

## RAPORTUL AUDITORULUI INDEPENDENT

### *INDEPENDENT AUDITOR'S REPORT*

Catre actionarii TMK Artrom S.A.

*To the Shareholders of TMK Artrom S.A.*

### Raport asupra auditului situatiilor financiare

*Report on the Audit of the Financial Statements*

### Opinia

*Opinion*

Am auditat situatiile financiare ale societatii TMK Artrom S.A. („Societatea”) care cuprind situatia pozitiei financiare la data de 31 decembrie 2016, situatia rezultatului global, situatia modificarilor capitalurilor proprii si situatia fluxurilor de numerar pentru exercitiul financiar incheiat la aceasta data si un sumar al politicilor contabile semnificative si alte informatii explicative.

*We have audited the financial statements of TMK Artrom S.A. (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.*

In opinia noastra, situatiile financiare anexate ofera o imagine fidela si justa a pozitiei financiare a Societatii la data de 31 decembrie 2016, ca si a performantei financiare si a fluxurilor de numerar ale acesteia pentru exercitiul financiar incheiat la aceasta data, in conformitate cu Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare.

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

## Bazele opiniei

### *Basis for opinion*

Noi am efectuat auditul conform Standardelor Internationale de Audit (ISA). Responsabilitatile noastre conform acestor standarde sunt descrise mai detaliat in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare” din raportul nostru. Suntem independenti fata de Societate conform Codului etic al profesionistilor contabili emis de Consiliul pentru Standarde Internationale de Etica pentru Contabili (codul IESBA) si conform cerintelor etice care sunt relevante pentru auditul situatiilor financiare in Romania si ne-am indeplinit responsabilitatile etice conform acestor cerinte si conform Codului IESBA. Consideram ca probele de audit pe care le-am obtinut sunt suficiente si adecvate pentru a constitui baza pentru opinia noastra cu rezerve.

*We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.*

## Aspecte cheie de audit

### *Key audit matters*

Aspectele cheie de audit sunt acele aspecte care, in baza rationamentului nostru profesional, au avut cea mai mare importanta pentru auditul situatiilor financiare din perioada curenta. Aceste aspecte au fost abordate in contextul auditului desfasurat asupra situatiilor financiare in ansamblu, si in formarea opiniei noastre asupra acestora, si nu emitem o opinie separata cu privire la aceste aspecte cheie.

*Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.*

Pentru fiecare aspect de mai jos, am prezentat in acel context o descriere a modului in care auditul nostru a abordat respectivul aspect.

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

Am indeplinit responsabilitatile descrise in sectiunea „Responsabilitatile auditorului pentru auditul situatiilor financiare” din raportul nostru, inclusiv in legatura cu aceste aspecte cheie. In consecinta, auditul nostru a inclus efectuarea procedurilor proiectate sa raspunda la evaluarea noastra cu privire la riscul de erori semnificative in cadrul situatiilor financiare. Rezultatele procedurilor noastre de audit, inclusiv ale procedurilor efectuate pentru a aborda aspectele de mai jos, constituie baza pentru opinia noastra de audit asupra situatiilor financiare anexate.

*We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.*

Aspect-cheie de audit	Modul in care auditul nostru a abordat aspectul-cheie de audit
<p><i>Evaluarea stocurilor</i></p> <p>Informatiile prezentate de TMK Artrom cu privire la stocuri, inclusiv cu privire la deprecierea aferenta, sunt incluse in nota 3 si 18.</p>	
<p>La 31 decembrie 2016, Societatea detinea stocuri cu o valoare de 164.624 mii RON, pentru care s-au inregistrat provizioane de 6.190 mii RON, asa cum este prezentat in Nota 18 din situatiile financiare.</p> <p>Identificarea si stabilirea provizioanelor pentru stocuri impune conducerii Societatii sa faca rationamente si ipoteze si reprezinta un proces cu un nivel semnificativ de incertitudine. Principalele ipoteze folosite de conducere in stabilirea provizioanelor pentru produse finite, semifabricate si produse in curs de executie includ elemente precum vechimea stocurilor, vanzarile viitoare, determinarea valorii realizabile nete prin referinta la preturile de piata ale tevilor si otelului si tendintele pietei,</p>	<p>Procedurile noastre de audit au inclus, printre altele, participarea la inventarierea anuala a stocurilor si observarea conditiei fizice a stocurilor, analiza miscarii stocurilor in cursul anului 2016 si a previziunilor pentru utilizarea sau vanzarea stocurilor vechi, evaluarea analizei conducerii privind ipotezele care au stat la baza determinarii valorii realizabile nete si verificarea calculului provizioanelor pentru stocuri.</p> <p>Pentru verificarea valorii realizabile nete a stocurilor, procedurile noastre de audit s-au concentrat pe analiza vanzarilor efectuate in anii 2016 si primele doua luni din 2017, a bugetului Societatii si a prognozelor disponibile privind evolutia pretului de piata pentru materii prime si produse, coroborate</p>

a carei volatilitate afecteaza costul materiei prime si pretul de vanzare al produselor finite.

Pentru materiile prime sunt realizate analize specifice, ce iau in considerare vechimea elementelor din sold.

Datorita valorii semnificative a soldului stocurilor si a incertitudinilor in legatura cu ipotezele utilizate pentru determinarea provizioanelor, aceasta este considerata un aspect-cheie de audit.

cu informatiile de piata relevante disponibile si cu planurile de afaceri ale Societatii.

Ne-am concentrat, de asemenea, asupra caracterului adecvat al informatiilor prezentate in situatiile financiare.

#### Key audit matter

#### How our audit addressed the key audit matter

#### *Inventory allowances*

*TMK Artroms's disclosure about inventories, including the related allowance, are included in Note 3 and 18.*

*As at 31 December 2016 the Company had inventory of RON 164,624 thousand before allowances of RON 6,190 thousand as presented by the Company in Note 18 to the financial statements.*

*The identification and determination of the inventory allowance requires management to make judgement and assumptions and represents a process with a significant level of uncertainties.*

*The main assumptions used by management in evaluating the level of the allowance for finished goods, semi-finished goods and work in progress include factors such as ageing of inventories, future sales, determining the net realizable value by reference to market prices of pipes and steel and market trends whose*

*Our audit procedures included, among others, attending the annual stock count and observing the physical condition of inventories, analysis of stock movement during 2016 and of the forecasts regarding the usage or sale of old inventories, evaluate the analysis made by the management on the assumptions underlying the calculation of the net realizable value, and testing the calculation of inventory allowance.*

*In respect of testing the net realizable value of inventories, our audit procedures focused on analyzing the sales made in 2016 and the first two months of 2017, evaluation of the budgets of the Company and the forecasts available regarding the market price evolution for raw materials and products*

*volatility is affecting the cost of raw material and the selling price of the finished goods.*

*For raw materials, specific analysis is made, considering the obsolescence of the elements in the closing balance.*

*Due to the significance of inventory balances and the related estimation uncertainty in determining the allowance, this is considered a key audit matter.*

*corroborated with the relevant information about the market and business plans of the Company.*

*We further focused on the adequacy of disclosures included in the financial statements.*

## Alte informatii

### *Other information*

Alte informatii includ Raportul administratorilor, dar nu includ situatiile financiare si raportul nostru de audit cu privire la acestea. Conducerea este responsabila pentru alte informatii.

*The other information comprises the Directors' Report, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.*

Opinia noastra de audit asupra situatiilor financiare nu acopera alte informatii si nu exprimam nicio forma de concluzie de asigurare asupra acestora.

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

In legatura cu auditul efectuat de noi asupra situatiilor financiare, responsabilitatea noastra este de a citi aceste alte informatii si, facand acest lucru, de a analiza daca acestea nu sunt in concordanta, in mod semnificativ, cu situatiile financiare sau cunostintele pe care le-am obtinut in urma auditului sau daca acestea par sa includa erori semnificative. Daca, in baza activitatii desfasurate, ajungem la concluzia ca exista erori semnificative cu privire la aceste alte informatii, noi trebuie sa raportam acest lucru. Nu avem nimic de raportat in acest sens.

*In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.*

Responsabilitatea conducerii si a persoanelor responsabile cu guvernanta pentru situatiile financiare

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Conducerea Societatii are responsabilitatea intocmirii si prezentarii fidele a situatiilor financiare in conformitate cu Ordinul Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare, si pentru acel control intern pe care conducerea il considera necesar pentru a permite intocmirea de situatii financiare care sunt lipsite de denaturari semnificative, cauzate fie de fraudă, fie de eroare.

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

La intocmirea situatiilor financiare, conducerea este responsabila sa evalueze abilitatea Societatii de a-si desfasura activitatea conform principiului continuitatii activitatii si sa prezinte, daca este cazul, aspectele referitoare la continuitatea activitatii si folosirea principiului continuitatii activitatii, mai putin in cazul in care conducerea intentioneaza sa lichideze Societatea sau sa ii inceteze activitatea sau nu are nicio alternativa reala decat sa procedeze astfel.

*In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.*

Persoanele responsabile cu guvernanta au responsabilitatea supravegherii procesului de raportare financiara a Societatii.

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

## Responsabilitatile auditorului pentru auditul situatiilor financiare

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

Obiectivele noastre constau in obtinerea unei asigurari rezonabile privind masura in care situatiile financiare, luate in ansamblu, nu contin denaturari semnificative cauzate de eroare sau frauda si de a emite un raport de audit care sa includa opinia noastra. Asigurarea rezonabila reprezinta un nivel ridicat de asigurare, insa nu este o garantie ca un audit desfasurat in conformitate cu standardele ISA va detecta intotdeauna o denaturare semnificativa, daca aceasta exista. Denaturarile pot fi cauzate fie de frauda fie de eroare si sunt considerate semnificative daca se poate preconiza, in mod rezonabil, ca acestea, atat la nivel individual sau luate in ansamblu, vor influenta deciziile economice ale utilizatorilor luate in baza acestor situatii financiare.

*Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.*

Ca parte a unui audit in conformitate cu standardele ISA, ne exercitam rationamentul profesional si ne mentinem scepticismul profesional pe intreg parcursul auditului. De asemenea:

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

- Identificam si evaluam riscurile de denaturare semnificativa a situatiilor financiare, cauzate fie de frauda fie de eroare, stabilim si efectuam proceduri de audit care sa raspunda acestor riscuri si obtinem probe de audit suficiente si adecvate pentru a constitui o baza pentru opinia noastra. Riscul de nedetectare a unei denaturari semnificative cauzate de frauda este mai ridicat decat cel de nedetectare a unei denaturari semnificative cauzate de eroare, deoarece frauda poate include complicitate, falsuri, omisiuni intentionate, declaratii false sau evitarea controlului intern.

*Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*

- Intelagem controlul intern relevant pentru audit pentru a stabili procedurile de audit adecvate in circumstantele date, dar nu si in scopul exprimarii unei opinii asupra eficacitatii controlului intern al Societatii.

*Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.*

- Evaluam gradul de adecvare a politicilor contabile utilizate si rezonabilitatea estimarilor contabile si a prezentarilor aferente de informatii realizate de catre conducere.
- *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.*
- Concluzionam asupra caracterului adecvat al utilizarii de catre conducere a principiului continuitatii activitatii, si determinam, pe baza probelor de audit obtinute, daca exista o incertitudine semnificativa cu privire la evenimente sau conditii care ar putea genera indoieli semnificative privind capacitatea Societatii de a-si continua activitatea. In cazul in care concluzionam ca exista o incertitudine semnificativa, trebuie sa atragem atentia, in raportul de audit, asupra prezentarilor aferente din situatiile financiare sau, in cazul in care aceste prezentari sunt neadecvate, sa ne modificam opinia. Concluziile noastre se bazeaza pe probele de audit obtinute pana la data raportului nostru de audit. Cu toate acestea, evenimente sau conditii viitoare pot determina ca Societatea sa nu isi mai desfasoare activitatea in baza principiului continuitatii activitatii.
- *Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.*
- Evaluam prezentarea, structura si continutul general al situatiilor financiare, inclusiv al prezentarilor de informatii, si masura in care situatiile financiare reflecta tranzactiile si evenimentele de baza intr-o maniera care realizeaza prezentarea fidela.
- *Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.*

Comunicam persoanelor responsabile cu guvernanta, printre alte aspecte, obiectivele planificate si programarea in timp a auditului, precum si constatarile semnificative ale auditului, inclusiv orice deficiente semnificative ale controlului intern, pe care le identificam pe parcursul auditului nostru.

*We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit*

De asemenea, prezentam persoanelor responsabile cu guvernanta o declaratie cu privire la conformitatea noastra cu cerintele etice privind independenta si le comunicam toate relatiile si alte aspecte care pot fi considerate, in mod rezonabil, ca ar putea sa ne afecteze independenta si, unde este cazul, masurile de siguranta aferente.

*We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.*

Dintre aspectele pe care le comunicam persoanelor responsabile cu guvernanta, stabilim acele aspecte care au avut cea mai mare importanta in cadrul auditului asupra situatiilor financiare din perioada curenta si, prin urmare, reprezinta aspecte cheie de audit. Descriem aceste aspecte in raportul nostru de audit, cu exceptia cazului in care legislatia sau reglementarile impiedica prezentarea publica a aspectului respectiv sau a cazului in care, in circumstante extrem de rare, determinam ca un aspect nu ar trebui comunicat in raportul nostru deoarece se preconizeaza in mod rezonabil ca efectele negative ale acestei comunicari depasesc beneficiile interesului public al comunicarii respectivului aspect.

*From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.*

## Raport asupra altor cerinte legale si de reglementare

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

Raportare asupra unor informatii, altele decat situatiile financiare si raportul nostru de audit asupra acestora

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

Pe langa responsabilitatile noastre de raportare conform standardelor ISA si descrise in sectiunea „Alte informatii”, referitor la raportul administratorilor, noi am citit raportul administratorilor si raportam urmatoarele:

- a) in raportul administratorilor nu am identificat informatii care sa nu fie consecvente, sub toate aspectele semnificative, cu informatiile prezentate in situatiile financiare la data de 31 decembrie 2016, atasate;
- b) raportul administratorilor, identificat mai sus, include, sub toate aspectele semnificative, informatiile cerute de Ordinului Ministrului Finantelor Publice nr. 2844/2016 pentru aprobarea Reglementarilor contabile conforme cu Standardele Internationale de Raportare Financiara, cu modificarile si clarificarile ulterioare, Anexa 1, punctele 15-19
- c) pe baza cunostintelor noastre si a intelegerii dobandite in cursul auditului situatiilor financiare intocmite la data de 31 decembrie 2016 cu privire la Societate si la mediul acesteia, nu am identificat informatii eronate semnificative prezentate in raportul administratorilor.

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

- a) in the Directors’ Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at 31 December 2016;*
- b) the Directors’ Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19;*



c) *based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at 31 December 2016, we have not identified information included in the Directors' Report that contains a material misstatement of fact.*

In numele

*On behalf of*

Ernst & Young Assurance Services SRL

Inregistrat la Camera Auditorilor Financiari din Romania

Cu nr. 77/15 august 2001

*Registered with the Chamber of Financial Auditors in  
Romania*

*No. 77/15 August 2001*

Sebastian Mocanu

Inregistrat la Camera Auditorilor Financiari din Romania      Bucuresti, Romania

Cu nr. 1603/16 august 2005      2017

*Registered with the Chamber of Financial Auditors in      Bucharest, Romania  
Romania*

*No 1603/16 august 2005      2017*