinvested profit and it was in amount of RON 47.993.

12. INCOME TAX (continue)

|                                                                                                           | 2015             | 2014           |
|-----------------------------------------------------------------------------------------------------------|------------------|----------------|
| <b>Statement of comprehensive income</b>                                                                  |                  |                |
| Deferred tax related to items charged or credited directly to other comprehensive income during the year: | -                | -              |
| Actuarial gains/(losses) arising from changes in financial assumptions                                    | (101.843)        | 101.843        |
| <b>Income tax charged directly to other comprehensive income</b>                                          | <b>(101.843)</b> | <b>101.843</b> |

Deferred tax relates to the following:

**Statement of financial position**

|                                                                                                             | 2015<br>RON         | 2014<br>RON         |
|-------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>- Deferred income tax assets</b>                                                                         |                     |                     |
| Allowance for doubtful accounts receivable                                                                  | 318.182             | 221.812             |
| Employee benefits                                                                                           | 468.463             | 323.973             |
| Provisions for management bonuses                                                                           | 275.092             | 446.864             |
| Provisions for quality complaints                                                                           | 47.193              | 302.917             |
| Adjustments of inventories                                                                                  | 864.980             | 758.999             |
| Provisions for unused vacations                                                                             | 902                 | -                   |
| Provisions for risks and charges                                                                            | 134.967             | -                   |
| Provisions for decommissioning property, plant and equipment                                                | 35.096              | 35.096              |
| <b>Total (a)</b>                                                                                            | <b>2.144.875</b>    | <b>2.089.661</b>    |
| <b><u>Recognized in other elements of equity</u></b>                                                        |                     |                     |
| Retirement and other long term benefit obligation                                                           | -                   | 101.842             |
| <b>Total (b)</b>                                                                                            | <b>-</b>            | <b>101.842</b>      |
| <b>- Deferred income tax liabilities</b>                                                                    |                     |                     |
| Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets | 39.755.482          | 40.074.403          |
| <b>Total (c)</b>                                                                                            | <b>39.755.482</b>   | <b>40.074.403</b>   |
| <b>Net deferred tax income (a) + (b) -(c)</b>                                                               | <b>(37.610.607)</b> | <b>(37.882.900)</b> |

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**12. INCOME TAX (continue)**

**Statement of comprehensive income**

|                                                                                                             | <b>2015</b>      | <b>2014</b>        |
|-------------------------------------------------------------------------------------------------------------|------------------|--------------------|
|                                                                                                             | <b>RON</b>       | <b>RON</b>         |
| <b>- Deferred income tax assets</b>                                                                         |                  |                    |
| Allowance for doubtful accounts receivable                                                                  | 96.371           | 186.728            |
| Employee benefits                                                                                           | 144.490          | (132.300)          |
| Provisions for management bonuses                                                                           | (171.773)        | 4.535              |
| Provisions for quality complaints                                                                           | (255.723)        | 24.079             |
| Adjustments of inventories                                                                                  | 105.981          | (62.556)           |
| Provisions for unused vacations                                                                             | 902              | -                  |
| Provisions for risks and charges                                                                            | 134.967          | -                  |
| Provisions for decommissioning property, plant and equipment                                                | -                | 35.096             |
| <b>Total (a)</b>                                                                                            | <b>55.215</b>    | <b>55.582</b>      |
| <b><u>Recognized in other elements of comprehensive income</u></b>                                          |                  |                    |
| Retirement and other long term benefit obligation'                                                          | (101.842)        | 101.842            |
| <b>Total (b)</b>                                                                                            | <b>(101.842)</b> | <b>101.842</b>     |
| <b>- Deferred income tax liabilities</b>                                                                    |                  |                    |
| Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets | (318.921)        | (1.295.304)        |
| <b>Total (c)</b>                                                                                            | <b>(318.921)</b> | <b>(1.295.304)</b> |
| <b>Net deferred tax income (a) + (b) – (c)</b>                                                              | <b>272.294</b>   | <b>1.452.728</b>   |

**13. EARNINGS PER SHARE**

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

| <b>Earnings per share</b><br><b>amounts in RON</b> | <b>2015</b> | <b>2014</b> |
|----------------------------------------------------|-------------|-------------|
| <b><u>Earnings</u></b>                             |             |             |
| Net profit                                         | 2.496.486   | 40.617.555  |
| Average number of shares                           | 116.170.334 | 116.170.334 |
| <b>Earnings per average number of shares</b>       | <b>0,02</b> | <b>0,35</b> |

During year 2015 there were no transactions involving ordinary shares or potential ordinary shares.



**14. PROPERTY, PLANT AND EQUIPMENT**

Movements in property, plant and equipment in year 2015, ended at 31 December, were as follows:

|                                    | Land and<br>buildings | Machinery<br>and<br>equipment | Transport and<br>motor vehicles | Furniture<br>and fixtures | Construction<br>in progress | Total                |
|------------------------------------|-----------------------|-------------------------------|---------------------------------|---------------------------|-----------------------------|----------------------|
|                                    | RON                   | RON                           | RON                             | RON                       | RON                         | RON                  |
| <b>Cost</b>                        |                       |                               |                                 |                           |                             |                      |
| <b>At 1 January 2015</b>           | <b>110.732.812</b>    | <b>412.179.079</b>            | <b>12.309.136</b>               | <b>1.993.119</b>          | <b>12.648.246</b>           | <b>549.862.392</b>   |
| Additions                          | -                     | -                             | -                               | -                         | 46.536.216                  | <b>46.536.216</b>    |
| Disposals                          | (136.849)             | (3.000.074)                   | (242.018)                       | (264.744)                 | -                           | <b>(3.643.685)</b>   |
| Transfers                          | 4.926.824             | 44.700.617                    | 1.235.345                       | 129.299                   | (50.992.085)                | -                    |
| Transfers from inventories         | -                     | -                             | -                               | -                         | 3.305.184                   | <b>3.305.184</b>     |
| <b>At 31 December 2015</b>         | <b>115.522.787</b>    | <b>453.879.622</b>            | <b>13.302.463</b>               | <b>1.857.674</b>          | <b>11.497.561</b>           | <b>596.060.107</b>   |
| <b>Depreciation and impairment</b> |                       |                               |                                 |                           |                             |                      |
| <b>At 1 January 2015</b>           | <b>(13.769.077)</b>   | <b>(84.819.193)</b>           | <b>(4.375.844)</b>              | <b>(808.672)</b>          | -                           | <b>(103.772.786)</b> |
| Depreciation charge for the year   | (3.526.486)           | (30.553.926)                  | (1.320.445)                     | (194.812)                 | -                           | <b>(35.595.669)</b>  |
| Disposals                          | 37.341                | 2.411.863                     | 161.469                         | 240.099                   | -                           | <b>2.850.772</b>     |
| <b>At 31 December 2015</b>         | <b>(17.258.222)</b>   | <b>(112.961.256)</b>          | <b>(5.534.820)</b>              | <b>(763.385)</b>          | -                           | <b>(136.517.683)</b> |
| <b>Net book value</b>              |                       |                               |                                 |                           |                             |                      |
| At 31 December 2015                | 98.264.565            | 340.918.366                   | 7.767.643                       | 1.094.289                 | 11.497.561                  | <b>459.542.424</b>   |

Movements in property, plant and equipment in year 2014 were as follows:

|                                                              | Land and<br>buildings | Machinery<br>and<br>equipment | Transport and<br>motor vehicles | Furniture<br>and fixtures | Construction<br>in progress | Total                |
|--------------------------------------------------------------|-----------------------|-------------------------------|---------------------------------|---------------------------|-----------------------------|----------------------|
|                                                              | RON                   | RON                           | RON                             | RON                       | RON                         | RON                  |
| <b>Cost</b>                                                  |                       |                               |                                 |                           |                             |                      |
| <b>At 1 January 2014</b>                                     | <b>108.420.460</b>    | <b>366.784.014</b>            | <b>11.385.207</b>               | <b>1.525.074</b>          | <b>32.458.920</b>           | <b>520.573.675</b>   |
| Additions                                                    | -                     | -                             | -                               | -                         | 29.009.126                  | <b>29.009.126</b>    |
| Disposals                                                    | (214.165)             | (4.406.577)                   | (149.447)                       | (1.661)                   | (8.264)                     | <b>(4.780.114)</b>   |
| Transfers                                                    | 2.307.167             | 49.801.642                    | 1.073.376                       | 469.706                   | (53.651.891)                | -                    |
| Provisions for decommissioning property, plant and equipment | 219.350               | -                             | -                               | -                         | -                           | <b>219.350</b>       |
| Transfers from inventories                                   | -                     | -                             | -                               | -                         | 4.840.355                   | <b>4.840.355</b>     |
| <b>At 31 December 2014</b>                                   | <b>110.732.812</b>    | <b>412.179.079</b>            | <b>12.309.136</b>               | <b>1.993.119</b>          | <b>12.648.246</b>           | <b>549.862.392</b>   |
| <b>Depreciation and impairment</b>                           |                       |                               |                                 |                           |                             |                      |
| <b>At 1 January 2014</b>                                     | <b>(10.328.847)</b>   | <b>(62.836.470)</b>           | <b>(3.227.071)</b>              | <b>(587.551)</b>          | -                           | <b>(76.979.939)</b>  |
| Depreciation charge for the year                             | (3.479.650)           | (24.786.361)                  | (1.224.593)                     | (222.782)                 | -                           | <b>(29.713.386)</b>  |
| Disposals                                                    | 39.420                | 2.803.638                     | 75.820                          | 1.661                     | -                           | <b>2.920.539</b>     |
| <b>At 31 December 2014</b>                                   | <b>(13.769.077)</b>   | <b>(84.819.193)</b>           | <b>(4.375.844)</b>              | <b>(808.672)</b>          | -                           | <b>(103.772.786)</b> |
| <b>Net book value</b>                                        |                       |                               |                                 |                           |                             |                      |
| At 31 December 2014                                          | 96.963.735            | 327.359.886                   | 7.933.292                       | 1.184.447                 | 12.648.246                  | <b>446.089.606</b>   |

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

Lands owned by the Company are located in Slatina city, with an area of 416.081,03 square meters.

Property, plant and equipment increases were made in year 2015 by purchases of independent fixed assets and by putting into operation the contracting or self-made investments.

During year 2015 the Company made current repairs for developing the process flow at the designed parameters, but also capital repairs for equipment and buildings which were recognized in the carrying value of property, plant and equipment in amount of RON 11.678.764.

The disposals of property, plant and equipment in year 2015 in amount of RON 3.643.685 are represented by the non-depreciated value of parts replaced for capital repairs made during the year in amount of RON 638.686 (2014: RON 340.071) and also their depreciated value of RON 819.225 (2014: RON 377.509), disposal of property, plant and equipment in amount of RON 1.669.379, sales of PPE in amount of RON 504.463 and donations of property, plant and equipment in amount of RON 11.932. The income resulted was of RON 241.748 as at 31 December 2015 (31 December 2014: RON 35.810).

The gross value of fully depreciated items of property, plant and equipment in use as at 31 December 2015 is of RON 4.711.549 (31 December 2014: RON 3.663.237).

Out of total property, plant and equipment as of 31 December 2015, properties with a net book value of RON 202.846.410 (31 December 2014: RON 210.423.007) were pledged in favor of TMK Europe.

#### **Financial leasing and assets in progress**

The carrying amount of property, plant and equipment held under finance lease at 31 December 2015 was of RON 596.440 (2014: RON 855.751) represented by vehicles. Assets held under lease are pledged as guarantees for finance lease.

## 15. INTANGIBLE ASSETS

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

Movements in intangible assets during financial year 2015 were as follows:

|                                    | Licenses and<br>trademarks<br>RON | Other intangible<br>assets<br>RON | Intangible<br>assets in<br>progress<br>RON | Total<br>RON     |
|------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------------|------------------|
| <b>Cost</b>                        |                                   |                                   |                                            |                  |
| <b>At 1 January 2015</b>           | <b>420.914</b>                    | <b>46.291</b>                     | <b>-</b>                                   | <b>467.205</b>   |
| Additions                          | 114.385                           | 729.886                           | 1.340.501                                  | 2.184.772        |
| Disposals                          | (28.394)                          | (725.655)                         | -                                          | (754.049)        |
| <b>At 31 December 2015</b>         | <b>506.905</b>                    | <b>50.522</b>                     | <b>1.340.501</b>                           | <b>1.897.928</b> |
| <b>Amortisation and impairment</b> |                                   |                                   |                                            |                  |
| <b>At 1 January 2015</b>           | <b>(284.760)</b>                  | <b>(41.304)</b>                   | <b>-</b>                                   | <b>(326.064)</b> |
| Amortisation                       | (75.523)                          | (5.574)                           | -                                          | (81.097)         |
| Disposals                          | 28.394                            | -                                 | -                                          | 28.394           |
| <b>At 31 December 2015</b>         | <b>(331.889)</b>                  | <b>(46.878)</b>                   | <b>-</b>                                   | <b>(378.767)</b> |
| <b>Net book value</b>              |                                   |                                   |                                            |                  |
| At 31 December 2015                | 175.016                           | 3.644                             | 1.340.501                                  | 1.519.161        |

The company made an infomatic program for scrap flow management, production and finished goods delivery for TMK Resita. The program was invoiced to TMK Resita in year 2015.

The increase of intangible assests in progress is represented by signing a contract for the purchase of a new IT software „Microsoft Dynamics AX 2012 Integrated System”. The IT software will be put into operation starting with July 2016.

Movements in intangible assets during year 2014 were as follows:

|                                    | Licenses<br>and<br>trademarks<br>RON | Other intangible<br>assets<br>RON | Intangible<br>assets in<br>progress<br>RON | Total<br>RON     |
|------------------------------------|--------------------------------------|-----------------------------------|--------------------------------------------|------------------|
| <b>Cost</b>                        |                                      |                                   |                                            |                  |
| <b>At 1 January 2014</b>           | <b>527.431</b>                       | <b>70.512</b>                     | <b>-</b>                                   | <b>597.943</b>   |
| Additions                          | 39.151                               | -                                 | -                                          | 39.151           |
| Disposals                          | (145.668)                            | (24.221)                          | -                                          | (169.889)        |
| <b>At 31 December 2014</b>         | <b>420.914</b>                       | <b>46.291</b>                     | <b>-</b>                                   | <b>467.205</b>   |
| <b>Amortisation and impairment</b> |                                      |                                   |                                            |                  |
| <b>At 1 January 2014</b>           | <b>(350.776)</b>                     | <b>(60.086)</b>                   | <b>-</b>                                   | <b>(410.862)</b> |
| Amortisation                       | (68.663)                             | (5.439)                           | -                                          | (74.102)         |
| Disposals                          | 134.679                              | 24.221                            | -                                          | 158.900          |
| Impairment                         | -                                    | -                                 | -                                          | -                |
| <b>At 31 December 2014</b>         | <b>(284.760)</b>                     | <b>(41.304)</b>                   | <b>-</b>                                   | <b>(326.064)</b> |
| <b>Net book value</b>              |                                      |                                   |                                            |                  |
| At 31 December 2014                | 136.154                              | 4.987                             | -                                          | 141.141          |

## 16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 16.1. Financial assets

|                                                   | 2015<br>RON   | 2014<br>RON    |
|---------------------------------------------------|---------------|----------------|
| <b>Other financial receivables</b>                |               |                |
| Deposits for letters of guarantee                 | -             | 204.555        |
| Granted guarantees, from which:                   | 50.653        | 83.795         |
| - Guarantees granted to related parties (note 25) | 50.653        | 83.795         |
| <b>Total other financial receivables</b>          | <b>50.653</b> | <b>288.350</b> |
| <b>Total other financial assets</b>               | <b>50.653</b> | <b>288.350</b> |

### 16.2. Other financial liabilities

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

|                                                                | 2015<br>RON        | 2014<br>RON        |
|----------------------------------------------------------------|--------------------|--------------------|
| Long-term interest-bearing bank loans                          | 77.490.250         | 164.053.614        |
| Long-term interest-bearing borrowing-related parties (note 25) | 74.814.305         | 66.500.802         |
| Un-amortized cost of debt origination fees                     | (112.327)          | (256.864)          |
| <b>Balance of long-term loans</b>                              | <b>152.192.228</b> | <b>230.297.552</b> |

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

| Future repayments                                                                  | 2015<br>RON        | 2014<br>RON        |
|------------------------------------------------------------------------------------|--------------------|--------------------|
| Long- and short-term loans and borrowings-interests                                | 272.712.811        | 336.213.343        |
| Interest payable at reporting date                                                 | 832.953            | 1.073.177          |
| Un-amortized cost of debt origination fees                                         | (479.932)          | (678.950)          |
| <b>Total long- and short-term loans and related interest and un-amortized cost</b> | <b>273.065.832</b> | <b>336.607.570</b> |
| Future interests                                                                   | 8.546.968          | 12.256.354         |
| <b>Total future repayments for loans and related interest</b>                      | <b>281.612.800</b> | <b>348.863.924</b> |

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

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

| Bank                               | Type of loan         | Currency | 2015<br>Amount<br>received | Due date   | Interest rate     | Amount<br>repayable<br>RON /<br>equivalent RON | Amount<br>repayable<br>EUR/USD |
|------------------------------------|----------------------|----------|----------------------------|------------|-------------------|------------------------------------------------|--------------------------------|
| BCR ERSTE                          | Overdraft on 3 years | EUR      | 20.000.000                 | 10/03/2017 | EURIBOR 3M+margin | 77.490.250                                     | 17.126.810                     |
| <b>Total long-term bank loans</b>  |                      |          |                            |            |                   | <b>77.490.250</b>                              |                                |
| TMK EUROPE GmbH                    | Long-term borrowing  | USD      | 22.837.540                 | 09/25/2022 | Libor+0.5%        | 74.814.305                                     | 18.037.540                     |
| <b>Un-amortized long-term cost</b> |                      |          |                            |            |                   | <b>(112.327)</b>                               |                                |
| <b>Total</b>                       |                      |          |                            |            |                   | <b>152.192.228</b>                             |                                |

| Bank                        | Type of loan                | Currency | 2014<br>Amount<br>received | Due date   | Interest rate     | Amount<br>repayable<br>RON /<br>equivalent RON | Amount<br>repayable<br>EUR/USD |
|-----------------------------|-----------------------------|----------|----------------------------|------------|-------------------|------------------------------------------------|--------------------------------|
| 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+margin | 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-amortized long-term cost |                             |          |                            |            |                   | (256.864)                                      |                                |
| Total                       |                             |          |                            |            |                   | 230.297.552                                    |                                |

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

**Finance lease**

|                                                | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|------------------------------------------------|---------------------|---------------------|
| Lease payments less than 3 months, gross       | 51.281              | 73.461              |
| Lease payments between 3 and 12 months, gross  | 163.205             | 150.976             |
| Lease payments between 1 and 5 years, gross    | 193.753             | 76.525              |
| <b>Total minimum lease payments, gross</b>     | <b>408.239</b>      | <b>300.962</b>      |
| Less: future finance charges                   | 13.253              | 8.994               |
| <b>Present value of minimum lease payments</b> | <b>394.986</b>      | <b>291.968</b>      |
| Distributed as follows:                        |                     |                     |
| Maturing within 1 year                         | 205.138             | 216.515             |
| Maturing between 1 and 2 years                 | 155.519             | 75.453              |
| Maturing between 2 and 3 years                 | 34.329              | -                   |
| <b>Total</b>                                   | <b>394.986</b>      | <b>291.968</b>      |

At 31 December 2015, TMK-Artrom had ongoing with BCR Leasing IFN S.A. 6 financial lease contracts for the purchase of six vehicles.

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

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

|                                                                              | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|------------------------------------------------------------------------------|---------------------|---------------------|
| Long-term interest-bearing bank loans, current portion                       | 67.019.156          | 16.807.875          |
| Short-term bank loans                                                        | 53.389.100          | 71.115.986          |
| Long-term interest-bearing borrowing, current portion - from related parties | -                   | 17.735.065          |
| Interest related to long-term bank loans                                     | 690.329             | 914.869             |
| Interest related to short-term bank loans                                    | 81.714              | 109.764             |
| Interest related to long-term borrowings - from related parties              | 60.910              | 48.545              |
| Un-amortized short-term cost                                                 | (367.605)           | (422.086)           |
| <b>Total</b>                                                                 | <b>120.873.604</b>  | <b>106.310.018</b>  |

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

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

| Bank                                            | Type of loan                      | Currency | 2015               |                          | Interest rate        | Amount<br>repayable<br>RON equivalent | Amount<br>repayable<br>EUR |
|-------------------------------------------------|-----------------------------------|----------|--------------------|--------------------------|----------------------|---------------------------------------|----------------------------|
|                                                 |                                   |          | Amount<br>received | Due date<br>(mm/dd/yyyy) |                      |                                       |                            |
| UNICREDIT TIRIAC BANK                           | Credit for funding general needs  | EUR      | 26.000.000         | 10/17/2016               | EURIBOR<br>1M+margin | 53.389.100                            | 11.800.000                 |
| <b>Total short-term bank loans</b>              |                                   |          |                    |                          |                      | <b>53.389.100</b>                     |                            |
| BCR ERSTE                                       | Loan on 5 years - current portion | EUR      | 20.000.000         | 10/03/2016               | EURIBOR<br>3M+margin | 35.347.656                            | 7.812.500                  |
| UNICREDIT BANK                                  | Loan on 5 years - current portion | EUR      | 15.000.000         | 11/16/2016               | EURIBOR<br>1M+margin | 31.671.500                            | 7.000.000                  |
| <b>Total short part of long-term bank loans</b> |                                   |          |                    |                          |                      | <b>67.019.156</b>                     |                            |
| <b>Total</b>                                    |                                   |          |                    |                          |                      | <b>120.408.256</b>                    |                            |

| Bank                                     | Type of loan                          | Currency | 2014            |                          | Interest rate     | Amount repayable<br>RON / RON<br>equivalent | Amount repayable<br>EUR/USD |
|------------------------------------------|---------------------------------------|----------|-----------------|--------------------------|-------------------|---------------------------------------------|-----------------------------|
|                                          |                                       |          | Amount received | Due date<br>(mm/dd/yyyy) |                   |                                             |                             |
| 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      | 09/25/2019               | Libor+0.5%        | 17.696.640                                  | 4.800.000                   |
|                                          |                                       | RON      | 38.425          |                          |                   | 38.425                                      | -                           |
| Total                                    |                                       |          |                 |                          |                   | 105.658.926                                 |                             |

**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 PAO 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 Tiriac Bank, as follows:
  - 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 Tiriac Bank by TMK-ARTROM S.A.
    - Company warranty issued by PAO 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.
  - Loan in initial amount of EUR 27 mil. and which according to the addendum from 23.06.2015 decreased to EUR 26 mil., from which at 31.12.2015 the amount used was EUR 11.800.000 guaranteed with:
    - Pledge without dispossession on credit balance of current bank accounts opened at Unicredit Tiriac 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.

At 31.12.2015 the Company had issued bank letter guarantee in amount of RON 2.124.672 in favour of ANAF for tax debts of TMK Resita SA and many letters of credits in total amount of EUR 1.314.060 opened for the payment of contractual liabilities both for TMK-ARTROM suppliers and for TMK Resita suppliers, as follows:

| No. | Issuing Bank          | The beneficiary of the letter of credit  | Number of letter of credit | The amount of the contract regarding the issue of letter of credit | Currency | The balance of unrealized letter of credit | Due date of letter of credit |
|-----|-----------------------|------------------------------------------|----------------------------|--------------------------------------------------------------------|----------|--------------------------------------------|------------------------------|
| 1   | 2                     | 3                                        | 4                          | 5                                                                  | 6        | 7                                          | 10                           |
| 1   | UNICREDIT TIRIAC BANK | DANIELI CENTRO CRANES SPA                | 00777-01-0004051           | 4.464.000                                                          | EUR      | 632.000                                    | 15.01.2016                   |
| 2   | UNICREDIT TIRIAC BANK | KARL DEUTSCH PRUF-UNDMESSGERA TEBAU GMBH | 00777-01-0007334           | 391.500                                                            | EUR      | 356.780                                    | 29.04.2016                   |
| 3   | UNICREDIT TIRIAC BANK | THYSSENKRUPP ROTHE ERDE GMBH             | 00777-01-0008869           | 53.500                                                             | EUR      | 0                                          | 20.11.2015                   |
| 4   | UNICREDIT TIRIAC BANK | DANIELI CENTRO CRANES SPA                | 00777-01-0011347           | 558.000                                                            | EUR      | 279.000                                    | 25.04.2016                   |
| 5   | UNICREDIT TIRIAC BANK | PJSC 'NKMZ'                              | 00777-01-0010669           | 46.280                                                             | EUR      | 46.280                                     | 26.01.2016                   |



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

The undrawn credit facilities are as follows:

| <b>Lender</b> | <b>Type of facility</b> | <b>Currency</b> | <b>Amount of agreement</b> | <b>Amount available</b> | <b>Expiry date</b> |
|---------------|-------------------------|-----------------|----------------------------|-------------------------|--------------------|
| BCR           | Overdraft               | EUR             | 20.000.000                 | 2.541.231               | 10/03/2017         |
| UNICREDIT     | Credit line             | EUR             | 26.000.000                 | 11.416.348              | 10/17/2016         |

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 limit was decreased to RON 4.000.000 in 24.07.2015 through addendum.

At 31.12.2015 there were no promissory notes discounted and warranted in this limit. 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 RON 45 million, 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. In 24.07.2015 was signed an addendum in which the contractual value was increased from RON 45.000.000 to RON 51.000.000. At 31.12.2015 the Company did not used the limit for the suppliers of TMK-ARTROM S.A (same for 2014).

As at 31.12.2015, all financial ratios agreed through the loan contracts signed with banks were complied.

The Comapny has to maintain certain ratios, related to its capital, which are imposed by contracts concluded with BCR: Combined Net Debt to Combined EBITDA, positive combined EBITDA, Total Revenue defined based on the Combined Financial Statements, Shareholder Equity to Combined total assets.

Unicredit Bank analyses the financial indicators such as: Combined Net Debt to Combined EBITDA.

**Other long-term liabilities**

|                                               | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|-----------------------------------------------|---------------------|---------------------|
| Long-term sundry creditors                    | 29.459              | 10.901              |
| Long-term guarantees                          | 15.648              | 1.698               |
| <b>Balance of other long-term liabilities</b> | <b>45.107</b>       | <b>12.599</b>       |

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

### **16.3. 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.

### **16.4. 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.

| <b>Financial liability</b>                        | <b>Hierarchy of fair value</b> | <b>31 December 2015<br/>Carrying value<br/>RON</b> | <b>Fair value<br/>RON</b> |
|---------------------------------------------------|--------------------------------|----------------------------------------------------|---------------------------|
| Long-term bank loans - variable rate              | 3                              | 77.490.251                                         | 75.110.555                |
| Long-term intercompany borrowings - variable rate | 3                              | 74.814.305                                         | 63.204.066                |

| <b>Financial liability</b>                        | <b>Hierarchy of fair value</b> | <b>31 December 2014<br/>Carrying value<br/>RON</b> | <b>Fair value<br/>RON</b> |
|---------------------------------------------------|--------------------------------|----------------------------------------------------|---------------------------|
| 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                |

## **17. OTHER NON-CURRENT ASSETS**

|                                                | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|------------------------------------------------|---------------------|---------------------|
| Prepayments for property, plant, and equipment | 9.227.177           | 11.371.656          |
| <b>Total</b>                                   | <b>9.227.177</b>    | <b>11.371.656</b>   |

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

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## 18. INVENTORIES

Inventories consist of the following:

|                                                | <b>2015</b><br><b>RON</b> | <b>2014</b><br><b>RON</b> |
|------------------------------------------------|---------------------------|---------------------------|
| Work in progress                               | 43.300.989                | 37.783.192                |
| Raw materials                                  | 34.226.622                | 34.542.399                |
| Finished goods                                 | 32.718.363                | 24.816.352                |
| Consumables                                    | 16.493.568                | 11.488.759                |
| Other materials                                | 5.057.890                 | 7.216.738                 |
| Semi-finished goods                            | 2.977.874                 | 16.614                    |
| Finished goods at third parties (in transit)   | 2.224.429                 | 8.131.489                 |
| Materials in transit                           | 627.778                   | -                         |
| Raw materials and consumables at third parties | 52.146                    | 280.342                   |
| Merchandise and packaging                      | 52.987                    | 107.556                   |
| Merchandise at third parties (in transit)      | -                         | 5.800.161                 |
| <b>Total</b>                                   | <b>137.732.646</b>        | <b>130.183.602</b>        |

The finished goods, semi-finished goods and work in progress are valued considering the net realizable value. The management has analyzed 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:

|            | <b>Below 1 year</b><br><b>RON</b> | <b>1 - 2 years</b><br><b>RON</b> | <b>2 - 3 years</b><br><b>RON</b> | <b>Over 3 years</b><br><b>RON</b> | <b>Total</b><br><b>RON</b> |
|------------|-----------------------------------|----------------------------------|----------------------------------|-----------------------------------|----------------------------|
| 31.12.2015 | 104.958.452                       | 18.123.255                       | 7.033.072                        | 7.617.867                         | 137.732.646                |
| 31.12.2014 | 101.170.367                       | 18.823.584                       | 4.957.613                        | 5.232.038                         | 130.183.602                |

In year 2015 were set up allowances for inventories considering net realizable value for raw materials, finished goods and work in progress – the movement of the adjustments is presented below:

|                                               | <b>2015</b><br><b>RON</b> | <b>2014</b><br><b>RON</b> |
|-----------------------------------------------|---------------------------|---------------------------|
| <b>Balance January 1st</b>                    | <b>4.743.742</b>          | <b>5.134.718</b>          |
| Additional allowances set                     | 5.077.881                 | 3.108.775                 |
| Allowances used                               | (4.415.501)               | (3.499.751)               |
| <b>Balance at the end of reporting period</b> | <b>5.406.122</b>          | <b>4.743.742</b>          |

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

Trade receivables consist of the following:

|                                                    | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|----------------------------------------------------|---------------------|---------------------|
| Trade receivables, from which:                     | 207.842.378         | 187.749.093         |
| - Receivables from other related parties (note 25) | 26.044.276          | 49.837.236          |
| Other receivables - VAT                            | 12.632.991          | 16.274.085          |
| Sundry debtors, from which:                        | 2.214.388           | 866.957             |
| - Sundry debtors - related parties (note 25)       | 915.971             | 11.041              |
| Employee claims                                    | 491.255             | 480.191             |
| Recoverable income tax                             | 22.727              | -                   |
| <b>Less:</b>                                       |                     |                     |
| Allowance for doubtful accounts receivable         | (1.976.655)         | (1.396.559)         |
| Allowance for sundry debtors                       | (662.854)           | (662.854)           |
| <b>Total</b>                                       | <b>220.564.230</b>  | <b>203.310.913</b>  |

Trade receivables are non-interest bearing and generally have an average collection period of 80 days (2014: 72 days).

The average term of collection of receivables increased by 8 days to 80 days in 2015 than the previous year due to worsening conditions in pipes market. Our big customers / pipes distributors cashed with difficulty the value of the products delivered to end users. In addition, we had distributors which in order to maintain a relatively good volume of deliveries have offered to their clients better payment conditions including paying bills up to 120 days given that these payment terms were already offered by pipes producers from Europe like Podbrezova, ArcelorMittal, etc. All these affected the ability to pay of our distributors / big customers. Part of this increase in payment receivables term was determined also by the companies that have offered the products to oil field companies, which due to the low price of oil began to pay late the bills or have requested longer payment terms and thus affecting our clients' ability to pay bills in the shortest time possible.

The allowance for sundry debtors in amount of RON 662.854 was set up in year 2014 for the receivable representing the VAT of the advance not reimbursed by Metalkid 2008 SRL Iasi. The debit regarding the advance given was recovered from the insurance company but the related VAT could not be recovered.

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

|                                 | <b>RON</b>       |
|---------------------------------|------------------|
| <b>At 1 January 2015</b>        | <b>1.396.559</b> |
| Impairment adjustments expenses | 600.011          |
| Used                            | (19.915)         |
| <b>At 31 December 2015</b>      | <b>1.976.655</b> |

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

**Ageing analysis of trade receivables**

|             | Neither past<br>due nor<br>impaired |            | Past due but not impaired |               |                |               |           | Past due<br>and<br>impaired<br>> 120<br>days<br>RON | Total       |
|-------------|-------------------------------------|------------|---------------------------|---------------|----------------|---------------|-----------|-----------------------------------------------------|-------------|
|             |                                     | < 30 days  | 30–60<br>days             | 61–90<br>days | 91–120<br>days | > 120<br>days |           |                                                     |             |
|             | RON                                 | RON        | RON                       | RON           | RON            | RON           | RON       | RON                                                 | RON         |
| <b>2015</b> | 174.620.530                         | 15.664.147 | 4.779.739                 | 5.926.596     | 2.683.426      | 1.430.499     | 2.737.441 |                                                     | 207.842.378 |
| <b>2014</b> | 168.475.607                         | 15.208.179 | 1.352.650                 | 171.948       | -              | 1.144.150     | 1.396.559 |                                                     | 187.749.093 |

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

| Receivables               | Currency | 2015               |                     | 2014               |                     |
|---------------------------|----------|--------------------|---------------------|--------------------|---------------------|
|                           |          | RON                | Foreign<br>currency | RON                | Foreign<br>currency |
| Internal customers        | LEI      | 41.836.220         |                     | 38.040.653         |                     |
|                           | EUR      | 47.062.052         | 10.401.603          | 11.776.835         | 2.627.526           |
| External customers        | EUR      | 98.568.611         | 21.785.526          | 89.808.968         | 20.249.132          |
|                           | USD      | 15.838.840         | 3.818.704           | 44.145.862         | 11.974.032          |
| Doubtful customers        | LEI      | 1.587.354          |                     | 1.591.041          |                     |
|                           | EUR      | 1.150.087          | 254.191             | 949.667            | 211.880             |
| Notes issued by customers | LEI      | 1.799.214          |                     | 1.436.067          |                     |
| <b>Total</b>              |          | <b>207.842.378</b> |                     | <b>187.749.093</b> |                     |

As of 31 December 2015 the Company registered doubtful customers receivables in amount of RON 2.737.441 (2014: RON 2.540.708). For the amounts registered in this category were constituted value adjustments in amount of RON 1.976.655, because they are considered to have high risk of non cashing.

From the amount of RON 174.215.574 trade receivables at 31.12.2015 neither past due nor impaired, the amount of RON 137.166.029 is considered without risk, and includes the following categories:

- RON 74.852.923, respectively 43% representing receivables insured by COFACE Germany;
- RON 47.062.053, respectively 27% receivables covered by export letters;
- RON 15.251.053, respectively 9% intercompany receivables.

The difference of RON 37.049.545, respectively 21% are considered to have a low risk in aggregate because those customers are in general located in different countries and industries independent markets.

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## 20. PREPAYMENTS

Prepayments consist of the following:

|                                                                     | 2015<br>RON        | 2014<br>RON        |
|---------------------------------------------------------------------|--------------------|--------------------|
| Prepayments for services, inventories, from which:                  | 98.810.404         | 132.509.304        |
| - Prepayments for services, inventories - related parties (note 25) | 98.799.404         | 131.866.156        |
| Prepaid expenses                                                    | 1.344.373          | 1.210.787          |
| <b>Total</b>                                                        | <b>100.154.777</b> | <b>133.720.091</b> |

The amount of RON 98.799.404 (without VAT) represents advances given to TMK Resita S.A. (2014: RON 131.866.156).

## 21. CASH AND SHORT-TERM DEPOSITS

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

|                                   | 2015<br>RON      | 2014<br>RON       |
|-----------------------------------|------------------|-------------------|
| Cash on hand                      | 19.793           | 33.978            |
| Cash at banks in RON              | 530.189          | 2.044.499         |
| Cash at banks in foreign currency | 1.687.568        | 25.751.132        |
| Other cash equivalents            | 1.327            | 363.577           |
| Short-term deposits               | 1.839.665        | 1.280.751         |
| <b>Total</b>                      | <b>4.078.542</b> | <b>29.473.937</b> |

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

TMK-Artrom constituted interest-bearing overnight deposits at Banca Comerciala Romana, depending on the availability of cash in bank account at the end of the day.

| Short-term deposits | 2015      | 2014      |
|---------------------|-----------|-----------|
| in RON              | 1.839.665 | 1.280.751 |

There is no restricted cash.

## 22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS

### Share capital

| Subscribed and paid share capital | Number of shares | Nominal Value<br>RON / share | Subscribed share capital<br>RON | Total<br>RON  |
|-----------------------------------|------------------|------------------------------|---------------------------------|---------------|
| Balance 1 January 2015            | (116.170.334)    | 2,51                         | (291.587.538)                   | (291.587.538) |
| Balance 31 December 2015          | (116.170.334)    | 2,51                         | (291.587.538)                   | (291.587.538) |

### Legal and other reserves

|                                      | Legal reserve<br>RON | Other reserves<br>RON | Total<br>RON      |
|--------------------------------------|----------------------|-----------------------|-------------------|
| <b>Balance at 1 January 2014</b>     | <b>12.576.840</b>    | <b>857.553</b>        | <b>13.434.393</b> |
| 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         |
| <b>Balance at 31 December 2014</b>   | <b>14.962.653</b>    | <b>2.196.446</b>      | <b>17.159.099</b> |
| Increase from the profit of the year | 144.419              | -                     | 144.419           |
| Increase from reinvested profit      | 14.997               | 284.961               | 299.958           |
| <b>Balance at 31 December 2015</b>   | <b>15.122.069</b>    | <b>2.481.407</b>      | <b>17.603.476</b> |

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 299.959 from the profit of the financial year in equipment which was purchased and put into operation in first and fourth quarter 2015. 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 14.997, 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 2015

| Account name                                                                                                                               | Balance at 31 December 2015 | Nature                                                                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------------------------|
| Retained earnings representing undistributed profit                                                                                        | <b>26.976.380</b>           | Can be distributed or used to cover losses                                              |
| Retained earnings from adopting IAS for the first time (OMFP 94/2001)                                                                      | <b>14.455</b>               | Can be distributed or used to cover losses, it is taxable at use of reserve             |
| Retained earnings representing the surplus realized from revaluation reserves                                                              | <b>11.225.078</b>           | 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                                              | <b>112.843.918</b>          | 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 | <b>24.986.163</b>           | Can be distributed or used to cover losses                                              |
| Distribution from profit of the year to legal reserve                                                                                      | <b>(444.377)</b>            |                                                                                         |
| Period result                                                                                                                              | <b>2.496.486</b>            |                                                                                         |
| <b>Total retained earnings</b>                                                                                                             | <b>178.098.103</b>          |                                                                                         |

In April 2015, under the approval of GSM dated 28.04.2015 the Company registered the compensation of accounting losses from previous years with the profit of year 2014 in amount of RON 9.916.468, as well as compensation of accounting losses carried forward from the adoption of IAS 29 for the first time in balance at 31.12.2014, in amount of RON 6.158.919 from retained earnings representing the surplus achieved from reevaluation reserves after 01.01.2004, taxed in the income tax statement under OUG 34/2009 starting with 01.05.2009, elements as taxable income (2014) included in the cost presumed in the transition to IFRS restatement 01.01.2011.

In year 2015 the amount of RON 7.349.272 recorded in retained earnings from using at the date of transition to IFRS of fair value as deemed cost, was realized through depreciation.



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

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)                 |                                                                                         |
| Period Result                                                                                                                              | 40.617.555                  |                                                                                         |
| Total retained earnings                                                                                                                    | 176.045.995                 |                                                                                         |

## 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 and is adjusted with inflation each year.

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

|                                                     | 2015<br>RON      | 2014<br>RON      |
|-----------------------------------------------------|------------------|------------------|
| <b>Net liability at the beginning of the year</b>   | <b>2.661.347</b> | <b>2.851.708</b> |
| Expense recognized in statement of income           | 300.892          | 245.068          |
| Benefits paid                                       | (91.530)         | (106.612)        |
| Components of defined benefit costs recorded in OCI | 57.187           | (328.817)        |
| <b>Net liability at the end of the year</b>         | <b>2.927.896</b> | <b>2.661.347</b> |
| Short-term liabilities                              | 302.200          | 284.247          |
| Long-term liabilities                               | 2.625.696        | 2.377.100        |

As at 31.12.2015 the Company estimated the obligation regarding actuarial provision for employee benefits, accounting the following:

- Expenses accounted in profit or loss in amount of RON 300.892;
- Benefits paid in amount of RON 91.530.

Total net liability at 31.12.2015 is of RON 2.927.896.

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 are based on separate mortality tables for male and female published by the Romanian National Institute of Statistics in 2013.

**Staff turnover:** the turnover rate used in the actuarial projections was of 1,88% (2014: 1,88%) which corresponds to historical data from last 4 years.

**Discount rate:** the discount rate of future cash flows used in actuarial evaluation is the risk free rate represented by the average interest rate at 31 December 2015 of zero coupon government bonds issued in Romanian lei according to Bloomberg. There is an overall decrease of the discount rate in year 2015. The average decrease is 6%. We have used RON government bonds with maturity 1 year, 2 years, etc where available from the full range of years needed. If there was no bond available with a certain maturity interpolations of the rate performed by Bloomberg were used.

**Salaries indexation and long-term inflation:** base salaries are assumed to increase by 1% starting 1<sup>st</sup> January 2016, 2,1% starting 1<sup>st</sup> July 2016 and by 2,5% per annum starting 1<sup>st</sup> January 2017, in line with the inflation projected by the National Bank of Romania.

For the computation of the death benefit we have used the average monthly salary of RON 2.252 / employee as at 31 December 2015 (2014: 2.241 lei/ employee).

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

**Taxes:** IAS 19 requires social charges and other related taxes to be included in the measurement of benefit obligation. Both benefits included in the evaluation generate costs with social contributions. The rate of 23,1 % (2014: 22,35%) was used for social contributions for assessing the employee benefits, meaning that the obligation value and the corresponding periodical components were increased by this rate. This rate is the current rate of contributions applied by the Company.

**Other assumptions:** retirement age for women born after 1967 is expected to be 63, while for men born after 1950 is expected to be 65. This information is extracted from the revised law on pensions number 263/2010 issued by the Labor Ministry.

The management considers that the going concern assumption is applicable for the Company as at 31 December 2015 and there are no restructuring plans announced as at this date.

Disclosures according to IFRS on the basis that all changes in the employee benefits are treated as Actuarial gains/losses – Experience:

|                                                                                | PV of<br>Retirement<br>Benefits<br>RON | PV of<br>Employee<br>Death Benefits<br>RON | Total 2015<br>RON | Total 2014<br>RON |
|--------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------|-------------------|-------------------|
| <b>Opening defined benefit obligation as at 1 January</b>                      | <b>2.195.266</b>                       | <b>466.081</b>                             | <b>2.661.347</b>  | <b>2.851.708</b>  |
| Current service cost                                                           | 156.588                                | 60.911                                     | 217.499           | 170.602           |
| Interest cost                                                                  | 68.940                                 | 14.453                                     | 83.393            | 74.466            |
| <b>Remeasurement (gains)/losses:</b>                                           | <b>(394)</b>                           | <b>57.581</b>                              | <b>57.187</b>     | <b>(328.817)</b>  |
| - Remeasurement (gains)/losses arising from experience                         | 2.530                                  | 128.205                                    | 130.735           | 178.342           |
| - Remeasurement (gains)/losses arising from changes in financial assumptions   | (44.407)                               | (1.105)                                    | (45.512)          | (192.008)         |
| - Remeasurement (gains)/losses arising from changes in demographic assumptions | 41.483                                 | (69.519)                                   | (28.036)          | (315.151)         |
| Benefits paid                                                                  | (85.867)                               | (5.663)                                    | (91.530)          | (106.612)         |
| <b>Closing defined benefit obligation as at 31 December</b>                    | <b>2.334.533</b>                       | <b>593.363</b>                             | <b>2.927.896</b>  | <b>2.661.347</b>  |

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

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

|                                                                       | PV of<br>Retirement<br>Benefits<br><i>RON</i> | PV of<br>Employee<br>Death Benefits<br><i>RON</i> | Total 2015<br><i>RON</i> | Total 2014<br><i>RON</i> |
|-----------------------------------------------------------------------|-----------------------------------------------|---------------------------------------------------|--------------------------|--------------------------|
| Current service cost                                                  | 156.588                                       | 60.911                                            | 217.499                  | 170.602                  |
| Net interest expense                                                  | 68.940                                        | 14.453                                            | 83.393                   | 74.466                   |
| <b>Components of defined benefit costs recorded in profit or loss</b> | <b>225.528</b>                                | <b>75.364</b>                                     | <b>300.892</b>           | <b>245.068</b>           |

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

|                                                                      | PV of<br>Retirement<br>Benefits<br><i>RON</i> | PV of<br>Employee<br>Death Benefits<br><i>RON</i> | Total 2015<br><i>RON</i> | Total 2014<br><i>RON</i> |
|----------------------------------------------------------------------|-----------------------------------------------|---------------------------------------------------|--------------------------|--------------------------|
| <b>Opening net liability arising from defined benefit obligation</b> | <b>2.195.266</b>                              | <b>466.081</b>                                    | <b>2.661.347</b>         | <b>2.851.708</b>         |
| Components of defined benefit costs recorded in profit or loss       | 225.528                                       | 75.364                                            | 300.892                  | 245.068                  |
| Components of defined benefit costs recorded in OCI                  | (394)                                         | 57.581                                            | 57.187                   | (328.817)                |
| Benefits paid                                                        | (85.867)                                      | (5.663)                                           | (91.530)                 | (106.612)                |
| <b>Closing net liability arising from defined benefit obligation</b> | <b>2.334.533</b>                              | <b>593.363</b>                                    | <b>2.927.896</b>         | <b>2.661.347</b>         |

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

Estimation of the profit or loss charge for the financial year 2016

|                           | PV of retirement<br>benefits<br>RON | PV of death<br>benefits<br>RON | Total<br>RON   |
|---------------------------|-------------------------------------|--------------------------------|----------------|
| Current service cost 2016 | 156.588                             | 60.911                         | 217.499        |
| Net interest expense 2016 | 67.341                              | 17.360                         | 84.701         |
| <b>Total</b>              | <b>223.929</b>                      | <b>78.271</b>                  | <b>302.200</b> |

The estimation of the profit or loss charge for the financial year 2016 assumes an average discount rate of 2,94% and an salary growth rate of 2,5%.

### Other disclosures

|                          | 2015  | 2014 |
|--------------------------|-------|------|
| Average benefit duration | 15    | 20   |
| Average age of employees | 44    | 44   |
| Average discount rate    | 2,94% | 3,1% |
| Average salary increase  | 2,5%  | 2,6% |

## 24. TRADE AND OTHER PAYABLES (CURRENT)

Trade and other payables consists of the following:

|                                         | 2015<br>RON        | 2014<br>RON       |
|-----------------------------------------|--------------------|-------------------|
| Current trade payables, from which:     | 106.813.203        | 64.284.378        |
| - Intercompany trade payables (note 25) | 66.383.491         | 27.232.381        |
| Payables for non-current assets         | 3.442.178          | 3.231.026         |
| Bills of exchange payable               | 3.866.820          | 5.144.798         |
| Salaries and Wages                      | 1.562.622          | 1.587.205         |
| Advances from customers                 | 1.490.850          | 1.940.497         |
| Short-term guarantees                   | 4.533              | 76.878            |
| Accrued and other liabilities           | 164.609            | 176.209           |
| <b>Total financial liability</b>        | <b>117.344.815</b> | <b>76.440.991</b> |
| Accrued and withheld taxes on payroll   | 5.783.009          | 5.686.838         |
| Liabilities for other taxes             | 127.835            | 110.010           |
| <b>Total non-financial liability</b>    | <b>5.910.844</b>   | <b>5.796.848</b>  |
| <b>Grand total</b>                      | <b>123.255.659</b> | <b>82.237.839</b> |

Concerning the Company's debts to the fiscal authorities, as of 31 December 2015, there is a balance to be paid RON 5.910.844 (2014: RON 5.796.848), which represents the current debts of taxes and social debts of salaries, income tax of legal and individual non-resident persons which were required for compensation with input VAT from fiscal authorities.

Trade payables are non-interest bearing and are, normally, settled on an average of 41 day terms.

## 25. TRANSACTIONS WITH RELATED PARTIES

TMK EUROPE GmbH Germany, company which is part of PAO TMK, is the major shareholder of TMK - Artrom SA and of TMK - Resita SA.

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

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

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

| Society                                        | Country home         | Relationship                  |
|------------------------------------------------|----------------------|-------------------------------|
| - PAO TMK Russia                               | Russia               | mediate ultimate 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 GLOBAL AG Zurich                         | Switzerland          | Related, under common control |
| - TMK Italia s.r.l. Lecco, Italia              | Italy                | Related, under common control |
| - Sinarsky pipe plant RUSIA                    | Russia               | Related, under common control |
| - Seversky pipe plant RUSIA                    | Russia               | Related, under common control |
| - OJSC Volzhskiy Pipe Plant RUSIA              | Russia               | Related, under common control |
| - RosNITI JSC RUSIA                            | Russia               | Related, under common control |
| - TMK-Inox RUSIA                               | Russia               | Related, under common control |
| - Trade House TMK                              | Russia               | Related, under common control |
| - TMK Real Estate SRL                          | Romania              | Related, under common control |
| - TMK Assets SRL                               | Romania              | Related, under common control |
| - Land Properties Investments 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 |

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

**The balances of transactions with related parties**

| <b>Trade Receivables</b>              | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|---------------------------------------|---------------------|---------------------|
| TMK IPSCO International USA           | 15.769.970          | 40.963.224          |
| TMK - RESITA S.A.                     | 10.262.712          | 5.686.786           |
| TMK Middle East Dubai                 | -                   | 3.182.638           |
| TMK Real Estate Bucharest             | 5.890               | 2.480               |
| TMK Assets Bucharest                  | 3.720               | 1.116               |
| Land Properties Investments Bucharest | 1.984               | 992                 |
| <b>Total</b>                          | <b>26.044.276</b>   | <b>49.837.236</b>   |

The trade receivables to TMK IPSCO International USA decreased due to the decrease of deliveries towards US market as the low price of the oil barrel substantially reduced investments in the extractive industry with direct repercussions on the volume of orders received by TMK-ARTROM.

| <b>Other Assets</b>                                            | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|----------------------------------------------------------------|---------------------|---------------------|
| TMK - RESITA S.A. (advances for purchase of goods)             | 98.799.404          | 131.866.156         |
| TMK - RESITA S.A. (sundry debtors)                             | 905.779             | 7.068               |
| TMK Real Estate Bucharest (long-term receivables - guarantees) | 50.653              | 83.795              |
| TMK Real Estate Bucharest (sundry debtors)                     | 8.156               | 1.128               |
| Trade House TMK Russia (sundry debtors)                        | 2.036               | 2.017               |
| TMK Gulf International Pipe Industry Oman (sundry debtors)     | -                   | 828                 |
| <b>Total</b>                                                   | <b>99.766.028</b>   | <b>131.960.992</b>  |

| <b>Trade Payables</b>         | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|-------------------------------|---------------------|---------------------|
| PAO TMK Russia                | 58.032.279          | 55.302              |
| TMK Europe GmbH Germany       | 7.835.499           | 6.376.089           |
| TMK Italia s.r.l. Italy       | 386.533             | 657.093             |
| SCEA Domaine de Bebian France | 77.202              | 72.014              |
| RosNITI JSC Russia            | 49.772              | -                   |
| TMK Real Estate Bucharest     | 2.206               | 11.792              |
| Trade House TMK Russia        | -                   | 19.856.276          |
| TMK-Inox Russia               | -                   | 127.953             |
| TMK IPSCO International USA   | -                   | 75.862              |
| <b>Total</b>                  | <b>66.383.491</b>   | <b>27.232.381</b>   |

Trade payables to PAO TMK increased in year 2015 compared with year 2014 due to the increase in the trade activity with metallurgical products. In year 2015 the Company purchased metallurgical products for resale mainly from PAO TMK while in 2014 these were purchased mainly from Trade House TMK.

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

| <b>Other liabilities</b>                                  | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|-----------------------------------------------------------|---------------------|---------------------|
| TMK Europe GmbH (loan)                                    | 74.814.305          | 84.235.868          |
| TMK Europe GmbH Germany (interest owed at reporting date) | 60.910              | 48.545              |
| <b>Total</b>                                              | <b>74.875.215</b>   | <b>84.284.413</b>   |

**Transactions with related parties**

| <b>Sales (Turnover)</b>                                                                                                                                                                          | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| TMK IPSCO International USA (pipes)                                                                                                                                                              | 63.674.194          | 202.311.035         |
| TMK-RESITA S.A. (pipes, re-invoiced materials from TMK Europe and domestic market, perceives commission, customs commission for Schenker, management services, extra charges for quality claims) | 31.281.466          | 35.465.816          |
| TMK Middle East Dubai (pipes)                                                                                                                                                                    | 4.167.016           | 7.173.751           |
| Sinarsky pipe plant Russia (pipes)                                                                                                                                                               | 255.652             |                     |
| TMK GLOBAL Switzerland (pipes)                                                                                                                                                                   | 348.588             |                     |
| TMK-Inox Rusia (mandrel parts)                                                                                                                                                                   | 253.809             |                     |
| TMK Italia s.r.l. Italy (audit services)                                                                                                                                                         | 24.643              | 24.329              |
| TMK Europe GmbH Germany (pipes, audit services)                                                                                                                                                  | 13.439              | 10.334.106          |
| TMK Real Estate Bucharest (management services, sale of property, plant and equipment and other materials)                                                                                       | 11.080              | 6.000               |
| TMK Assets Bucharest (management services)                                                                                                                                                       | 3.600               | 3.600               |
| Land Properties Investments Bucharest (management services)                                                                                                                                      | 2.400               | 2.400               |
| TMK IPSCO Canada (pipes)                                                                                                                                                                         | -                   | 249.883             |
| <b>Total</b>                                                                                                                                                                                     | <b>100.035.887</b>  | <b>255.570.920</b>  |

The turnover from sold production to TMK IPSCO International USA decreased due to the decrease of physical volume of sales of pipes but also of the decrease of average sale price -as the US market was impacted by the low price of the oil barrel substantially which reduced investments in the extractive industry with direct repercussions on the volume of orders received by TMK-ARTROM.



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

| <b>Purchases</b>                                                                                                                                                     | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| TMK RESITA S.A. (billets - raw materials, spare parts, repair services)                                                                                              | 445.437.271         | 490.209.212         |
| Trade House TMK Russia (billets and pipes for resale)                                                                                                                | 61.213.935          | 91.714.160          |
| PAO TMK Russia (advisory services, billets for resale)                                                                                                               | 92.830.260          | 201.908             |
| TMK Europe GmbH Germany (materials re-invoiced to TMK Resita, pipes and billets selling commission, materials for own consumption, extra charges for quality claims) | 37.814.187          | 51.901.137          |
| TMK Italia s.r.l. Italy (extra charges for quality claims, pipes and billets selling commission)                                                                     | 9.262.581           | 9.097.633           |
| TMK Real Estate Bucharest (rent and apartment maintenance)                                                                                                           | 850.116             | 1.072.804           |
| TMK INOX Russia (steel pipes for resale)                                                                                                                             | 569.910             | 126.186             |
| TMK Ipsco International USA (extra charges for quality claims)                                                                                                       | 83.547              | 103.538             |
| RosNITI JSC Russia (research and development services)                                                                                                               | 77.511              | 232.101             |
| OJSC Volzsky Pipe Plant Russia (guarantee fees)                                                                                                                      | -                   | 45.879              |
| Scea Domaine de Bebian France (protocol expenses)                                                                                                                    | 75.614              | 71.140              |
| Seversky pipe plant Russia (registration fee 13th International Congress of Steelmakers)                                                                             | -                   | 10.405              |
| <b>Total</b>                                                                                                                                                         | <b>648.214.932</b>  | <b>644.786.103</b>  |

**Loans within the Group**

TMK Europe GmbH Germany (former TMK Sinara Handel GmbH), the parent company, it is creditor with the amount of RON 74.900.885 representing USD 18.037.540,03 (2014: RON 84.235.867 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 installments starting from 25 January 2014 to 25 September 2018 inclusively the debit in value of RON 38,425 of Company towards TMK Europe GmbH payable on 25 January 2014 will be settled in USD at the official exchange rate RON/USD of National Bank of Romania from the last working day of year 2013. The receivable has an interest of LIBOR + 0.5% p.a. starting from 1 January 2009. The interest is calculated and it is paid on the 15<sup>th</sup> of each month for the previous month;
- on 21.11.2013, Addendum no.1 to the contract from 01.12.2008 was concluded by which it was established that the reimbursement of the loan will be made in 57 installments 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;
- on 03.12.2015 it was signed Addendum no. 2 through which the reimbursement of the borrowing was suspended for a period of 3 years starting with 1<sup>st</sup> January 2016, following to be restarted beginning with January 2019 in 44 equal installments in amount of USD 400.000 and a last installment of USD 437.540,03.

At 31.12.2015 the value of the borrowing was on long-term.

The interest owed by TMK-ARTROM S.A. at 31 December 2015 is of USD 14.367 (2014: USD 13.167, respectively RON 48.567).

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**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 202.846 thousand RON as at 31 December 2015.

Cash compensations granted to key-employees registered in year 2015 are in amount of RON 14.437.820 (2014: RON 13.186.795).

**26. PROVISIONS AND ACCRUALS**

| Other short-term provisions and accruals          | 2015<br>RON      | 2014<br>RON      |
|---------------------------------------------------|------------------|------------------|
| Accruals for managers bonuses                     | 1.719.322        | 2.792.904        |
| Provisions for taxes                              | 893.743          | -                |
| Provisions for risks and expenses                 | 843.546          | -                |
| Provisions for quality complaints material cost   | 231.652          | 1.525.398        |
| Provisions for quality complaints additional cost | 55.374           | 157.708          |
| Accruals for unused vacations                     | 5.638            | -                |
| <b>Total</b>                                      | <b>3.749.275</b> | <b>4.476.010</b> |

| Other long-term provisions                                   | 2015<br>RON    | 2014<br>RON    |
|--------------------------------------------------------------|----------------|----------------|
| Provisions for decommissioning property, plant and equipment | 219.350        | 219.350        |
| Provisions for quality complaints additional cost            | 7.931          | 12.431         |
| Provisions for quality complaints material cost              | -              | 197.691        |
| <b>Total</b>                                                 | <b>227.281</b> | <b>429.472</b> |

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**26. PROVISIONS AND ACCRUALS (continue)**

The movement in short-term provisions are as follows:

| Short-term provisions                                     | Provisions for quality complaints material cost | Provisions for quality complaints additional cost | Accruals for manager bonuses | Accruals for unused vacations | Provisions for taxes | Provisions for risks and expenses | Total            |
|-----------------------------------------------------------|-------------------------------------------------|---------------------------------------------------|------------------------------|-------------------------------|----------------------|-----------------------------------|------------------|
| <b>At 01.01.2014</b>                                      | <b>1.226.748</b>                                | <b>305.870</b>                                    | <b>2.764.562</b>             | -                             | -                    | -                                 | <b>4.297.180</b> |
| 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)      |
| <b>At 31.12.2014</b>                                      | <b>1.525.398</b>                                | <b>157.708</b>                                    | <b>2.792.904</b>             | -                             | -                    | -                                 | <b>4.476.010</b> |
| Expense with provisions recognized in statement of income | 613.712                                         | 93.244                                            | 1.719.321                    | 5.638                         | 893.743              | 843.546                           | 4.169.204        |
| Used                                                      | (1.907.458)                                     | (195.578)                                         | (2.792.903)                  | -                             | -                    | -                                 | (4.895.939)      |
| <b>At 31.12.2015</b>                                      | <b>231.652</b>                                  | <b>55.374</b>                                     | <b>1.719.322</b>             | <b>5.638</b>                  | <b>893.743</b>       | <b>843.546</b>                    | <b>3.749.275</b> |

Provision expenses increased towards previous year due to the recognition of provisions for risks and expenses mainly for the following expenses:

- RON 338.904 provision for expenses regarding the additional insurance premium according to the risk of default for customers insurance contract signed with COFACE SA Germany.
- RON 504.642 provision for expenses regarding the share of exemption from payment of 60% from the number of green certificates corresponding to the mandatory share according to Exemption Agreement no.3 from 03.06.2015 for January 2015 - May 2015 which will be recovered from the supplier of the energy. According to GD no. 113/24.02.2016, regarding change alin. (1) of art. 3 from Government Decision no. 495/2014 for the establishment of a state aid scheme exempting certain categories of end users from the application of Law no. 220/2008 which establishes the promotion of energy production system from renewable energy it is stipulated that the exemption will be applied starting with the date of issue of exemption agreement obtained. Following the Government Decision the Company decided to recognize a provision for the amounts accrued for the exemption related to the period January 2015 - May 2015.
- RON 893.743 provision for taxes representing expenses regarding debts and interest and penalties estimated to be registered according to the comprehensive fiscal control. In 15.02.2016 the comprehensive fiscal control for period 2005-2009 was finished with Report of tax inspection no. F-MC 15/08.02.2016, the Decision regarding additional tax payment obligations no. F-MC 4/08.02.2016 and Decision regarding non modifying tax base no. F-MC5/8.02.2016 (registered in TMK-ARTROM under no. 1735 from 15.02.2016). Through that was established the additional debts for income tax and VAT in amount of RON 1.332.027 and interest and penalties in amount of RON 2.889.444. The Company disputes several of the findings.

## 26. PROVISIONS AND ACCRUALS (continue)

The movement in long-term provisions are as follows:

| Long-term provisions                                      | Provisions for quality complaints material cost | Provisions for quality complaints additional cost | Provisions for decommissioning property, plant and equipment | Total          |
|-----------------------------------------------------------|-------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------|----------------|
| <b>At 1st January 2014</b>                                | <b>197.691</b>                                  | <b>12.431</b>                                     | -                                                            | <b>210.122</b> |
| Expense with provisions recognized in statement of income | -                                               | -                                                 | -                                                            | -              |
| Recognition in counterparty with fixed assets             | -                                               | -                                                 | 219.350                                                      | <b>219.350</b> |
| Used                                                      | -                                               | -                                                 | -                                                            | -              |
| <b>At 31 December 2014</b>                                | <b>197.691</b>                                  | <b>12.431</b>                                     | <b>219.350</b>                                               | <b>429.472</b> |
| Expense with provisions recognized in statement of income | -                                               | 7.931                                             | -                                                            | 7.931          |
| Used                                                      | (197.691)                                       | (12.431)                                          | -                                                            | (210.122)      |
| <b>At 31 December 2015</b>                                | -                                               | <b>7.931</b>                                      | <b>219.350</b>                                               | <b>227.281</b> |

## 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 risks. The Management Committee establishes and revises the policies in order to supervise each category of risks presented below.

### Market risk

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

### Interest rate risk

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

TMK-ARTROM borrows mainly on variable interest rates. In year 2015, 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 27,5 % of portfolio at 31.12.2015 and 22,5% at 31 December 2014. At 31 December 2015 and at 31 December 2014 the Company did not had in balance loans with ROBOR calculation basis. 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 2015, the Company did not have financial assets with variable interest rate.

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

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

|                         | Variation in<br>margin | Effect on profit before<br>tax<br>(thousands RON) | Effect on equity<br>(thousands RON) |
|-------------------------|------------------------|---------------------------------------------------|-------------------------------------|
| <b>31 December 2015</b> |                        |                                                   |                                     |
| increase in EURIBOR     | 10                     | (2,55)                                            | (2,14)                              |
| decrease in EURIBOR     | (10)                   | 2,55                                              | 2,14                                |
| increase in LIBOR       | 10                     | (17,5)                                            | (14,7)                              |
| decrease in LIBOR       | (10)                   | 17,5                                              | 14,7                                |
| <b>31 December 2014</b> |                        |                                                   |                                     |
| 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                                |

### 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 in year 2015 did not signed EUR/RON and USD/RON forward contracts in order to cover the exposure to foreign currency risk, 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.

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

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

|                         | Percentage<br>volatility | Effect on profit<br>before tax<br>(thousands RON) | Effect on equity<br>(thousands RON) |
|-------------------------|--------------------------|---------------------------------------------------|-------------------------------------|
| <b>31 December 2015</b> |                          |                                                   |                                     |
| EUR/RON                 | 10%                      | (13.078)                                          | (10.985)                            |
| EUR/RON                 | -10%                     | 13.078                                            | 10.985                              |
| USD/RON                 | 10%                      | (1.496)                                           | (1.257)                             |
| USD/RON                 | -10%                     | 1.496                                             | 1.257                               |
| <b>31 December 2014</b> |                          |                                                   |                                     |
| 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                               |

**Liquidity risk**

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

The Company tries to target an optimal ration between equity and total debt and to maintain an appropriate level of liquidity and financial capacity as to minimize interest expenses and to have an optimal profile of composition and duration of liabilities. As at 31.12.2015 about 44% from the total of loans and borrowings are due in the following 12 months, 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.

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

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

| Liquidity risk                                     | Less than 3 months | 3 to 12 months     | 1 to 5 years       | >5 years          | Total              |
|----------------------------------------------------|--------------------|--------------------|--------------------|-------------------|--------------------|
| <b>2015</b>                                        |                    |                    |                    |                   |                    |
| Interest bearing loans (including future interest) | 5.552.217          | 119.982.521        | 121.245.037        | 35.312.959        | 282.092.734        |
| Leasing                                            | 51.281             | 163.205            | 193.753            | -                 | 408.239            |
| Other non-current liabilities                      | -                  | -                  | 45.107             | -                 | 45.107             |
| Trade and other payables                           | 94.038.324         | 21.815.641         | -                  | -                 | 115.853.965        |
| <b>Total</b>                                       | <b>99.641.822</b>  | <b>141.961.367</b> | <b>121.483.897</b> | <b>35.312.959</b> | <b>398.400.045</b> |
| <b>2014</b>                                        |                    |                    |                    |                   |                    |
| 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                           | 67.586.351         | 6.913.411          | 732                | -                 | 74.500.494         |
| Other current liabilities                          | 1.386.460          | -                  | -                  | -                 | 1.386.460          |
| <b>Total</b>                                       | <b>78.582.517</b>  | <b>109.662.896</b> | <b>224.045.065</b> | <b>13.452.911</b> | <b>425.743.389</b> |

Financial indicators of the loan contracts were respected as at 31 December 2015 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 decreased in year 2015 compared to the previous period due to the decrease of the profit before tax, decrease of turnover and increase in inventories.

Net cash from investment activities decreased in 2015 compared to year 2014 due to slight increase in volume of payments made for purchases of property, plant and equipment mainly for the investments made to the new production workshop "Workshop no.5 ACH - Pipes for Hydraulic Cylinders" and for the prepayment to SMS company for the purchase of a line of heat treatment for seamless steel pipes.

Net cash from financing activities decreased in 2015 compared to 2014 due to the reimbursements made for long-term loans, EUR 3.750.000 at BCR according to the payments schedule, and in advance EUR 7.066.667 to UNICREDIT TIRIAC BANK and also the reimbursement of USD 4.800.000 and RON 38.425,07 from the borrowing from TMK Europe according to the payment schedule.

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

### **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.

*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).



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

*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 90 days, depending on their reliability.

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

In order to limit the credit risk, the Company signed with COFACE S.A. on 1 October 2012 a contract to secure the non-payment risk for almost the entire portfolio of sales to third parties. In 2013, the Company decided to maintain the contract of securing the non-payment risk with Coface, but this time with the subsidiary from Germany which offered an insurance premium significantly lower under the same conditions as those from the previous year. In December 2014 the Company decided to extend the insurance contract signed with COFACE Germany with one more year, and in December 2015 it was extended for another year. At 31.12.2015 credit limits granted by Coface S.A covered 72% of requested limits for external clients and on internal market 49% of requested limits. As at 31.12.2015 80% from the receivables which are insured were covered by Coface. For 27% from the total third parties receivables were opened irrevocable letters of credit. Customers which are not covered by Coface S.A in percentage of 100% and do not have opened letters of credit are carefully monitored in order to limit the possible losses from non-collection.

The only one customer which had a percentage higher than 10% from the turnover of year 2015 was DONALAM SRL with RON 118.239.187 (13%) representing sales of billets purchased from TRADE HOUSE TMK and PAO TMK. The sales to this customer were covered by letters of credit.

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

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

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

Negative differences existing between monetary assets and liabilities are justified by the existing of a long-term loans portfolio for which repayments were taken into account the cash flows resulted from future sales.

The administration of the company is controlled by the shareholders and the financial statements are audited by the financial auditor, according to legal regulations valid in Romania.

## **28. AUDIT COMPANIES FEES**

The audit of the company is provided by Ernst & Young Assurance Services SRL. It audits the statutory Financial Statements and the Group Reporting Pack issued by TMK-ARTROM.

In year 2015 for the audit of statutory Financial Statements the Company paid to the audit company the amount of RON 181.272 (RON 146.187 without VAT), and for the audit of the Group Reporting Pack it paid the amount of RON 164.885 (RON 132.971 without VAT).

The actuarial valuation of employee benefits, according to IAS 19, it is made by PricewaterhouseCoopers Audit SRL. For these services in year 2015 is was paid the amount of RON 15.150 (RON 12.218 without VAT).

## **29.COMMITMENTS AND CONTINGENT LIABILITIES**

Total commitments for the aquisition of property, plant and equipment as at 31 December 2015 are of RON 64.929.845 (31 December 2014: RON 19.481.252).

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.

### **Future rent expenses (related to operating leasing):**

|                           | <b>2015<br/>RON</b> | <b>2014<br/>RON</b> |
|---------------------------|---------------------|---------------------|
| Less than one year        | 520.232             | 1.338.692           |
| Between one and two years | 7.550               | 831.246             |
|                           | <b>527.782</b>      | <b>2.169.938</b>    |

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

TMK-ARTROM company, one of the top european producers of seamless steel pipes for industrial use, signed with SMS grup company, one of the biggest producers of lines and equipment for manufacturing processes of all types of pipes, a contract for a line of heat treatment for seamless steel pipes.

Heat treatment line will produce seamless steel pipes for oil and gas industry use but also high-strength pipes for mechanical use. Annual capacity will be of 160.000 tons per annum and it could treat seamless steel pipes up to 60 mm wall thickness.

Heat treatment line supplied by SMS grup allows that different processes to be made, such as hardening and tempering and normalization.

Because of the flexibility of the product, heat treatment line can be used also for proccessing in terms of efficiency of the cost of small lots and of different product groups. Ecological recovery burners with very low nitrogen oxide emissions in the oven allows fuel savings up to 5% compared to conventional burners.

By installing this heat treatment line, TMK-ARTROM SA strengthens its presence on the market of pipes for mechanical use and for gas and oil use.

The contract is part of the investment project „Complex of heat treatment“ which has a budget value of 35,2 million euro, project which will be done in period 2016-2017.

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

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