

TMK-ARTROM S.A.

Financial statements prepared in
accordance with regulations of OMFP no.
2.844/2016

31 DECEMBER 2016

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TMK-ARTROM S.A.
STATEMENT OF COMPREHENSIVE INCOME
as of 31 December 2016

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

	Nota	2016 RON	2015 RON
Turnover	5	761.911.220	902.936.301
Sales of goods	5	761.308.139	902.433.653
Rendering of services	5	603.081	502.648
Cost of sales	6	(654.215.534)	(789.832.330)
Gross profit		107.695.686	113.103.971
Selling and distribution expenses	7	(64.271.091)	(64.849.043)
Advertising and promotion expenses	8	(104.798)	(271.069)
General and administrative expenses	9	(29.183.676)	(28.166.327)
Research and development expenses	10	(139.866)	(609.328)
Other operating expenses	11.2	(3.703.262)	(3.694.546)
Other operating income	11.1	1.071.877	428.983
Income from operations		11.364.870	15.942.641
Foreign exchange (loss) / gain, net	11.4	(4.615.854)	(6.047.997)
Finance income	11.4	4.426	4.084
Finance costs	11.3	(5.506.374)	(6.710.402)
Profit before tax		3.031.120	3.188.326
Income Tax	12	(369.878)	(691.840)
Profit for the year		877.190	2.496.486
Other comprehensive income - which cannot be reclassified in profit or loss			
Actuarial gains / (losses)		262.158	(57.187)
Income tax effect		-	(101.843)
Other comprehensive income (loss) for the year, net of tax		262.158	(159.030)
Total comprehensive income for the year, net of tax		1.139.348	2.337.456
Average number of shares		116.170.334	116.170.334
Earnings per share		0,01	0,02

TMK-ARTROM S.A.
STATEMENT OF FINANCIAL POSITION
as of 31 December 2016

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

	Nota	2016 RON	2015 RON
ASSETS			
Current assets			
Cash and cash equivalents	21	16.771.796	4.078.542
Trade and other receivables	19	213.734.145	220.564.230
Inventories	18	158.437.553	132.326.524
Prepayments	20	101.740.816	100.154.777
		490.684.310	457.124.073
Non-current assets			
Intangible assets	15	2.199.489	1.519.161
Property, plant and equipment	14	495.204.358	459.542.424
Financial assets	16.1.	1.207.715	50.653
Other non-current assets	17	14.145.049	9.227.177
		512.756.611	470.339.415
Total assets		1.003.440.921	927.463.488
LIABILITIES			
Current liabilities			
Trade and other payables	24	177.652.799	121.764.809
Advances from customers	24	2.096.244	1.490.850
Provisions and accruals	26	2.899.042	3.749.275
Interest-bearing loans and borrowings	16.2.	196.239.070	120.873.604
Finance lease liability	16.2.	168.979	205.139
Total current liabilities		379.056.134	248.083.677
Non-current liabilities			
Interest-bearing loans and borrowings	16.2.	96.877.164	152.192.228
Finance lease liability	16.2.	31.096	189.847
Deferred tax liability	12	36.445.082	37.610.607
Provisions and accruals	26	227.281	227.281
Employee benefits liability	23	2.909.557	2.927.896
Other long-term liabilities	16.2.	568.414	45.107
Total Non-current liabilities		137.058.594	193.192.966
Total liabilities		516.114.728	441.276.643
EQUITY			
Capital and reserves			
Share capital, from which:		291.587.538	291.587.538
- Subscribed and paid share capital	22	291.587.538	291.587.538
Other items of equity	22	(840.114)	(1.102.272)
Legal and other reserves	22	17.775.480	17.603.476
Retained earnings	22	177.926.099	175.601.617
Profit of the year		877.190	2.496.486
Total equity		487.326.193	486.186.845
Total liabilities and equity		1.003.440.921	927.463.488

TMK-ARTROM S.A.
STATEMENT OF CHANGES IN EQUITY
as of 31 December 2016

(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
For year ended as at 31 December 2016						
As at 1 January 2016	291.587.538	15.122.069	2.481.407	178.098.103	(1.102.272)	486.186.845
Profit of the year	-	-	-	877.190	-	877.190
Other comprehensive income / (loss) for the year, net of tax	-	-	-	-	262.158	262.158
Total comprehensive income	-	-	-	877.190	262.158	1.139.348
Set-up of legal reserves from profit of the year	-	56.582	-	(56.582)	-	-
Set-up of reserves for reinvested profit	-	5.771	109.651	(115.422)	-	-
At 31 December 2016	291.587.538	15.184.422	2.591.058	178.803.289	(840.114)	487.326.193
For year ended as at 31 December 2015						
As at 1 January 2015	291.587.538	14.962.653	2.196.446	176.045.994	(943.242)	483.849.389
Profit of the year	-	-	-	2.496.486	-	2.496.486
Other comprehensive income / (loss) for the year, net of tax	-	-	-	-	(159.030)	(159.030)
Total comprehensive income	-	-	-	2.496.486	(159.030)	2.337.456
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)	-	-
At 31 December 2015	291.587.538	15.122.069	2.481.407	178.098.103	(1.102.272)	486.186.845

TMK-ARTROM S.A.
CASH FLOW STATEMENT
as of 31 December 2016
(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

Indirect method	Note	1 January - 31 December 2016 RON	1 January - 31 December 2015 RON
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (Loss) before tax		1.247.068	3.188.326
Plus / minus adjustments for:			
Depreciation	14, 15	41.968.148	35.676.766
Increase / (reversal) of provisions	26	(850.233)	(928.926)
Increase / (reversal) of allowances for current assets	18, 19	155.636	1.242.476
Exchange rate differences for financing activities		3.607.752	11.419.331
Variation of retirement benefits	23	304.925	300.892
Result from disposal of non-current assets	11.2	1.760.592	551.164
Interest and related expenses	11.3, 11.4	4.869.366	5.941.963
Plus / minus adjustments for changes in working capital related to operating activities:			
Decrease / (increase) in inventories	18	(29.260.969)	(10.854.228)
Decrease / (increase) in trade and other receivables and prepayments	19	(484.113)	13.517.162
(Decrease) / increase in payables (except banks)	24	48.226.734	40.747.645
less:			
Interest paid		(5.029.489)	(6.186.271)
Income tax paid		(421.064)	-
Total inflows / (outflows) from operating activities (a)		66.094.353	94.616.300
CASH FLOWS FROM INVESTING ACTIVITIES			
Amount received from disposal of non-current assets		19.671	967.403
Purchase of tangible and intangible assets	14	(69.828.632)	(45.878.130)
Interest received	11.4	4.425	4.084
Total inflows / (outflows) from investing activities (b)		(69.804.536)	(44.906.643)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans received		88.231.423	-
Repayment of loans		(71.633.751)	(74.719.296)
Repayment of finance leases (amortisation)		(194.235)	(385.756)
Total inflows / (outflows) from financing activities (c)		16.403.437	(75.105.052)
Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c)		12.693.254	(25.395.395)
Cash and cash equivalents at beginning of period	21	4.078.542	29.473.937
Cash and cash equivalents at end of period	21	16.771.796	4.078.542

TMK-ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 31 December 2016

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

1. CORPORATE INFORMATION

These financial statements of TMK-ARTROM S.A. (the "Company") for financial year ended at 31 December 2016 have been prepared in accordance with Order no. 2.844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards and authorised for issue in accordance with the resolution of the Administrators dated 24 March 2017.

Separate financial statements of TMK-ARTROM 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.

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

In 2016, TMK-ARTROM Slatina Board of Directors decided the approval of foundation of a trade entity in USA, named TMK INDUSTRIAL SOLUTIONS LLC, having TMK-ARTROM as sole partner.

TMK INDUSTRIAL SOLUTIONS LLC was registered on 26 April 2016 and will serve as trade agent for promotion and sale of industrial pipes made by TMK companies for american market. The purpose of this investment is the development of a sale system specialized in industrial pipes in american market leading to the increase of the company's turnover in this domain.

The Company does not prepare consolidated financial statements because the value of assets, net turnover and the number of employees of the subsidiary TMK INDUSTRIAL SOLUTIONS LLC does not have significant influence over the individual financial statements.

Starting with May 2016 TMK-Artrom owns 100% from the shares of TMK INDUSTRIAL SOLUTIONS LLC, with social headquarters in 10940 W.Sam Houston PKWY N., apartment 325 Houston, TX 77 064 and which operates according to US laws, Delaware.

As at 31 December 2016 the Company presents the investment in TMK INDUSTRIAL SOLUTIONS LLC at acquisition cost, the subsidiary having no significant volume of assets, liabilities and activity.

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. Main activity of the Company is the production of tubes, pipes, hollow profiles and related fittings, of steel, CAEN code 2420.

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. 2.844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards, except the provisions of chapter 7 Non-financial information and information on diversity. 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 2016, the Company's net current assets are RON 111.628.176 (31 December 2015: RON 209.040.396) and has recorded a net profit of RON 877.190. The Company has generated positive cash flows from operations (before changes in working capital) in 2016 and in 2015 and has budgeted a further increase in its operating cash flow in 2017.

The Company has complied with the covenants set at 31 December 2016.

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.

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:

	<u>31 December 2016</u>	<u>31 December 2015</u>
1 EUR	4,5411	4,5245
1 USD	4,3033	4,1477

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

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 nonmonetary 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.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Gas emission certificates with greenhouse effect

Gas emission certificates with greenhouse effect purchased in year 2016 are registered in account "Expenses with environment protection" when are used during the year.

When the purchase of gas emission certificates with greenhouse effect is made before the deadlines fixed by the law, their value are registered in account "Prepaid expenses" / Other long-term assets, following that at the deadlines fixed by the law to be registered in account "Expenses with environment protection".

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.

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	2016	PBO 31.12.2016 Retirement	2015	PBO 31.12.2015 Retirement
Turnover	+1 %	2.100.800	+ 1 %	2.061.066
	-1 %	2.622.852	- 1 %	2.654.153
Discount rate	+1 %	2.118.601	+ 1 %	2.079.033
	-1 %	2.604.880	- 1 %	2.636.283
Mortality	110 %	2.305.376	110 %	2.296.780
	90 %	2.381.698	90 %	2.376.423
Salary increase / inflation	+1 %	2.606.080	+ 1 %	2.634.992
	-1 %	2.113.553	- 1 %	2.075.290

Sensitivity analysis	2016	PBO 31.12.2016 Death	2015	PBO 31.12.2015 Death
Turnover	+1 %	522.748	+ 1 %	542.886
	-1 %	615.944	- 1 %	651.251
Discount rate	+1 %	525.812	+ 1 %	546.031
	-1 %	613.000	- 1 %	648.302
Mortality	110 %	617.542	110 %	642.804
	90 %	514.316	90 %	539.127
Salary increase / inflation	+1 %	608.111	+ 1 %	648.031
	-1 %	529.213	- 1 %	545.356

➤ 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 2016:

- **IAS 1: Disclosure Initiative (Amendment)**
- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**
- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**
- **The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**
- **The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle**

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

- **IAS 1: 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. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **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. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. 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 estimated that this amendment did not have an impact 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 estimated that this amendment did not have an impact on the financial statements.

4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

- **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 had no impact 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.
- **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 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.
- **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.
- **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.
- **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.

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 2015, the following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted from the Company:

- **IFRS 9 Financial Instruments: Classification and Measurement**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments 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.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These Clarifications 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.

- **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. 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 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

The Amendments become effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. 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.

- **IAS 7: Disclosure Initiative (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other 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.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has 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.

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.

	2016	%	2015	%
	RON		RON	
Domestic sales	229.612.821	30,14	281.730.515	31,20
Sales abroad	532.298.399	69,86	621.205.786	68,80
Total	761.911.220	100	902.936.301	100

	2016	2015
	RON	RON
Sales of pipes produced by TMK-ARTROM from which:		
Domestic	108.000.122	120.666.854
Europe	469.131.713	501.274.476
North America	31.425.138	63.674.194
Other areas	21.086.972	15.076.257
Total sales of pipes produced by TMK-ARTROM	629.643.945	700.691.781
Sales of other goods and services from which:		
Sales of other goods on domestic market	121.189.467	160.615.332
Sales of other goods on external market	10.474.727	41.126.539
Rendering of services on domestic market	423.232	448.329
Rendering of services on external market	179.849	54.320
Total sales of other goods and services	132.267.275	202.244.520
Total turnover	761.911.220	902.936.301

Total turnover decreased with 16% in year 2016 towards year 2015 due to the decrease of turnover from sold production with 11% and due to the decrease in the sales of goods purchased to be resold with 34%.

The turnover from sold production decreased due to the decrease of physical volume of sold pipes from 172.298 tons to 169.917 tons (a decrease with 1,4%), but also due to the decrease with 8,9% of their average selling price.

The selling volume of the goods purchased to be resold decreased in year 2016 with 34% due to the selling on internal and external market of 64.350 tons (2015: 94.154 tons) of metallurgical products (billets, blooms, pipes) purchased from related companies.

The sales were made in year 2016 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 INDUSTRIAL SOLUTIONS and TMK-IPSCO, Houston, and in Middle East respectively by TMK Middle East – Dubai and directly to customers.

5. TURNOVER (continued)

Geographical information

Gross margin on geographical areas

1 January - 31 December 2016	Romania	Europe	North America	Other countries	Total
	RON	RON	RON	RON	RON
Turnover (Sales)	229.612.821	478.010.638	33.200.789	21.086.972	761.911.220
Cost of Sales	(214.282.288)	(397.902.233)	(21.933.684)	(20.097.329)	(654.215.534)
Gross Margin	15.330.533	80.108.405	11.267.105	989.643	107.695.686

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

6. COST OF SALES

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

	2016 RON	2015 RON
Raw materials	387.843.195	453.988.883
Energy and utilities	48.771.751	52.011.100
Staff cost (note 11.5)	47.889.925	45.410.797
Consumables	40.790.848	37.359.540
Depreciation and amortisation	40.178.353	33.978.896
Social security expenses (note 11.5)	11.939.382	11.136.548
Other compensations for employees	5.063.586	4.291.049
Repairs and maintenance	1.885.497	2.688.784
Professional fees and services	1.799.192	1.936.191
Freight	1.669.510	1.758.469
Taxes	1.443.056	1.385.337
Travel	553.658	449.449
Rent	299.156	156.064
Insurance	127.487	87.715
Communications	77.307	77.658
Other expenses	6.855	18.079
Total production cost	590.338.758	646.734.559
Change in own finished goods and work in progress	(18.987.232)	(7.890.551)
Cost of sales of externally purchased goods	103.031.250	160.438.326
Capitalized production costs	(20.951.301)	(10.112.384)
Obsolete stock, write-offs / (reversal of write-offs) (note 18)	784.059	662.380
Cost of sales	654.215.534	789.832.330

7. SELLING AND DISTRIBUTION EXPENSES

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

	2016	2015
	RON	RON
Freight	38.491.090	40.716.379
Professional fees and services	17.594.539	16.155.955
Staff cost (note 11.5)	3.409.505	3.295.144
Insurance	1.173.479	1.091.514
Consumables	919.711	845.600
Social security expenses (note 11.5)	845.276	803.326
Bad debt expense (note 19)	454.294	580.096
Other compensations for employees	411.311	358.183
Depreciation and amortisation	377.645	388.591
Travel	151.700	147.124
Utilities and maintenance	148.771	184.021
Taxes	132.677	115.147
Communications	111.781	114.436
Other expenses	48.952	53.286
Rent	360	241
Selling and distribution expenses	64.271.091	64.849.043

8. PROMOTION AND ADVERTISING EXPENSES

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

	2016	2015
	RON	RON
Marketing expenses	83.872	241.439
Media expenses	20.926	24.297
Materials	-	5.333
Promotion and advertising expenses	104.798	271.069

9. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2016 RON	2015 RON
Staff cost (note 11.5)	13.105.508	12.417.101
Professional fees and services	4.071.793	4.246.965
Social security expenses (note 11.5)	3.186.611	2.996.420
Other compensations for employees	1.893.182	1.460.369
Depreciation and amortisation	1.412.150	1.309.279
Rent	1.234.371	1.071.360
Utilities and maintenance	1.024.909	981.808
Travel	893.840	1.089.595
Consumables	782.599	1.034.678
Communications	730.514	809.061
Taxes	490.426	327.007
Other expenses	297.039	316.320
Insurance	60.734	106.364
General and administrative expenses	29.183.676	28.166.327

10. RESEARCH AND DEVELOPMENT EXPENSES

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

	2016 RON	2015 RON
Staff cost (note 11.5)	72.725	73.285
Professional fees and services	45.229	77.511
Social security expenses (note 11.5)	17.562	17.814
Other compensations for employees	3.317	2.224
Travel	1.029	-
Consumables	4	438.494
Research and development expenses	139.866	609.328

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:

	2016	2015
	RON	RON
Reversal of provisions for risks and expenses (note 26)	843.546	-
Reversal of provisions for taxes (note 26)	110.919	-
Damages, trial expenses	104.025	247.140
Other income	13.260	5.042
Investment subsidies	127	-
Green certificates damages (rate of adjustment for previous year)	-	176.801
Total	1.071.877	428.983

11.2 Other operating expenses

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

	2016	2015
	RON	RON
Loss on disposal of property, plant and equipment	1.760.592	551.164
Social actions expenses	989.000	814.710
Allowance for sundry debtors (note 19)	504.642	-
Professional fees and services	137.810	135.121
Staff costs - medical dispensary	103.259	98.140
Sponsorship and charitable donations	82.283	34.829
Other expenses	49.729	275.952
Fines and penalties	44.071	12.283
Social security costs - medical dispensary	25.738	23.947
Penalties - legal entities	6.138	11.111
Expenses with provisions for taxes (note 26)	-	893.743
Expenses with provisions for risks and expenses (note 26)	-	843.546
Total	3.703.262	3.694.546

11. OTHER INCOME/EXPENSES AND ADJUSTMENTS (continue)

11.3 Financial costs

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

	2016	2015
	RON	RON
Interest on long-term loans and borrowings (note 16.2)	2.530.755	1.857.782
Interest on short-term loans (note 16.2)	2.333.645	4.072.982
Amortisation of issuance fee	421.950	421.950
Other financial expenses	208.436	322.409
Interest on financial leasing	9.392	15.283
Discounts granted	2.196	-
Discount fees and charges of promissory note	-	19.996
Total	5.506.374	6.710.402

11.4 Financial income

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

	2016	2015
	RON	RON
Interest on deposits	579	1.817
Other financial income	609	2.267
Total	4.426	4.084

Net gain / (net loss) from foreign exchange differences

	2016	2015
	RON	RON
Foreign exchange gain	20.148.978	34.455.973
Foreign exchange loss	24.764.832	40.503.970
	(4.615.854)	(6.047.997)

According to provisions of OMFP 2844/2016, the balances of cash, receivables and liabilities in foreign currency are revalued (monetary items) according to reference exchange rates of BNR. At 31.12.2016 BNR reference exchange rates were 4,5411 RON/EUR and 4,3033 RON/USD increasing towards 31.12.2015 when were 4,5245 RON/EUR and 4,1477 RON/USD resulting a net loss from foreign exchange differences in amount of RON 4.615.854 (2015: net loss of RON 6.047.997).

11. OTHER INCOME/EXPENSES AND ADJUSTMENTS (continue)

11.5 Employee benefits expenses

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

	2016 RON	2015 RON
Wages and salaries (Notes 6,7,9,10,11.2)	64.580.922	61.294.467
Social security costs (Notes 6,7,9,10,11.2), out of which:	16.014.569	14.978.055
- Company's contributions to social security (pensions)	10.845.975	10.383.798
Other compensations for employees - meal tickets	2.681.448	2.588.952
Other compensations for employees - holiday vouchers	132.480	-
Other compensations for employees - other	4.557.468	3.522.873
Total employee benefits expense	87.834.407	82.384.347

	2016	2015
Average number of employees	1.296	1.267
Actual number of employees at the end of financial year	1.304	1.285

12. INCOME TAX

For year ended at 31 December 2016, the Company has calculated a current income tax of RON 1.466.429.

	2016	2015
Current income tax	(1.466.429)	(1.065.976)
Current income tax computed according to the Fiscal Inspection Report F-MC15/08.02.2016	(68.974)	-
Deferred income tax:	1.165.525	374.136
- Deferred income tax credit	2.439.178	1.327.048
- Deferred income tax charge	(1.273.653)	(952.912)
Income tax	(369.878)	(691.840)

The Company has computed deferred tax from different temporary differences for fixed assets and other items. In year 2016 deferred tax expenses were of RON 1.273.653 (2015: RON 952.912) and deferred tax income of RON 2.439.178 (2015: RON 1.327.048).

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:

	2016	2015
Profit before income tax	1.247.068	3.188.326
Income taxes calculated at the nominal applicable tax rate (16%)	199.531	510.132
Tax effect of deductible / non-taxable elements, out of which:	(10.445.823)	(9.929.959)
- Fiscal depreciation	(8.168.553)	(8.259.687)
- Legal reserve	(9.977)	(25.507)
- Revenues from reversal of allowances	(2.267.293)	(1.644.765)
Tax effect of taxable / non-deductible elements, out of which:	11.813.471	10.568.625
- Realization of revaluation reserve	2.799.534	2.854.203
- Accounting depreciation	6.714.904	5.708.282
- Allowances expenses	2.180.782	1.731.005
- Other items	118.251	275.135
Tax credit, out of which:	(100.750)	(82.822)
- sponsoring expense	(82.283)	(34.829)
- reinvested profit in equipment	(18.467)	(47.993)
Computed income tax	1.466.429	1.065.976
Income tax reported in the statement of income	1.466.429	1.065.976

According to the Romanian regulations, in year 2016 the Company had an income tax credit for the profit reinvested in electronic computers and peripheral equipment of RON 115.422 which were purchased and put into operation in fourth quarter 2016. These income tax credit represents 16% from the reinvested profit and it was in amount of RON 18.467.

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12. INCOME TAX (continue)

	2016	2015
Statement of comprehensive income		
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)
Income tax charged directly to other comprehensive income	-	(101.843)

Deferred tax relates to the following:

Statement of financial position

	2016 RON	2015 RON
<u>Deferred income tax assets</u>		
Allowance for doubtful accounts receivable	200.393	318.182
Employee benefits	396.482	468.463
Provisions for management bonuses	285.831	275.092
Provisions for quality complaints	48.833	47.193
Adjustments of inventories	990.429	864.980
Provisions for unused vacations	5.200	902
Provisions for risks and charges	-	134.967
Provisions for decommissioning property, plant and equipment	35.096	35.096
Total (a)	1.962.264	2.144.875
<u>Deferred income tax liabilities</u>		
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	38.407.346	39.755.482
Total (b)	38.407.346	39.755.482
Net deferred tax income (a) - (b)	(36.445.082)	(37.610.607)

12. INCOME TAX (continue)**Statement of comprehensive income**

	2016 RON	2015 RON
<u>Deferred income tax assets</u>		
Allowance for doubtful accounts receivable	(117.790)	96.371
Employee benefits	(71.981)	144.490
Provisions for management bonuses	10.739	(171.773)
Provisions for quality complaints	1.640	(255.723)
Adjustments of inventories	125.449	105.981
Provisions for unused vacations	4.298	902
Provisions for risks and charges	(134.967)	134.967
<u>Recognized in other elements of comprehensive income</u>		
Retirement and other long term benefit obligation	-	(101.843)
Total (a)	(182.612)	(46.628)
<u>Deferred income tax liabilities</u>		
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	(1.348.137)	(318.921)
Total (b)	(1.348.137)	(318.921)
Net deferred tax income (a) - (b)	1.165.525	272.293

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.

Earnings per share amounts in RON	2016	2015
<u>Earnings</u>		
Net profit	877.190	2.496.486
Average number of shares	116.170.334	116.170.334
Earnings per average number of shares	0,01	0,02

During year 2016 there were no transactions involving ordinary shares or potential ordinary shares.

14. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in year 2016, ended at 31 December, were as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	Total
	RON	RON	RON	RON	RON	RON
Cost						
At 1 January 2016	115.522.787	453.879.622	13.302.463	1.857.674	11.497.561	596.060.107
Additions	-	-	-	-	76.914.450	76.914.450
Disposals	(105.844)	(3.831.191)	(6.009)	-	-	(3.943.044)
Transfers	6.535.157	38.477.952	78.879	83.789	(45.175.777)	-
Transfers from inventories	-	-	-	-	2.365.881	2.365.881
At 31 December 2016	121.952.100	488.526.383	13.375.333	1.941.463	45.602.115	671.397.394
Depreciation and impairment						
At 1 January 2016	(17.258.222)	(112.961.256)	(5.534.820)	(763.385)	-	(136.517.683)
Depreciation charge for the year	(3.829.406)	(36.616.310)	(1.232.899)	(159.519)	-	(41.838.134)
Disposals	31.334	2.128.625	2.822	-	-	2.162.781
At 31 December 2016	(21.056.294)	(147.448.941)	(6.764.897)	(922.904)	-	(176.193.036)
Net book value						
At 31 December 2016	100.895.806	341.077.442	6.610.436	1.018.559	45.602.115	495.204.358

Movements in property, plant and equipment in year 2015 were as follows:

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

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 2016 by purchases of independent fixed assets and by putting into operation the contracting or self-made investments.

During year 2016 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 16.866.801.

The disposals of property, plant and equipment in year 2016 in amount of RON 3.943.044 are represented by the non-depreciated value of parts replaced for capital repairs made during the year in amount of RON 1.777.972 (2015: RON 638.686) and also their depreciated value of RON 2.160.841 (2015: RON 819.225), disposal of property, plant and equipment in amount of RON 4.231 (2015: RON 1.669.379). In year 2016 there were no sales of property, plant and equipment.

The gross value of fully depreciated items of property, plant and equipment in use as at 31 December 2016 is of RON 12.027.449 (31 December 2015: RON 4.711.549).

As at 31st December 2016 the property, plant and equipment were not pledged.

Financial leasing and assets in progress

The carrying amount of property, plant and equipment held under finance lease at 31 December 2016 was of RON 476.351 (2015: RON 596.440) 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 2016 were as follows:

	Licenses and trademarks RON	Other intangible assets RON	Intangible assets in progress RON	Total RON
Cost				
At 1 January 2016	506.905	50.522	1.340.501	1.897.928
Additions	45.746	-	764.597	810.343
Transfers	-	2.105.098	(2.105.098)	-
At 31 December 2016	552.651	2.155.620	-	2.708.271
Amortisation and impairment				
At 1 January 2016	(331.889)	(46.878)	-	(378.767)
Amortisation	(93.519)	(36.496)	-	(130.015)
At 31 December 2016	(425.408)	(83.374)	-	(508.782)
Net book value				
At 31 December 2016	127.243	2.072.246	-	2.199.489

In 2015 the Company signed a contract for the purchase of a new IT software „Microsoft Dynamics AX 2012 Integrated System”. The implementation of the software MS Dynamics AX 2012 followed the phases: design, configuration, key user training, Testing and acceptance, deployment, go live and go live support, software development and Integration, Customized user manuals, Migration.

Microsoft Dynamics AX is implemented in TMK-Artrom SA from 1 November 2016 (Go live) and manages the activity with the exception of the production line, which is integrated.

Movements in intangible assets during year 2015 were as follows:

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

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

16.1. Financial assets

	2016 RON	2015 RON
Other financial receivables		
Securities carried at cost	4.027	-
Deposits for letters of guarantee	1.040.438	-
Granted guarantees, from which:	163.250	50.653
- Guarantees granted to related parties (note 25)	44.936	50.653
Total other financial receivables	1.207.715	50.653
Total other financial assets	1.207.715	50.653

The deposits for guarantees are restricted, representing collateral constituted by the Company for good performance bank letters available more than one year, issued by BCR in favour of customer NIS from Serbia.

16.2. Other financial liabilities

Interest-bearing long-term loans and borrowings

	2016 RON	2015 RON
Long-term interest-bearing bank loans	19.256.218	77.490.250
Long-term interest-bearing borrowing-related parties (note 25)	77.620.946	74.814.305
Un-amortized cost of debt origination fees	-	(112.327)
Balance of long-term loans	96.877.164	152.192.228

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

	2016 RON	2015 RON
Long- and short-term loans and borrowings, net of future interests	292.589.290	272.712.811
Interest payable at reporting date	677.257	832.953
Un-amortized cost of debt origination fees	(150.313)	(479.932)
Total long- and short-term loans and related interest and un-amortized cost	293.116.234	273.065.832
Future interests	7.842.331	8.546.968
Total future repayments for loans and related interest	300.958.565	281.612.800

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16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Interest-bearing long-term loans and borrowings

Bank	Type of loan	Currency	2016 Contracted amount	Due date	Interest rate	Amount repayable RON / equivalent RON	Amount repayable EUR/USD
BCR ERSTE	Investment loan - 7 years	EUR	25.000.000	11/07/2023	EURIBOR 3M+margin	19.256.218	4.240.430
Total long-term bank loans						19.256.218	
TMK EUROPE GmbH	Long-term borrowing	USD	22.837.540	09/25/2022	Libor+0.5%	77.620.946	18.037.540
Un-amortized long-term cost						-	
Total						96.877.164	

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

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Finance lease

	2016 RON	2015 RON
Lease payments less than 3 months, gross	52.213	51.281
Lease payments between 3 and 12 months, gross	120.301	163.205
Lease payments between 1 and 5 years, gross	31.525	193.753
Total minimum lease payments, gross	204.039	408.239
Less: future finance charges	3.964	13.253
Present value of minimum lease payments	200.075	394.986
Distributed as follows:		
Maturing within 1 year	168.978	205.138
Maturing between 1 and 2 years	31.097	155.519
Maturing between 2 and 3 years	-	34.329
Total	200.075	394.986

At 31 December 2016, 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

	2016 RON	2015 RON
Long-term interest-bearing bank loans, current portion	76.875.748	67.019.156
Short-term bank loans	91.589.778	53.389.100
Short-term interest-bearing borrowing - related parties (note 25)	27.246.600	-
Interest related to long-term bank loans	383.162	690.329
Interest related to short-term bank loans	126.978	81.714
Interest related to long-term borrowings - related parties (note 25)	84.999	60.910
Interest related to short-term borrowings - related parties (note 25)	82.118	-
Un-amortized short-term cost	(150.313)	(367.605)
Total	196.239.070	120.873.604

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	2016	Due date (mm/dd/yyyy)	Interest rate	Amount	Amount
			Contracted amount			repayable RON equivalent	repayable EUR
UNICREDIT BANK	Credit for funding general needs	EUR	26.000.000	01/17/2017	EURIBOR 1M+margin	49.043.880	10.800.000
BANCPOST	Uncommitted overdraft	EUR	10.000.000	07/11/2019	EURIBOR 3M+margin	42.545.898	9.369.073
Total short-term bank loans						91.589.778	
BCR ERSTE	Overdraft 3 years - current portion	EUR	20.000.000	10/03/2017	EURIBOR 3M+margin	76.875.748	16.928.883
Total short part of long-term bank loans						76.875.748	
TMK EUROPE GmbH	Short-term borrowing	EUR	5.000.000	03/31/2017	3,50%	22.705.500	5.000.000
TMK EUROPE GmbH	Short-term borrowing	EUR	5.000.000	05/29/2017	3,50%	4.541.100	1.000.000
Total short-term borrowings from related parties						27.246.600	
Total						195.712.126	

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

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

- Loans granted by BCR, as follows:
 - Multiproduct relief in amount of 20 mil euro 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.
 - Investment loan in amount of 25 mil euro guaranteed with:
 - Pledge without dispossession 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.
- Loan granted by Unicredit Bank 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 31.12.2016 the amount used was EUR 10.800.000 guaranteed with:
 - Pledge without dispossession on credit balance of current bank accounts opened at Unicredit 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.
- Loan granted by BANCPOST in amount of 10 mil euro guaranteed with:
 - Pledge without dispossession on credit balance of current bank accounts opened at BANCPOST by TMK-Artrom S.A.;
 - Company warranty issued by Pipes plant 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;
 - TMK-RESITA personal guarantee.

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

At 31.12.2016 the Company had issued many bank letter guarantees and letters of credit for the payment of contractual liabilities, as follows:

No.	Bank which issued the guarantee	The Organization which received the guarantee	Liability type for which was the guarantee issued	Numer and date of the contract/ agreement regarding the granted guarantee	Guarantee amount	Currency	Due date of the guarantee
1	2	3	4	5	6	7	8
1	BCR	VAMA SLATINA	export VAT san marino	DGLC/260/ 6406/ 24.11.2011	150.000	RON	31.03.2017
2	BCR	NIS J.S.C	for quality of pipes sold	NM-041000/UD-ra/07497/08.07.15	28.016	EUR	10.02.2017
3	BCR	NIS JSC Novi SAD	for quality of pipes sold	NM-041000/IZ-OD/ 000338/ 01.09.15	129.436	EUR	31.03.2017
4	UNICREDIT TIRIAC	INOTAL Aluminiumfeldolgozo Zrt.	for good payment	00888-02-0241326	80.000	EUR	31.12.2016
5	BCR	NIS JSC Novi SAD	for quality of pipes sold	G060706/ 836/ 28.04.16	19.687	EUR	27.09.2017
6	BCR	NIS JSC Novi SAD	for quality of pipes sold	GO62287/ 836/ 12.09.16	63.238	EUR	20.05.2018
7	BCR	NIS JSC Novi SAD	for quality of pipes sold	GO62392/ 844/ 12.10.16	25.187	EUR	09.07.2018
8	BCR	NIS JSC Novi SAD	for quality of pipes sold	GO63939/ 844/ 30.12.16	140.691	EUR	17.09.2018

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	Opening date	Due date of letter of credit
1	2	3	4	5	6	7	9	10
1	UNICREDIT BANK	SMS MEER S.P.A	00777-01-0015593	9.742.500	EUR	7.902.391,5	17.02.2016	16.04.2017
2	UNICREDIT BANK	SMS GROUP GMBH	00777-01-0016324	1.880.000	EUR	1.880.000,0	30.06.2016	17.03.2017
3	UNICREDIT BANK	SMS MEER SRL	00777-01-0020328	1.015.200	EUR	975.080,0	29.07.2016	03.04.2017

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The undrawn credit facilities are as follows:

Lender	Type of facility	Currency	Amount of agreement	Amount available	Expiry date
BCR	Overdraft	EUR	20.000.000	2.858.712	10/03/2017
UNICREDIT	Credit line	EUR	26.000.000	3.362.529	01/17/2017
BCR	Investment loan	EUR	25.000.000	20.759.570	11/07/2023
BANCPPOST	Overdraft	EUR	10.000.000	630.927	11/07/2019

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, and in august 2016 it was reduced to RON 2.000.000.

At 31.12.2016 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, and in September 2016 by addendum its value increased to RON 65.000.000. At 31.12.2016 from the limit, RON 2.235.000 were allocated to TMK-ARTROM suppliers and from which RON 573.074 were used. At 31.12.2015 the Company did not used the limit for the suppliers of TMK-ARTROM S.A.

As at 31.12.2016, all financial ratios agreed through the loan contracts signed with banks were complied.

The Comapny has to maintain certain ratios (combined indicators of TMK-ARTROM with TMK RESITA), related to its capital, which are imposed by contracts concluded with BCR: Combined Net Debt to Combined EBITDA, based on the Combined Financial Statements, Shareholder Equity to Combined total assets.

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

Other long-term liabilities

	2016 RON	2015 RON
Long-term sundry creditors	4.733	29.459
Long-term guarantees	560.664	15.648
Balance of other long-term liabilities	568.414	45.107

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**16.3. Fair value of financial instruments which are not accounted for at fair value**

For the financial assets and financial liabilities which are liquid or have a short-term maturity (cash and cash equivalents, short-term receivables) it was assumed that the carrying value is close to fair value. For borrowings fair value was estimated based on unobservable inputs, using discounted cash-flows technique and is presented in the table below.

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

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

Financial liability	Hierarchy of fair value	31 December 2016	
		Carrying value RON	Fair value RON
Long-term bank loans - variable rate	3	19.256.218	18.975.074
Long-term intercompany borrowings - variable rate	3	77.620.946	67.180.577

Financial liability	Hierarchy of fair value	31 December 2015	
		Carrying value RON	Fair value RON
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

17. OTHER NON-CURRENT ASSETS

	2016 RON	2015 RON
Prepayments for property, plant, and equipment	10.059.567	9.227.177
Gas emission certificates with greenhouse effect	4.085.482	-
Total	14.145.049	9.227.177

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

18. INVENTORIES

Inventories consist of the following:

	2016 RON	2015 RON
Work in progress	56.144.998	43.300.989
Raw materials	36.218.736	34.226.622
Finished goods	25.496.727	32.718.363
Consumables	16.346.634	16.493.568
Finished goods at third parties (in transit)	14.277.337	-
Other materials	6.137.991	5.057.890
Semi-finished goods	4.515.703	2.977.874
Raw materials to be purchased	2.943.453	-
Raw materials and consumables at third parties	1.588.322	52.146
Finished goods at third parties (consignation)	934.567	2.224.429
Merchandise and packaging	23.266	52.987
Materials in transit	-	627.778
Total	164.627.734	137.732.646

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:

	Below 1 year RON	1 - 2 years RON	2 - 3 years RON	Over 3 years RON	Total RON
31.12.2016	127.923.406	21.487.081	4.223.661	10.993.586	164.627.734
31.12.2015	104.958.452	18.123.255	7.033.072	7.617.867	137.732.646

In year 2016 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:

	2016 RON	2015 RON
Balance January 1st	5.406.122	4.743.742
Additional allowances set	10.122.636	5.077.881
Resumption / Allowances used	(9.338.577)	(4.415.501)
Balance at the end of reporting period	6.190.181	5.406.122

The allowances were reversed as the result of the sale of a part of the inventories which were impaired in the past and of the reanalysis of net realizable value at 31 December 2016 taking into account the current prices and those established in first quarter of year 2017.

19. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables consist of the following:

	2016 RON	2015 RON
Trade receivables, from which:	202.385.458	207.842.378
- Receivables from other related parties (note 25)	9.670.563	26.044.276
Other receivables - VAT	10.419.588	12.632.991
Sundry debtors, from which:	1.924.033	2.214.388
- Sundry debtors - related parties (note 25)	573.606	915.971
Employee claims	445.199	491.255
Settlements between affiliates	321.551	-
Recoverable income tax	249.401	22.727
Less:		
Allowance for doubtful accounts receivable	(2.011.085)	(2.639.509)
Total	213.734.145	220.564.230

Trade receivables are non-interest bearing and generally have an average collection period of 98 days (2015: 80 days).

The average term of collection of receivables increased by 18 days to 98 days in 2016 than the previous year due to the decrease of turnover, of increase of the average balance of trade receivables and due to increase of the effective terms of receivables collection.

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

	RON
At 1 January 2016	-
Impairment adjustments expenses	504.642
Used	(504.642)
At 31 December 2016	-

In year 2016 the Company reclassified provisions for risks and expenses recognized in year 2015 in amount of RON 504.642 in allowances for sundry debtors. The allowance represents 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. In year 2016 the provision was canceled as a result of bearing on expenses the green certificates value of period January 2015 - May 2015.

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

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

	RON
At 1 January 2016	2.639.509
Impairment adjustments expenses	460.568
Used	(1.088.992)
At 31 December 2016	2.011.085

In year 2016 the Company accounted allowances for doubtful receivable in amount of RON 460.568 as follows:

- for customer Arian Import Export Romania which entered in bankruptcy proceedings RON 370.655;
- for customer DURAL "94 SRL which registered payment delay RON 89.913.

Ageing analysis of trade receivables

	Neither past due nor impaired	Past due but not impaired					Past due and impaired > 120 days	Total
	RON	< 30 days RON	30-60 days RON	61-90 days RON	91-120 days RON	> 120 days RON	RON	RON
2016	179.466.845	18.372.861	1.474.316	86.141	3.374	764.637	2.217.284	202.385.458
2015	174.620.530	15.664.147	4.779.739	5.926.596	2.683.426	551.326	3.616.614	207.842.378

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

Receivables	Currency	2016		2015	
		RON	Foreign currency	RON	Foreign currency
Internal customers	LEI	39.830.527		40.957.047	
	EUR	44.102.229	9.711.794	47.062.052	10.401.603
External customers	EUR	107.381.970	23.646.687	98.568.611	21.785.526
	USD	7.701.558	1.789.686	15.838.840	3.818.704
Doubtful customers	LEI	1.217.474		2.466.527	
	EUR	999.810	220.169	1.150.087	254.191
Notes issued by customers	LEI	1.151.890		1.799.214	
Total		202.385.458		207.842.378	

As of 31 December 2016 the Company registered doubtful customers receivables in amount of RON 2.217.284 (2015: RON 3.616.614). For the amounts registered in this category were constituted value adjustments in amount of RON 2.011.085, because they are considered to have high risk of non cashing.

In October 2016 the amount of RON 1.082.717,73 was registered on expenses as a result of removing from records of the doubtful customer ARIKAN METAL EXPORT-IMPORT SRL because the bankruptcy proceeding was closed.

From the amount of RON 179.466.845 trade receivables at 31.12.2016 neither past due nor impaired, the amount of RON 122.526.137 is considered without risk, and includes the following categories:

- RON 69.359.523, respectively 39% representing receivables insured by COFACE Germany;
- RON 44.670.628, respectively 25% receivables covered by export letters;
- RON 8.495.986, respectively 5% intercompany receivables.

The difference of RON 56.940.708, respectively 31% are considered to have a low risk in aggregate because those customers are in general located in different countries and industries independent markets.

20. PREPAYMENTS

Prepayments consist of the following:

	2016 RON	2015 RON
Prepayments for services, inventories, from which:	98.100.197	98.810.404
- Prepayments for services, inventories - related parties (note 25)	98.019.745	98.799.404
Prepaid expenses	1.699.043	1.344.373
- Prepaid expenses - related parties	286.108	-
Income tax, VAT, interest and penalties appealed, computed according to the Fiscal Inspection Report F-MC15/08.02.2016	1.941.576	-
Total	101.740.816	100.154.777

The amount of RON 98.019.745 (without VAT) represents advances given to TMK Resita S.A. (2015: RON 98.799.404).

21. CASH AND SHORT-TERM DEPOSITS

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

	2016 RON	2015 RON
Cash on hand	16.005	19.793
Cash at banks in RON	385.660	530.189
Cash at banks in foreign currency	16.360.174	1.687.568
Short-term deposits	9.957	1.839.665
Other cash equivalents	-	1.327
Total	16.771.796	4.078.542

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.

	2016	2015
in RON	9.957	1.839.665

There is no restricted cash.

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22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS

Share capital

Subscribed and paid share capital	Number of shares	Nominal Value RON / share	Subscribed share capital RON	Total RON
Balance 1 January 2016	(116.170.334)	2,51	(291.587.538)	(291.587.538)
Balance 31 December 2016	(116.170.334)	2,51	(291.587.538)	(291.587.538)

Legal and other reserves

	Legal reserve RON	Other reserves RON	Total RON
Balance at 1 January 2015	14.962.653	2.196.446	17.159.099
Increase from the profit of the year	144.419	-	144.419
Increase from reinvested profit	14.997	284.961	299.958
Balance at 31 December 2015	15.122.069	2.481.407	17.603.476
Increase from the profit of the year	56.582	-	56.582
Increase from reinvested profit	5.771	109.651	115.422
Balance at 31 December 2016	15.184.422	2.591.058	17.775.480

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 115.422 from the profit of the financial year in electronic computers and peripheral equipment which were purchased and put into operation in fourth quarter 2016. 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 5.771, 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 2016

Account name	Balance at 31 December 2016	Nature
Retained earnings representing undistributed profit	29.028.489	Can be distributed or used to cover losses
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	-	Can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings from the changes of accounting policies	14.455	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	105.544.558	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	32.285.523	Can be distributed or used to cover losses
Distribution from profit of the year to legal reserve	(261.207)	
Period result	877.190	
Total retained earnings	178.803.289	

In April 2016, under the approval of GSM dated 28.04.2016 the Company registered the allocation of the accounting profit of year 2015, in amount of RON 2.496.486, as follows:

- Legal reserves according to Law 31/1990, at least 5% from gross annual profit (but no more than 20% from share capital) from which: RON 144.419 legal reserve less the part of reinvested profit and RON 14.997 legal reserve of reinvested profit according to provisions of article 19⁴ regarding the exemption of income tax of the reinvested profit from Law 227/2015 "Fiscal Code";
- Other reserves of the reinvested profit RON 284.961 representing reinvested profit in technological equipment – machinery and equipment according to provisions of article 19⁴ regarding the exemption of income tax of the reinvested profit from Law 227/2015 "Fiscal Code";
- Retained earnings representing undistributed profit 2.052.109 lei.

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

The structure of retained earnings at 31 December 2015

Account name	Balance at 31 December 2015	Nature
Retained earnings representing undistributed profit	26.976.380	Can be distributed or used to cover losses
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 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	112.843.918	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	24.986.163	Can be distributed or used to cover losses
Distribution from profit of the year to legal reserve	(444.377)	
Period result	2.496.486	
Total retained earnings	178.098.103	

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.

	2016 RON	2015 RON
Net liability at the beginning of the year	2.927.896	2.661.347
Expense recognized in statement of income	304.925	300.892
Benefits paid	(61.106)	(91.530)
Components of defined benefit costs recorded in OCI	262.158	57.187
Net liability at the end of the year	2.909.557	2.927.896
Short-term liabilities	296.904	302.200
Long-term liabilities	2.612.653	2.625.696

As at 31.12.2016 the Company estimated the obligation regarding actuarial provision for employee benefits, accounting the following:

- Expenses accounted in profit or loss in amount of RON 304.925;
- Benefits paid in amount of RON 61.106.

Total net liability at 31.12.2016 is of RON 2.909.557.

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 2,37% (2015: 1,88%) which corresponds to historical data from last 5 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 30 December 2016 of zero coupon government bonds issued in Romanian lei according to Bloomberg. There is an overall decrease of the discount rate in year 2016 towards 2015. The average decrease is 7%, while the discount rate for one year decreases by 15%. Were 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 1st January 2017, 1,7% starting 1st July 2017 and 1st January 2018 and by 2% per annum starting 1st January 2019, in line with the inflation projected by the National Bank of Romania for Q4 2017 which is 2,1%. An annual salary increase of 2,5% starting 1st January 2018 was assumed at year end 31st December 2015.

For the computation of the death benefit we have used the average monthly salary of RON 2.306 / employee as at 31 December 2016 (2015: 2.252 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% (2015: 23,1%) 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 2016 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 Retirement Benefits <i>RON</i>	PV of Employee Death Benefits <i>RON</i>	Total 2016 <i>RON</i>	Total 2015 <i>RON</i>
Opening defined benefit obligation as at 1 January	2.334.533	593.363	2.927.896	2.661.347
Current service cost	156.588	60.911	217.499	217.499
Interest cost	69.898	17.528	87.426	83.393
Remeasurement (gains)/losses:	(156.752)	(105.406)	(262.158)	57.187
- Remeasurement (gains)/losses arising from experience	208.730	(82.112)	126.618	130.735
- Remeasurement (gains)/losses arising from changes in financial assumptions	(214.661)	761	(213.900)	(45.512)
- Remeasurement (gains)/losses arising from changes in demographic assumptions	(150.821)	(24.055)	(174.876)	(28.036)
Benefits paid	(61.106)	-	(61.106)	(91.530)
Closing defined benefit obligation as at 31 December	2.343.161	566.396	2.909.557	2.927.896

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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 Retirement Benefits RON	PV of Employee Death Benefits RON	Total 2016 RON	Total 2015 RON
Current service cost	156.588	60.911	217.499	217.499
Net interest expense	69.898	17.528	87.426	83.393
Components of defined benefit costs recorded in profit or loss	226.486	78.439	304.925	300.892

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

	PV of Retirement Benefits RON	PV of Employee Death Benefits RON	Total 2016 RON	Total 2015 RON
Opening net liability arising from defined benefit obligation	2.334.533	593.363	2.927.896	2.661.347
Components of defined benefit costs recorded in profit or loss	226.486	78.439	304.925	300.892
Components of defined benefit costs recorded in OCI	(156.752)	(105.406)	(262.158)	57.187
Benefits paid	(61.106)	-	(61.106)	(91.530)
Closing net liability arising from defined benefit obligation	2.343.161	566.396	2.909.557	2.927.896

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

Estimation of the profit or loss charge for the financial year 2017:

	PV of retirement benefits RON	PV of death benefits RON	Total RON
Current service cost 2017	144.834	59.098	203.932
Net interest expense 2017	74.677	18.295	92.972
Total	219.511	77.393	296.904

The estimation of the profit or loss charge for the financial year 2017 assumes an average discount rate of 3,23% and an salary growth rate of 2%.

Other disclosures

	2016	2015
Average benefit duration	11	15
Average age of employees	47	44
Average discount rate	3,23%	2,94%
Average salary increase	2%	2,5%

24. TRADE AND OTHER PAYABLES (CURRENT)

Trade and other payables consists of the following:

	2016 RON	2015 RON
Current trade payables, from which:	153.901.779	106.813.203
- Intercompany trade payables (note 25)	115.188.187	66.383.491
Payables for non-current assets, from which:	12.171.029	3.442.178
- Intercompany payables for non-current assets (note 25)	192.562	-
Bills of exchange payable	3.692.171	3.866.820
Salaries and Wages	1.865.509	1.562.622
Advances from customers	2.096.244	1.490.850
Short-term guarantees	135.796	4.533
Accrued and other liabilities	89.377	164.609
Total financial liability	173.951.905	117.344.815
Accrued and withheld taxes on payroll	5.635.927	5.783.009
Liabilities for other taxes	161.211	127.835
Total non-financial liability	5.797.138	5.910.844
Grand total	179.749.043	123.255.659

Trade payables are non-interest bearing and are, normally, settled on an average of 75 day terms.

Concerning the Company's debts to the fiscal authorities, as of 31 December 2016, there is a balance to be paid RON 5.797.138 (2015: RON 5.910.844), 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.

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 total amount of RON 4.221.471 (from which additional debits of RON 1.332.027 and interest and penalties in amount of RON 2.889.444).

To benefit of the annulment of a part of interest and penalties requested by the tax authorities, the Company paid the debit and the part of the interest and penalties which could not been annulled according to the law. As a result of this approach, in the first semester of year 2016 it was obtained the annulment of a part of accessories calculated in amount of RON 2.129.582 according to Decision 3687 from 24.05.2016 issued by ANAF, amounts that the company asked to be annulled according to stipulations of OUG 44/2015 regarding granting some tax facilities.

Making the payment does not mean that the Company accepted the result of the fiscal contro, TMK-ARTROM contested the result of the fiscal control following a possible dispute with ANAF on this subject. Therefore the amount paid is not reflected in the result of the period but it can be find in prepaid expenses (Note 20).

At 31 December 2015 the Company registered a provision for taxes as a result of the fiscal control in amount of RON 893.743 (RON 782.824 as at 31st December 2016 – Note 26).

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	final parent
- TMK Europe GmbH Koln, Germania	Germany	parent (major shareholder)
- TMK IPSCO INTERNATIONAL, L.L.C., USA	USA	Related, under common control
- TMK IPSCO CANADA L.T.D., Canada	Canada	Related, under common control
- TMK Middle East, Dubai, United Arab Emirates	United Arab Emirates	Related, under common control
- TMK-RESITA S.A. Resita	Romania	Related, under common control
- TMK GLOBAL SA 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
- OJSC Volzsky 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, Bucharest	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
- Sarl Prieure Saint Jean de Bebian	France	Related, under common control
- TMK Industrial Solutions LLC, Houston	USA	Related, subsidiary sole control

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25. TRANSACTIONS WITH RELATED PARTIES (continued)

The balances of transactions with related parties

Trade Receivables	2016 RON	2015 RON
TMK RESITA S.A.	7.778.750	10.262.712
TMK Industrial Solutions LLC, Houston	1.526.619	-
TMK Middle East Dubai	333.703	-
TMK IPSCO International USA	27.171	15.769.970
TMK Assets Bucharest	3.600	3.720
Land Properties Investments Bucharest	720	1.984
TMK Real Estate Bucharest	-	5.890
Total	9.670.563	26.044.276

Other Assets	2016 RON	2015 RON
TMK RESITA S.A. (advances for purchase of goods)	98.019.745	98.799.404
PAO TMK (sundry debtors)	459.880	-
TMK Industrial Solutions LLC, Houston (settlements between affiliates)	318.159	-
TMK Industrial Solutions LLC, Houston (interest for settlements between affiliates)	3.392	-
TMK RESITA S.A. (sundry debtors)	72.545	905.779
TMK Assets Bucharest (long-term receivables - guarantees)	44.936	-
TMK Industrial Solutions LLC, Houston (sundry debtors)	39.137	-
Trade House TMK Russia (sundry debtors)	2.044	2.036
TMK Real Estate Bucharest (long-term receivables - guarantees)	-	50.653
TMK Real Estate Bucharest (sundry debtors)	-	8.156
Total	98.959.838	99.766.028

In year 2016 TMK-ARTROM SA has made available for TMK INDUSTRIAL SOLUTIONS LLC as sole partner an amount of USD 73.934 from the borrowing of the USD 150.000, with an annual interest of 1,9%, for financing the need of working capital, first endowment and other needs related to the foundation and operation of TMK INDUSTRIAL SOLUTION LLC.

25. TRANSACTIONS WITH RELATED PARTIES (continued)

Trade Payables	2016 RON	2015 RON
PAO TMK Russia	109.108.523	58.032.279
TMK Europe GmbH Germany	5.194.568	7.835.499
TMK Italia s.r.l. Italy	712.579	386.533
TMK Industrial Solutions LLC, Houston	246.102	-
Sarl Prieure Saint Jean de Bebian France	90.808	-
RosNITI JSC Russia	27.247	49.772
TMK Assets Bucharest	867	-
TMK-Inox Russia	55	-
SCEA Domaine de Bebian France	-	77.202
TMK Real Estate Bucharest	-	2.206
Total	115.380.749	66.383.491

Other liabilities	2016 RON	2015 RON
TMK Europe GmbH (loan)	104.867.546	74.814.305
TMK Europe GmbH Germany (interest owed at reporting date)	167.117	60.910
Total	105.034.663	74.875.215

Transactions with related parties

Sales (Turnover)	2016 RON	2015 RON
TMK RESITA S.A. (waste product, pipes, re-invoiced materials from TMK Europe and domestic market, perceives commission, customs commission for Schenker, management services)	23.318.327	31.281.466
TMK IPSCO International USA (pipes)	8.840.913	63.674.194
TMK Middle East Dubai (pipes)	1.504.825	4.167.016
TMK Industrial Solutions LLC, Houston (pipes for resale)	1.486.508	-
Sinarsky pipe plant Russia (pipes)	551.879	255.652
TMK GLOBAL Switzerland (pipes)	110.410	348.588
TMK IPSCO Canada (pipes)	89.370	-
TMK Italia s.r.l. Italy (audit services)	24.829	24.643
TMK Europe GmbH Germany (audit services)	20.634	13.439
TMK Assets Bucharest (management services)	6.750	3.600
TMK Real Estate Bucharest (management services, sale of property, plant and equipment and other materials)	5.250	11.080
Land Properties Investments Bucharest (management services)	2.400	2.400
TMK-Inox Russia (mandrel parts)	-	253.809
Total	35.962.095	100.035.887

25. TRANSACTIONS WITH RELATED PARTIES (continued)

Purchases	2016 RON	2015 RON
TMK RESITA S.A. (billets - raw materials, spare parts, repair services)	371.502.648	445.437.271
PAO TMK Russia (advisory services, billets and pipes for resale, billets - raw materials)	123.631.991	92.830.260
TMK Europe GmbH Germany (materials re-invoiced to TMK Resita, pipes and billets selling commission, materials for own consumption, extra charges for quality claims)	27.925.183	37.814.187
TMK Italia s.r.l. Italy (extra charges for quality claims, pipes and billets selling commission)	8.395.022	9.262.581
TMK Industrial Solutions LLC, Houston (agent commission, marketing expences)	2.356.078	-
TMK Assets Bucharest (rent and apartment maintenance, re-invoice of electric energy)	315.172	-
TMK Real Estate Bucharest (rent and apartment maintenance, car rent)	228.626	850.116
TMK Ipsco International USA (extra charges for quality claims)	144.559	83.547
TMK INOX Russia (steel pipes for resale)	124.855	569.910
Sarl Prieure Saint Jean de Bebian France (protocol expenses)	90.302	-
RosNITI JSC Russia (research and development services)	45.229	77.511
Trade House TMK Russia (billets and pipes for resale)	-	61.213.935
Scea Domaine de Bebian France (protocol expenses)	-	75.614
Total	534.759.665	648.214.932

Subsidiary

TMK-ARTROM SA has a subsidiary in HOUSTON, USA - TMK INDUSTRIAL SOLUTIONS LLC. The subsidiary has as sole partner TMK-ARTROM SA. TMK INDUSTRIAL SOLUTIONS LLC was registered on 26 April 2016 with 1.000 USD share capital.

TMK INDUSTRIAL SOLUTIONS LLC acts as trade agent to promote and sale industrial pipes produced by TMK companies for american market and in year 2016 it registered the following indicators:

	31.12.2016	31.12.2016
Indicator's name	USD	RON
Total turnover	1.315.890	5.341.462
Gross profit	958.726	3.891.660
Operating income	106.248	431.283
Profit bebore tax	106.248	431.283
Income tax	31.910	129.529
Profit of the year	74.338	301.753

25. TRANZACTII CU PARTI AFILIAATE (continuare)

	31.12.2016	31.12.2016
	USD	RON
ASSETS		
Current assets	559.670	2.408.428
Non-current assets	68.543	294.959
Total assets	628.213	2.703.388
LIABILITIES		
Current liabilities	537.773	2.314.200
Non-current liabilities	15.101	64.985
Total liabilities	552.875	2.379.185
CAPITAL AND RESERVES		
Share capital, from which:		
- Subscribed and paid share capital	1.000	4.303
Profit of the year	74.338	319.899
Total equity	75.338	324.202
Total liabilities and equity	628.213	2.703.388

TMK INDUSTRIAL SOLUTIONS LLC has at the end of year 2016 8 employees.

The Company does not prepare consolidated financial statements because the value of assets, net turnover and the number of employees of the subsidiary TMK INDUSTRIAL SOLUTIONS LLC does not have significant influence over the individual financial statements.

Borrowings within the Group – short-term

TMK Europe GmbH Germany, the parent company, is creditor on short-term with the following borrowings:

- RON 22.705.500 (equivalent of EURO 5.000.000) of the borrowing agreement no. 2016/1A from 27.09.2016 in amount of EURO 5.000.000, with an interest of 3.5% per year and final due date in 30.03.2017;

- RON 4.541.100 (equivalent of EURO 1.000.000) of the borrowing agreement no. 2016/2A from 24.11.2016 in amount of EURO 5.000.000, with an interest of 3.5% per year and final due date in 29.05.2017.

The owed interest by TMK-ARTROM S.A. at 31.12.2016 is of EURO 18.083,33, respectively RON 82.118,21.

25. TRANSACTIONS WITH RELATED PARTIES (continued)

Borrowings within the Group – long-term

TMK Europe GmbH Germany (former TMK Sinara Handel GmbH), it is creditor with the amount of RON 77.620.946 representing USD 18.037.540,03 (2015: RON 74.900.885 representing USD 18.037.540,03) of the borrowing contract w/n/01.12.2008, respectively receivable cession no. 054/20.02.2002 from AVAS (AVAB) in initial amount of USD 22.837.540,03 and RON 38.425,07. In 2015 it were reimbursed USD 4.800.000 and RON 38.425,07 from the loan according to the payment schedule.

The Company constituted guarantees in favor of TMK Europe GmbH Germany, 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 rank 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.

In AGEA from 17 November 2008 was approved the changes of the nature and the delay from payment of the receivable owed by the Company to TMK Europe GmbH in amount of USD 22.837.540,03 and RON 38.425 in the following conditions:

- the loan will be paid in 57 installments starting from 25 January 2014 until 25 September 2018 inclusively. First 56 monthly installments will be of USD 400.000 and the 57th will be of USD 437.540,03. The payment of the debit in amount of RON 38,425 of Company to TMK Europe GmbH from 25 January 2014 will be settled in USD at the official exchange rate RON/USD of National Bank of Romania from the last working day of year 2013. The receivable has an interest of LIBOR + 0.5% p.a. starting from 1 January 2009. The interest is calculated and it is paid on the 15th of each month for the previous month;
- 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 start with 25.01.2015. The installments number remained the same.
- 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, 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, as a result at 31.12.2016 entire value of the borrowing was long-term.
- on 08.08.2016 by Addendum no. 3 were expressly dropped all the movable and immovable guarantees mentioned above.

The interest owed by TMK-ARTROM S.A. at 31 December 2016 is of USD 19.752 (2015: USD 14.367), respectively RON 84.998,80.

Cash compensations granted to key-employees registered in year 2016 are in amount of RON 14.141.141 (2015: RON 14.437.820).

26. PROVISIONS AND ACCRUALS

Other short-term provisions	2016 RON	2015 RON
Accruals for managers bonuses ST	1.786.442	1.719.322
Provisions for taxes	782.824	893.743
Provisions for quality complaints material cost ST	240.506	231.652
Provisions for quality complaints additional cost ST	56.770	55.374
Accruals for unused vacations	32.500	5.638
Provisions for risks and expenses	-	843.546
Total	2.899.042	3.749.275

Other long-term provisions	2016 RON	2015 RON
Provisions for decommissioning property, plant and equipment LT	219.350	219.350
Provisions for quality complaints additional cost LT	7.931	7.931
Total	227.281	227.281

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
At 01.01.2015	1.525.398	157.708	2.792.904	-	-	-	4.476.010
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)
At 31.12.2015	231.652	55.374	1.719.322	5.638	893.743	843.546	3.749.275
Expense with provisions recognized in statement of income	415.309	98.418	1.786.422	26.862	-	-	2.327.031
Used	(406.455)	(97.022)	(1.719.322)	-	(110.919)	(843.546)	(3.177.264)
At 31.12.2016	240.506	56.770	1.786.442	32.500	782.824	-	2.899.042

Lower is presented the structure of Provisions for risks and expenses at 31 December 2015 and also the changes registered in year 2016:

- 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 – reversed in 2016 due to the recording of the Coface invoice;

26. PROVISIONS AND ACCRUALS (continue)

- 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 – reclassified as value adjustment for other receivables in 2016.

As at 31 December 2016 no movement in the long-term provisions was registered.

Long-term provisions	Provisions for quality complaints material cost	Provisions for quality complaints additional cost	Provisions for decommissioning property, plant and equipment	Total
At 1st January 2015	197.691	12.431	219.350	429.472
Expense with provisions recognized in statement of income	-	7.931	-	7.931
Used	(197.691)	(12.431)	-	(210.122)
At 31 December 2015	-	7.931	219.350	227.281
Expense with provisions recognized in statement of income	-	-	-	-
Used	-	-	-	-
At 31 December 2016	-	7.931	219.350	227.281

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.

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

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 2016, 91% from loans had variable interest rates. EURIBOR serves mainly as the basis for the calculation of interest rate, respectively 64% from the total of loans had at 31.12.2016 EURIBOR as variable computation base. Loans which had LIBOR as calculation basis for the interest rate represented 27% of portfolio at 31.12.2016 and 27,5% at 31 December 2015. At 31 December 2016 and at 31 December 2015 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 2016, the Company did not have financial assets with variable interest rate.

The following table demonstrates the analysis of sensitivity to possible changes in interest rate, with all other variables held constant of the profit before tax. In year 2016 EUROBOR registered negative values all year being levelled at 0 according to credit contracts and because of this the sensitivity cannot be computed.

	Variation in margin	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
31 December 2016			
increase in LIBOR	10	(38,4)	(32,2)
decrease in LIBOR	(10)	38,4	32,2
31 December 2015			
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

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 2016 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 volatility	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
31 December 2016			
EUR/RON	10%	(17.953)	(15.081)
EUR/RON	-10%	17.953	15.081
USD/RON	10%	(7.018)	(5.895)
USD/RON	-10%	7.018	5.895
31 December 2015			
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

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 31.12.2016 about 67% 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
2016					
Interest bearing loans (including future interest)	54.893.353	145.352.739	83.384.762	17.478.024	301.108.878
Leasing	52.213	120.301	31.525	-	204.039
Other non-current liabilities	-	-	568.414	-	568.414
Trade and other payables	152.557.022	19.298.639	-	-	171.855.661
Total	207.502.588	164.771.679	83.984.701	17.478.024	473.736.992
2015					
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
Total	99.641.822	141.961.367	121.483.897	35.312.959	398.400.045
2015					

Financial indicators of the loan contracts were respected as at 31 December 2016 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 2016 compared to the previous period due to the decrease of the turnover, of the increase in inventories and of the decrease of the profit before tax.

Net cash from investment activities decreased in 2016 compared to year 2015 due to the increase in volume of payments made for purchases of property, plant and equipment mainly for the execution of the investment "Heat treatment complex".

Net cash from financing activities increased in 2016 compared to 2015 due to the borrowings contracted from TMK EUROPE, of uncommitted Overdraft loan on 3 years from BANCPOST, of investment loan BCR ERSTE on 7 years, but also due to the reimbursements made from existing loans.

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 120 days, depending on their reliability.

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

In order to limit the credit risk, the Company signed with COFACE S.A. on 1 October 2012 a contract to secure the non-payment risk for almost the entire portfolio of sales to third parties. In 2013, the Company decided to maintain the contract of securing the non-payment risk with Coface, but this time with the subsidiary from Germany which offered an insurance premium significantly lower under the same conditions as those from the previous year. In December 2014 the Company decided to extend the insurance contract signed with COFACE Germany with one more year, and in December 2015 it was extended for another year. In 28 November 2016 the contract was extended until 28.11.2017. At 31.12.2016 credit limits granted by Coface S.A covered 63% of requested limits for external clients and on internal market 41% of requested limits. As at 31.12.2016 67% from the receivables which are insured were covered by Coface. For 22% 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 2016 was DONALAM SRL with RON 84.982.108 (11%) representing sales of billets purchased from 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.

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 2016 for the audit of statutory Financial Statements the Company paid to the audit company the amount of RON 106.643 (RON 88.869 without VAT), and for the audit of the Group Reporting Pack it paid the amount of RON 80.675 (RON 67.229 without VAT).

The actuarial valuation of employee benefits, according to IAS 19, it is made by PricewaterhouseCoopers Audit SRL. For these services in year 2016 is was paid the amount of RON 16.047 (RON 13.372 without VAT).

29.COMMITMENTS AND CONTINGENT LIABILITIES

Total commitments for the aquisition of property, plant and equipment as at 31 December 2016 are of RON 79.273.056 (2015: RON 64.929.845).

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):

	2016 RON	2015 RON
Less than one year	755.890	520.232
Between one and two years	236.750	7.550
Between two and tree years	229.200	-
	1.221.840	527.782

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

30. EVENTS AFTER THE REPORTING PERIOD

Chief Executive Officer,
Ing. Popescu Adrian

Chief Economical and Accountancy Officer,
Ec. Vaduva Cristiana