

# **TMK-ARTROM S.A.**

Separate and consolidated financial statements  
prepared in accordance with regulations of  
OMFP no. 2.844/2016, with following changes  
and additions

**31 DECEMBER 2017**

## CONTENTS

STATEMENT OF COMPREHENSIVE INCOME.....	3
STATEMENT OF FINANCIAL POSITION.....	4
STATEMENT OF CHANGES IN EQUITY.....	5
CASH FLOW STATEMENT.....	7
1. CORPORATE INFORMATION .....	8
2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS .....	9
2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	9
3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS.....	20
4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES.....	22
4.2. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED .....	23
5. TURNOVER .....	28
6. COST OF SALES.....	30
7. SELLING AND DISTRIBUTION EXPENSES .....	30
8. PROMOTION AND ADVERTISING EXPENSES .....	31
9. GENERAL AND ADMINISTRATIVE EXPENSES.....	31
10. RESEARCH AND DEVELOPMENT EXPENSES.....	31
11. OTHER INCOME/EXPENSES AND ADJUSTMENTS .....	32
12. INCOME TAX.....	34
13. EARNINGS PER SHARE.....	36
14. PROPERTY, PLANT AND EQUIPMENT.....	36
15. INTANGIBLE ASSETS .....	39
16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES.....	41
17. OTHER NON-CURRENT ASSETS .....	50
18. INVENTORIES.....	50
19. TRADE AND OTHER RECEIVABLES (CURRENT) .....	52
20. PREPAYMENTS .....	54
21. CASH AND SHORT-TERM DEPOSITS .....	55
22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS .....	55
23. PENSIONS PLANS AND OTHER POST-EMPLOYMENT BENEFITS .....	58
24. TRADE AND OTHER PAYABLES (CURRENT).....	61
25. TRANSACTIONS WITH RELATED PARTIES.....	62
26. PROVISIONS.....	66
27. MANAGEMENT OF FINANCIAL RISK – OBJECTIVES AND POLICIES .....	68
28. AUDIT COMPANIES FEES .....	73
29.COMMITMENTS AND CONTINGENT LIABILITIES .....	74
30. EVENTS AFTER THE REPORTING PERIOD .....	76

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**as of 31 December 2017**

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

	Nota	Separate		Consolidated	
		2017 RON	2016 RON	2017 RON	2016 RON
<b>Turnover</b>	5	<b>1.065.446.401</b>	<b>761.911.220</b>	<b>1.076.447.122</b>	<b>763.443.060</b>
Sales of goods	5	1.064.852.707	761.308.139	1.072.046.845	761.352.699
Rendering of services	5	593.694	603.081	4.400.277	2.090.361
Cost of sales	6	(894.405.234)	(654.215.534)	(900.907.341)	(654.215.534)
<b>Gross profit</b>		<b>171.041.167</b>	<b>107.695.686</b>	<b>175.539.781</b>	<b>109.227.526</b>
Selling and distribution expenses	7	(90.803.563)	(64.271.091)	(86.900.041)	(63.971.306)
Advertising and promotion expenses	8	(265.529)	(104.798)	(292.605)	(125.309)
General and administrative expenses	9	(35.041.214)	(29.183.676)	(38.223.719)	(30.573.827)
Research and development expenses	10	(117.956)	(139.866)	(117.956)	(139.866)
Other operating expenses	11.2	(4.398.071)	(3.703.262)	(4.406.582)	(3.703.263)
Other operating income	11.1	1.456.496	1.071.877	1.456.496	1.071.877
<b>Income from operations</b>		<b>41.871.330</b>	<b>11.364.870</b>	<b>47.055.374</b>	<b>11.785.832</b>
Foreign exchange (loss) / gain, net	11.4	(2.034.053)	(4.615.854)	(2.034.053)	(4.615.854)
Finance income	11.4	1.714	4.426	957	1.188
Finance costs	11.3	(6.736.790)	(5.506.374)	(6.736.790)	(5.506.374)
<b>Profit before tax</b>		<b>33.102.201</b>	<b>1.247.068</b>	<b>38.285.488</b>	<b>1.664.792</b>
Income Tax	12	(46.835)	(369.878)	(2.050.112)	(499.407)
<b>Profit for the year</b>		<b>33.055.366</b>	<b>877.190</b>	<b>36.235.376</b>	<b>1.165.385</b>
<b>Other comprehensive income - which can be reclassified in profit or loss</b>					
Foreign currency translation		-	-	(7.865)	-
<b>Other comprehensive income - which cannot be reclassified in profit or loss</b>					
Actuarial gains / (losses)		36.040	262.158	36.040	262.158
<b>Other comprehensive income (loss) for the year, net of tax</b>		<b>36.040</b>	<b>262.158</b>	<b>28.175</b>	<b>262.158</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>33.091.406</b>	<b>1.139.348</b>	<b>36.263.551</b>	<b>1.427.543</b>
Average number of shares		116.170.334	116.170.334	116.170.334	116.170.334
<b>Earnings per share</b>		<b>0,28</b>	<b>0,01</b>	<b>0,31</b>	<b>0,01</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as of 31 December 2017**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Nota	Separate		Consolidated	
		2017 RON	2016 RON	2017 RON	2016 RON
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	21	10.825.193	16.771.796	11.608.847	18.076.998
Trade and other receivables	19	238.496.231	213.734.145	239.221.345	212.585.857
Inventories	18	238.083.714	158.437.553	238.134.851	158.437.553
Prepayments	20	66.350.475	101.740.816	66.452.911	101.802.916
Other current assets	21	1.067.612	-	1.067.612	-
		<b>554.823.225</b>	<b>490.684.310</b>	<b>556.485.566</b>	<b>490.903.324</b>
<b>Non-current assets</b>					
Intangible assets	15	1.965.398	2.199.489	1.973.616	2.211.205
Property, plant and equipment	14	606.665.435	495.204.358	606.854.804	495.453.535
Financial assets	16.1.	1.134.686	1.207.715	1.130.659	1.203.688
Deferred tax asset	12	-	-	68.780	-
Other non-current assets	17	4.225.686	14.145.049	4.255.909	14.178.469
		<b>613.991.205</b>	<b>512.756.611</b>	<b>614.283.768</b>	<b>513.046.897</b>
<b>Total assets</b>		<b>1.168.814.430</b>	<b>1.003.440.921</b>	<b>1.170.769.334</b>	<b>1.003.950.221</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	24	217.413.772	177.652.799	215.353.950	177.668.537
Advances from customers	24	4.211.020	2.096.244	4.211.020	2.096.244
Provisions and accruals	26	6.939.141	2.899.042	7.461.547	3.029.112
Interest-bearing loans and borrowings	16.2.	210.483.727	196.239.070	210.483.727	196.239.070
Finance lease liability	16.2.	360.797	168.979	360.797	168.979
<b>Total current liabilities</b>		<b>439.408.457</b>	<b>379.056.134</b>	<b>437.871.041</b>	<b>379.201.942</b>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	16.2.	169.444.772	96.877.164	169.444.772	96.877.164
Finance lease liability	16.2.	1.012.594	31.096	1.012.594	31.096
Deferred tax liability	12	34.540.322	36.445.082	34.540.322	36.488.399
Provisions and accruals	26	227.281	227.281	227.281	227.281
Employee benefits liability	23	3.034.324	2.909.557	3.034.324	2.909.557
Other long-term liabilities	16.2.	729.080	568.414	729.080	568.414
<b>Total Non-current liabilities</b>		<b>208.988.373</b>	<b>137.058.594</b>	<b>208.988.373</b>	<b>137.101.911</b>
<b>Total liabilities</b>		<b>648.396.830</b>	<b>516.114.728</b>	<b>646.859.414</b>	<b>516.303.853</b>
<b>EQUITY</b>					
<b>Capital and reserves</b>					
<b>Share capital, from which:</b>					
- Subscribed and paid share capital	22	291.587.538	291.587.538	291.587.538	291.587.538
Other items of equity	22	(804.074)	(840.114)	(804.074)	(840.114)
Legal and other reserves	22	50.830.846	17.775.480	50.830.846	17.775.480
Retained earnings	22	145.747.924	177.926.099	146.036.119	177.926.099
Foreign currency translation reserve		-	-	24.115	31.980
Profit of the year		33.055.366	877.190	36.235.376	1.165.385
<b>Total equity</b>		<b>520.417.600</b>	<b>487.326.193</b>	<b>523.909.920</b>	<b>487.646.368</b>
<b>Total liabilities and equity</b>		<b>1.168.814.430</b>	<b>1.003.440.921</b>	<b>1.170.769.334</b>	<b>1.003.950.221</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**as of 31 December 2017**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

Separate	Share capital	Legal reserves	Other reserves	Retained earnings	Other elements of equity - from applying IAS 19	Total equity
	RON	RON	RON	RON	RON	RON
<b>For year ended as at 31 December 2017</b>						
<b>As at 1 January 2017</b>	<b>291.587.538</b>	<b>15.184.422</b>	<b>2.591.058</b>	<b>178.803.289</b>	<b>(840.114)</b>	<b>487.326.193</b>
Profit of the period	-	-	-	33.055.366	-	<b>33.055.366</b>
Other comprehensive income / (loss) for the period, net of tax	-	-	-	-	36.041	<b>36.041</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33.055.366</b>	<b>36.041</b>	<b>33.091.407</b>
Set-up of reserves for reinvested profit	-	1.655.110	31.400.256	(33.055.366)	-	-
<b>At 31 December 2017</b>	<b>291.587.538</b>	<b>16.839.532</b>	<b>33.991.314</b>	<b>178.803.289</b>	<b>(804.073)</b>	<b>520.417.600</b>
<b>For year ended as at 31 December 2016</b>						
<b>As at 1 January 2016</b>	<b>291.587.538</b>	<b>15.122.069</b>	<b>2.481.407</b>	<b>178.098.103</b>	<b>(1.102.272)</b>	<b>486.186.845</b>
Profit of the period	-	-	-	877.190	-	<b>877.190</b>
Other comprehensive income / (loss) for the period, net of tax	-	-	-	-	262.158	<b>262.158</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>877.190</b>	<b>262.158</b>	<b>1.139.348</b>
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)	-	-
<b>At 31 December 2016</b>	<b>291.587.538</b>	<b>15.184.422</b>	<b>2.591.058</b>	<b>178.803.289</b>	<b>(840.114)</b>	<b>487.326.193</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**as of 31 December 2017**

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

Consolidated	Share capital	Legal reserves	Foreign currency translation reserve	Other reserves	Retained earnings	Other elements of equity - from applying IAS 19	Total equity
	RON	RON	RON	RON	RON	RON	RON
<b>For year ended as at 31 December 2017</b>							
<b>As at 1 January 2017</b>	<b>291.587.538</b>	<b>15.184.422</b>	<b>31.980</b>	<b>2.591.058</b>	<b>179.091.484</b>	<b>(840.114)</b>	<b>487.646.368</b>
Profit of the period	-	-	-	-	36.235.376	-	<b>36.235.376</b>
Other comprehensive income / (loss) for the period, net of tax	-	-	(7.865)	-	-	36.041	<b>28.176</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(7.865)</b>	<b>-</b>	<b>36.235.376</b>	<b>36.041</b>	<b>36.263.552</b>
Set-up of legal reserves from profit of the year	-	-	-	-	-	-	-
Set-up of reserves for reinvested profit	-	1.655.110	-	31.400.256	(33.055.366)	-	-
<b>At 31 December 2017</b>	<b>291.587.538</b>	<b>16.839.532</b>	<b>24.115</b>	<b>33.991.314</b>	<b>182.271.494</b>	<b>(804.073)</b>	<b>523.909.920</b>
<b>For year ended as at 31 December 2016</b>							
<b>As at 1 January 2016</b>	<b>291.587.538</b>	<b>15.122.069</b>	<b>-</b>	<b>2.481.407</b>	<b>178.098.103</b>	<b>(1.102.272)</b>	<b>486.186.845</b>
Profit of the period	-	-	-	-	1.165.385	-	<b>1.165.385</b>
Other comprehensive income / (loss) for the period, net of tax	-	-	31.980	-	-	262.158	<b>294.138</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>31.980</b>	<b>-</b>	<b>1.165.385</b>	<b>262.158</b>	<b>1.459.523</b>
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)	-	-
<b>At 31 December 2016</b>	<b>291.587.538</b>	<b>15.184.422</b>	<b>31.980</b>	<b>2.591.058</b>	<b>179.091.484</b>	<b>(840.114)</b>	<b>487.646.368</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED CASH FLOW STATEMENT**  
**as of 31 December 2017**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

Indirect method	Note	Separate		Consolidated	
		1 January - 31 December 2017 RON	1 January - 31 December 2016 RON	1 January - 31 December 2017 RON	1 January - 31 December 2016 RON
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Profit / (Loss) before tax</b>		<b>33.102.201</b>	<b>1.247.068</b>	<b>38.285.488</b>	<b>1.664.792</b>
<b>Plus / minus adjustments for:</b>					
Depreciation and amortisation	14, 15	42.050.091	41.968.148	42.118.528	41.999.607
Increase / (reversal) of provisions	26	4.040.099	(850.233)	4.432.435	(720.163)
Increase / (reversal) of allowances for current assets	18, 19	(573.741)	155.636	(573.741)	155.636
Exchange rate differences for financing activities		488.993	3.607.752	488.993	3.647.521
Variation of retirement benefits	23	284.375	304.925	284.375	304.925
Result from disposal of non-current assets	11	1.521.355	1.760.592	1.521.355	1.760.592
Interest and related expenses	11	8.386.955	4.869.366	8.387.712	4.872.603
Exchange rate differences for cash and cash equivalents		-	-	(7.543)	-
<b>Plus / minus adjustments for changes in working capital related to operating activities:</b>					
Decrease / (increase) in inventories	18	(82.314.460)	(29.260.969)	(82.365.597)	(29.260.969)
Decrease / (increase) in trade and other receivables and prepayments	19	10.673.818	(484.113)	9.086.616	667.020
(Decrease) / increase in payables (except banks)	24	27.448.618	48.226.734	25.373.057	48.242.472
<b>less:</b>					-
Interest paid		(8.026.636)	(5.029.489)	(8.026.636)	(5.029.489)
Income tax paid		(3.537.083)	(421.064)	(5.665.644)	(575.983)
<b>Total inflows / (outflows) from operating activities (a)</b>		<b>33.544.585</b>	<b>66.094.353</b>	<b>33.339.398</b>	<b>67.728.564</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Amount received from disposal of non-current assets		559.256	19.671	559.256	19.671
Purchase of tangible and intangible assets	14	(125.984.154)	(69.828.632)	(125.986.087)	(70.154.404)
Repayment of given loans		313.671	-	-	-
Interest received	11	1.714	4.425	957	1.188
<b>Total inflows / (outflows) from investing activities (b)</b>		<b>(125.109.513)</b>	<b>(69.804.536)</b>	<b>(125.425.874)</b>	<b>(70.133.545)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Loans received		154.195.539	88.231.423	154.195.539	88.231.423
Repayment of loans		(68.205.687)	(71.633.751)	(68.205.687)	(71.633.751)
Repayment of finance leases (amortisation)		(371.527)	(194.235)	(371.527)	(194.235)
<b>Total inflows / (outflows) from financing activities (c)</b>		<b>85.618.325</b>	<b>16.403.437</b>	<b>85.618.325</b>	<b>16.403.437</b>
<b>Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c)</b>		<b>(5.946.603)</b>	<b>12.693.254</b>	<b>(6.468.151)</b>	<b>13.998.456</b>
<b>Cash and cash equivalents at beginning of period</b>	21	<b>16.771.796</b>	<b>4.078.542</b>	<b>18.076.998</b>	<b>4.078.542</b>
<b>Cash and cash equivalents at end of period</b>	21	<b>10.825.193</b>	<b>16.771.796</b>	<b>11.608.847</b>	<b>18.076.998</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

---

## **1. CORPORATE INFORMATION**

TMK-ARTROM S.A. (the "Company" or the "parent Company") is a joint-stock company which 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.

Separate financial statements of TMK-ARTROM S.A. and consolidated financial statements of TMK-ARTROM S.A. with the subsidiary TMK Industrial Solutions LLC (collectively referred as the "Group") for year ended at 31 December 2017 have been prepared in accordance with Order no. 2.844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards, with subsequent amendments and additions and authorised for issue in accordance with the resolution of the Administrators dated 26 March 2018.

TMK-ARTROM and TMK Industrial Solutions are part of TMK Group. The parent company of TMK Group is PAO 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](http://www.tmk-group.com).

TMK Industrial Solutions LLC, the subsidiary of TMK-ARTROM SA, was registered on 26 April 2016, has the social headquarters in 10940 W.Sam Houston PKWY N., apartment 325 Houston, TX 77 064 and operates according to US laws, Delaware. TMK-Artrom owns 100% from the shares of TMK Industrial Solutions LLC.

TMK Industrial Solutions LLC operates 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.

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**

Standalone and consolidated financial statements of the Company have been prepared in accordance with Order no. 2.844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards, with subsequent amendments and additions. These provisions are in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), except as provided in IAS 21 The Effects of Changes in Foreign Exchange Rates on functional currency.

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

Functional currency of TMK Industrial Solutions is American Dollar (USD). The elements of the subsidiary included in the financial statements are assessed using USD as functional currency and translated to Group's presentation currency namely RON.

## **2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a) Going concern**

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

At 31<sup>st</sup> December 2017, the Company's separate net current assets are RON 115.414.768 (31 December 2016: RON 111.628.176), consolidated net assets are RON 118.614.525 ( 2016: RON 111.701.382) and has recorded a separate net profit of RON 33.055.366 and a consolidated net profit of RON 36.235.376. The Company has generated positive cash flows from operations (before changes in working capital) in 2017 and 2016 and has budgeted a further increase in its operating cash flow for entire year 2018.

The Company has complied with the covenants set at 31 December 2017.

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

### **b) Transactions in foreign currencies**

For the purposes of the preparation of separate 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.

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

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 2017</u>	<u>31 December 2016</u>
1 EUR	4,6597	4,5411
1 USD	3,8915	4,3033

Average exchange rate for 1 unit of foreign currency:

	<u>31 December 2017</u>	<u>31 December 2016</u>
1 EUR	4,5681	4,4908
1 USD	4,0525	4,0592

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.

### **c) Significant accounting judgments, estimates and assumptions**

The preparation of the Company's and the Group'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.

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

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

The Company's and the Group'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.

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.

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

### *Derecognition of financial instruments*

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

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

### *Offsetting of financial instruments*

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

### *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 further the liability towards suppliers and it does not recognize the debt towards the bank.

## **e) Impairment of financial assets**

The Company and the Group 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.

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

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 and the Group 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 derecognized 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 and the Group.

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

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

The initial cost of a tangible asset could also include the decommissioning and restoration costs initially estimated, when this value can be reliably measured and there is an obligation in this regard. The estimated decommissioning and restoration costs are recognized in the value of the non-current asset and at the same time as a provision. Construction in progress represents plant and properties under construction and is stated at cost, less any impairment loss. This includes cost of construction and other direct costs.

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

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

Buildings and other constructions	9 to 60 years
Machinery and other equipment	2 to 42 years
Transport and motor vehicles	4 to 20 years

The 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.

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

### **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
Technical certificates and licenses	20 years
Other intangible assets (development costs)	3 years

### **Research and development costs**

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

### **h) Prepayments**

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 non-monetary assets and for cash flow presentation are assimilated to trade and other receivables.

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

At each reporting date the Company and the Group 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 and the Group 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.

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

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 and the Group 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 and the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

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

Provisions are not recognized for future operating losses.

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

### **k) Leases**

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases. Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company and the Group, 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 and the Group 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.

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

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 labour and a proportion of manufacturing overheads, allocated based on the normal operating capacity – the level of production equipment used (which is as full capacity). The allocation is made based on the quantity produced.

For the output of inventories, the cost is measured and 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 Group 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, usually on delivery of the goods being also the moment when the inventories are derecognized.

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.



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

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

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

Short-term employee benefits paid by the Company and the Group 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 and the Group.

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

The Company and the Group 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.

### **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.

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

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

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

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

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

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

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

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

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.

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

### **r) Dividends payable**

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**

TMK 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.

### **u) Gas emission certificates with greenhouse effect**

The Company recognizes emission CO2 rights in its separate financial statements based on the net liability method. Under this method only those liabilities that are expected to result from exceeding the emission credit quotas, granted to the Company under Government decision no. 204/2013 by the Romanian National Environmental Authority, are recognized.

The Company estimates its annual emission volumes at each balance sheet date and recognizes the total estimated additional liability for the expected excess of emission volumes at the fair value of additional units to be purchased or penalties to be incurred under the national legislation. The additional net liability is recognized in profit or loss based on unit of production method.

In case the Company estimates utilization of less than the allocated emission certificates any potential income from the sale of unused emission certificates is recognized in profit or loss only on actual sale of those certificates.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's and the Group'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.

Sensitivity analysis for each significant actuarial assumption:

	2017	PBO 31.12.2017 Retirement	2016	PBO 31.12.2016 Retirement
Turnover	1%	2.264.866	1%	2.100.800
	-1%	2.769.899	-1%	2.622.852
Discount rate	1%	2.285.371	1%	2.118.601
	-1%	2.748.445	-1%	2.604.880
Mortality	10%	2.462.585	10%	2.305.376
	-10%	2.539.128	-10%	2.381.698
Salary increase / inflation	1%	2.722.820	1%	2.606.080
	-1%	2.303.247	-1%	2.113.553

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

	2017	PBO 31.12.2017 Death	2016	PBO 31.12.2016 Death
Turnover	1%	494.853	1%	522.748
	-1%	577.726	-1%	615.944
Discount rate	1%	497.484	1%	525.812
	-1%	575.480	-1%	613.000
Mortality	10%	582.145	10%	617.542
	-10%	484.653	-10%	514.316
Salary increase / inflation	1%	569.426	1%	608.111
	-1%	501.853	-1%	529.213

#### ➤ Inventories

The finished goods, semi-finished goods and work in progress are valued considering the net realizable value. The management analyses the ageing of the inventories and considers 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, resulting from orders received for future periods validated with future sales prices evolution.

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.

The main assumptions used in evaluating the level of the allowance for finished goods, semi-finished goods and work in progress include ageing of inventories, determining the net realizable value by reference to future sales, market prices of pipes and steel and market trends whose volatility is affecting the cost of raw material and the selling price of the finished goods.

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 and the Group as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
- **IAS 7: Disclosure Initiative (Amendments)**
- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 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 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

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. The Management estimated that this amendment did not have an impact on the financial statements.

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

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. The amendments had an impact on disclosures, the relevant information is presented in Note 16.3. of these financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle,**

which is a collection of amendments to IFRSs. This improvement did not have an effect on the Company's and Group's financial statements:

- **IFRS 12 Disclosure of Interests in Other Entities:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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

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

The standard is effective for financial years 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 of financial assets and financial liabilities, impairment, and hedge accounting.

The Company and the Group reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018.

There will be no impact on the Company's and Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company and the Group does not have any such liabilities. The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39 Financial Instruments: Recognition and Measurement. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Company and the Group does not expect a significant impact on the bad debt allowance as a result of the adoption of the new standard.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the Company's and the Group's disclosures about its financial instruments in the separate and consolidated financial statements in the year of the initial application.

The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company and the Group in 2018 when the Company and the Group will adopt IFRS 9 Financial Instruments. The Company and the Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated.

- **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 assessed the impact of the new standard and they estimated that will not have a significant impact on the financial statements.

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

In accordance with IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Group and the Company deliver goods (mainly seamless steel pipes) under contract conditions based on internationally accepted delivery conditions (INCOTERMS). The moment when the customer obtains control of the goods is considered to be substantially the same for most Group and Company contracts according to IFRS 15 as well as according to IAS 18.

In the case of customer contracts where the sale of goods (mainly seamless steel pipes) is generally estimated to be the only obligation to be provided, it is expected that the adoption of IFRS 15 will have no impact on the revenue and profit or loss of the Group and the Company. The Group and the Company expect the income recognition to occur at a time when the asset control is transferred to the customer, generally at the delivery of the goods.

##### **Variable support**

Some customer contracts involve rebates for volume, financial discounts, price discounts or the right of return for quality defects. Currently, earnings from these sales are recognized on the basis of the price specified in the contract, net of returns and income reductions, trade discounts and volume discounts registered based on accrual accounting when a reasonable estimate of revenue adjustments can be made.

According to IFRS 15, it is necessary to estimate the variable income at the beginning of the contract. Revenue will be recognized to the extent that a significant reversal of the cumulative amount recognized is unlikely to occur. Accordingly, for those contracts for which the Group and the Company are not in a position to make a reasonable estimate of the discounts, the income will be recognized earlier than when the return period is past or when a reasonable estimate can be made.

However, since the contractual periods for most contracts concur with the financial years for which the annual financial statements are prepared and because the Group and the Company are currently reporting annual revenue from contracts net of adjustments, such as volume discounts or financial discounts, the impact on retained earnings and non-controlling interests on 1<sup>st</sup> January 2018 from the treatment of variable revenue as a result of the adoption of IFRS 15 is not material. At the same time, complaints regarding quality (return rights) are isolated and immaterial on historical basis, so that the Group and the Company cannot make a reasonable assessment of such income reversals at the end of the year. The impact on retained earnings and non-controlling interests at 1<sup>st</sup> January 2018 from the treatment of variable income as a result of the adoption of IFRS 15 is immaterial.

- **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. The Management of the Company estimated that will not have a significant impact on the financial statements.



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

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

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These Amendments have not yet been endorsed by the EU. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. 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.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. 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.

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

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. 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. The Management is in the process of assessing the impact of the interpretation on the financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**

which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Management is in the process of assessing the impact of the improvements on the financial statements.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- **IAS 28 Investments in Associates and Joint Ventures:** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Management is in the process of assessing the impact of the interpretation on the financial statements.

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

- **The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Management is in the process of assessing the impact of the improvements on the financial statements.
  - **IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - **IAS 12 Income Taxes:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - **IAS 23 Borrowing Costs:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

## 5. TURNOVER

The Board of directors 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.

	2017 RON	Separate %	2016 RON	%	2017 RON	Consolidated %	2016 RON	%
Domestic sales	264.547.673	24,83	229.612.821	30,14	264.547.673	24,58	229.612.821	30,08
Sales abroad	800.898.728	75,17	532.298.399	69,86	811.899.449	75,42	533.830.239	69,92
<b>Total</b>	<b>1.065.446.401</b>	<b>100</b>	<b>761.911.220</b>	<b>100</b>	<b>1.076.447.122</b>	<b>100</b>	<b>763.443.060</b>	<b>100</b>

	2017 RON	Separate 2016 RON	Consolidated 2017 RON	2016 RON
<b>Sales of pipes produced by TMK-ARTROM from which:</b>				
Domestic	116.518.700	108.000.122	116.518.700	108.000.122
Europe	529.791.805	469.131.713	529.791.805	469.131.713
North and South America	127.194.418	31.425.138	127.495.207	31.472.739
Other areas	26.026.710	21.086.972	26.026.710	21.086.972
<b>Total sales of TMK-ARTROM pipes</b>	<b>799.531.633</b>	<b>629.643.945</b>	<b>799.832.422</b>	<b>629.691.546</b>
<b>Sales of other goods and services from which:</b>				
Sales of other goods on domestic market	147.498.929	121.189.467	147.498.929	121.189.467
Sales of other goods on external market	117.822.145	10.474.727	124.711.508	10.474.727
Rendering of services on domestic market	529.593	423.232	529.593	423.232
Rendering of services on external market	64.101	179.849	3.874.670	1.664.088
<b>Total sales of other goods and services</b>	<b>265.914.768</b>	<b>132.267.275</b>	<b>276.614.700</b>	<b>133.751.514</b>
<b>Total turnover</b>	<b>1.065.446.401</b>	<b>761.911.220</b>	<b>1.076.447.122</b>	<b>763.443.060</b>

Total turnover of TMK-ARTROM increased by 40% in 2017 compared to 2016 as a result of the increase in sales with 27% and 102% in sales of merchandise.

The turnover of TMK-ARTROM's sales increased as a result of the increase in the physical volume of pipe sales from 169.917 tons to 185.614 tons (an increase of 9%) and the average sale price of 16%.

The volume of sales of goods purchased to be resold increased by 107% in 2017 mainly due to domestic and export sales of 84.659 tons (in 2016: 64.350 tons) metallurgical products (billets, blums, pipes) purchased from companies within the group.

The total consolidated turnover increased by 41% in 2017 compared to 2016 as a result of the 28% increase in sales of production and 114% in sales of merchandise.

Consolidated sales of the production sold increased as a result of the increase in the physical volume of the sales of pipes from 169.917 tons to 185.600 tons (a 9% increase) and the average sale price of 16%.

The sales were made in 2017 directly and by related parties traders as follows:

- In Romania and East Europe directly to customers;
- In North and Central Europe directly to customers, by TMK Europe from Dusseldorf, Germany, major shareholder, which acts as agent;
- In South and West Europe directly to customers, by TMK Italia from Lecco, which acts as agent;
- In USA directly to customers by TMK Industrial Solutions, Houston, USA, which acts as agent;
- In Middle East respectively by TMK Middle East, Dubai.

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**5. TURNOVER (continued)**

**Geographical information**

*Gross margin on geographical areas*

**Separate**

1 January - 31 December 2017	Romania	Europe	North and South America	Other countries	Total
	RON	RON	RON	RON	RON
Turnover (Sales)	264.547.222	563.200.389	211.671.629	26.027.161	<b>1.065.446.401</b>
Cost of Sales	(246.453.479)	(481.271.201)	(144.636.781)	(22.043.773)	<b>(894.405.234)</b>
<b>Gross Margin</b>	<b>18.093.743</b>	<b>81.929.188</b>	<b>67.034.848</b>	<b>3.983.388</b>	<b>171.041.167</b>

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

**Consolidated**

1 January - 31 December 2017	Romania	Europe	North and South America	Other countries	Total
	RON	RON	RON	RON	RON
Turnover (Sales)	264.547.222	563.200.389	222.672.350	26.027.161	<b>1.076.447.122</b>
Cost of Sales	(246.453.479)	(481.271.201)	(151.138.888)	(22.043.773)	<b>(900.907.341)</b>
<b>Gross Margin</b>	<b>18.093.743</b>	<b>81.929.188</b>	<b>71.533.462</b>	<b>3.983.388</b>	<b>175.539.781</b>

1 January - 31 December 2016	Romania	Europe	North and South America	Other countries	Total
	RON	RON	RON	RON	RON
Turnover (Sales)	229.612.821	478.010.638	34.732.629	21.086.972	<b>763.443.060</b>
Cost of Sales	(214.282.288)	(397.902.233)	(21.933.684)	(20.097.329)	<b>(654.215.534)</b>
<b>Gross Margin</b>	<b>15.330.533</b>	<b>80.108.405</b>	<b>12.798.945</b>	<b>989.643</b>	<b>109.227.526</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

## 6. COST OF SALES

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Raw materials	506.499.063	387.843.195	506.499.063	387.843.195
Staff cost (note 11.5)	53.562.998	47.889.925	53.562.998	47.889.925
Energy and utilities	52.794.563	48.771.751	52.794.563	48.771.751
Consumables	44.882.449	40.790.848	44.882.449	40.790.848
Depreciation and amortisation	40.315.615	40.178.353	40.315.615	40.178.353
Social security expenses (note 11.5)	13.322.733	11.939.382	13.322.733	11.939.382
Other compensations for employees	7.076.568	5.063.586	7.076.568	5.063.586
Professional fees and services	2.824.004	1.799.192	2.824.004	1.799.192
Repairs and maintenance	2.262.703	1.885.497	2.262.703	1.885.497
Freight	1.993.392	1.669.510	1.993.392	1.669.510
Taxes	1.297.965	1.443.056	1.297.965	1.443.056
Travel	490.202	553.658	490.202	553.658
Rent	471.745	299.156	471.745	299.156
Insurance	128.821	127.487	128.821	127.487
Communications	89.457	77.307	89.457	77.307
Other expenses	9.216	6.855	9.216	6.855
<b>Total production cost</b>	<b>728.021.494</b>	<b>590.338.758</b>	<b>728.021.494</b>	<b>590.338.758</b>
Change in own finished goods and work in progress	(29.396.439)	(18.987.232)	(29.386.903)	(18.987.232)
Cost of sales of externally purchased goods	213.775.052	103.031.250	220.267.623	103.031.250
Capitalized production costs	(17.189.461)	(20.951.301)	(17.189.461)	(20.951.301)
Obsolete stock, write-offs / (reversal of write-offs) (note 18)	(805.412)	784.059	(805.412)	784.059
<b>Cost of sales</b>	<b>894.405.234</b>	<b>654.215.534</b>	<b>900.907.341</b>	<b>654.215.534</b>

## 7. SELLING AND DISTRIBUTION EXPENSES

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Freight	56.500.007	38.491.090	56.602.802	38.491.090
Professional fees and services	25.598.688	17.594.539	17.208.112	15.248.239
Staff cost (note 11.5)	3.555.414	3.409.505	5.959.302	4.383.037
Consumables	1.385.683	919.711	1.615.794	1.065.477
Insurance	1.228.587	1.173.479	1.314.461	1.177.339
Social security expenses (note 11.5)	898.295	845.276	1.639.073	1.153.163
Other compensations for employees	524.808	411.311	528.050	524.157
Depreciation and amortisation	302.346	377.645	370.782	409.104
Utilities and maintenance	260.351	148.771	261.842	149.856
Bad debt expense (note 19)	237.231	454.294	237.231	454.294
Communications	122.656	111.781	178.575	145.291
Travel	87.878	151.700	272.548	260.480
Other expenses	49.502	48.952	295.204	165.750
Rent	30.398	360	394.546	211.352
Taxes	21.719	132.677	21.719	132.677
<b>Selling and distribution expenses</b>	<b>90.803.563</b>	<b>64.271.091</b>	<b>86.900.041</b>	<b>63.971.306</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

## 8. PROMOTION AND ADVERTISING EXPENSES

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Marketing expenses	262.168	83.872	289.244	104.382
Media expenses	3.361	20.926	3.361	20.927
<b>Promotion and advertising expenses</b>	<b>265.529</b>	<b>104.798</b>	<b>292.605</b>	<b>125.309</b>

## 9. GENERAL AND ADMINISTRATIVE EXPENSES

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Staff cost (note 11.5)	14.423.340	13.105.508	16.330.445	13.907.031
Professional fees and services	7.375.664	4.071.793	7.592.801	4.209.356
Social security expenses (note 11.5)	3.468.858	3.186.611	3.996.070	3.377.751
Other compensations for employees	2.925.589	1.893.182	2.926.805	2.048.514
Depreciation and amortisation	1.432.131	1.412.150	1.432.131	1.412.150
Rent	1.391.966	1.234.371	1.578.189	1.268.242
Consumables	830.822	782.599	940.606	784.863
Communications	814.104	730.514	840.783	761.691
Taxes	768.882	490.426	773.292	490.426
Utilities and maintenance	699.203	1.024.909	708.518	1.027.507
Travel	624.619	893.840	722.189	921.181
Other expenses	214.155	297.039	276.880	302.509
Insurance	71.881	60.734	105.010	62.606
<b>General and administrative expenses</b>	<b>35.041.214</b>	<b>29.183.676</b>	<b>38.223.719</b>	<b>30.573.827</b>

## 10. RESEARCH AND DEVELOPMENT EXPENSES

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Staff cost (note 11.5)	78.047	72.725	78.047	72.725
Social security expenses (note 11.5)	18.908	17.562	18.908	17.562
Professional fees and services	16.515	45.229	16.515	45.229
Other compensations for employees	4.266	3.317	4.266	3.317
Travel	220	1.029	220	1.029
Consumables	-	4	-	4
<b>Research and development expenses</b>	<b>117.956</b>	<b>139.866</b>	<b>117.956</b>	<b>139.866</b>

## 11. OTHER INCOME/EXPENSES AND ADJUSTMENTS

### 11.1 Other operating income

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Damages, trial expenses	1.271.323	104.025	1.271.323	104.025
Income from recovered materials	177.783	-	177.783	-
Other income	570	13.260	570	13.260
Reversal of provisions for risks and expenses (note 26)	-	843.546	-	843.546
Reversal of provisions for taxes (note 26)	-	110.919	-	110.919
Investment subsidies	6.820	127	6.820	127
<b>Total</b>	<b>1.456.496</b>	<b>1.071.877</b>	<b>1.456.496</b>	<b>1.071.877</b>

### 11.2 Other operating expenses

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Loss on disposal of property, plant and equipment	1.521.355	1.760.592	1.521.355	1.760.593
Social actions expenses	1.251.750	989.000	1.251.750	989.000
Expenses with provisions for taxes (note 26)	1.158.752	-	1.158.752	-
Sponsorship and charitable donations	175.390	82.283	183.901	82.283
Staff costs - medical dispensary	100.969	103.259	100.969	103.259
Professional fees and services	70.139	137.810	70.139	137.810
Penalties - legal entities	74.884	6.138	74.884	6.138
Fines and penalties	5.148	44.071	5.148	44.071
Social security costs - medical dispensary	25.342	25.738	25.342	25.738
Other expenses	14.342	49.729	14.342	49.729
Allowance for sundry debtors (note 19)	-	504.642	-	504.642
<b>Total</b>	<b>4.398.071</b>	<b>3.703.262</b>	<b>4.406.582</b>	<b>3.703.263</b>

### 11.3 Financial costs

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Interest on short-term loans and borrowings (note 16.2)	4.790.919	2.333.645	4.790.919	2.333.645
Interest on long-term loans and borrowings (note 16.2)	1.204.639	2.530.755	1.204.639	2.530.755
Amortisation of issuance fee	433.443	421.950	433.443	421.950
Other financial expenses	275.925	208.436	275.925	208.436
Interest on financial leasing	31.864	9.392	31.864	9.392
Discounts granted	-	2.196	-	2.196
<b>Total</b>	<b>6.736.790</b>	<b>5.506.374</b>	<b>6.736.790</b>	<b>5.506.374</b>



**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

**11.4 Financial income**

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Interest on deposits	731	579	731	579
Interest from granted borrowing	757	3.238	-	-
Other financial income	226	609	226	609
<b>Total</b>	<b>1.714</b>	<b>4.426</b>	<b>957</b>	<b>1.188</b>

Net gain / (net loss) from foreign exchange differences

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Foreign exchange gain	46.996.675	20.148.978	46.996.675	20.148.978
Foreign exchange loss	49.030.728	24.764.832	49.030.728	24.764.832
	<b>(2.034.053)</b>	<b>(4.615.854)</b>	<b>(2.034.053)</b>	<b>(4.615.854)</b>

According to provisions of OMFP 2844/2016 with following changes and additions, the balances of cash, receivables and liabilities in foreign currency are revalued (monetary items) according to reference exchange rates of BNR. At 31.12.2017 BNR reference exchange rates were 4,6597 RON/EUR and 3,8915 RON/USD in dropping towards 31.12.2016 when were 4,5411 RON/EUR and 4,3033 RON/USD resulting on separate a net loss from foreign exchange differences in amount of RON 2.034.053 compared to the same period of prior year when was registered a net loss from foreign exchange differences in amount of RON 4.615.854.

**11.5 Employee benefits expenses**

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Wages and salaries (Notes 6,7,9,10,11.2)	71.720.768	64.580.922	76.031.760	66.355.977
Social security costs (Notes 6,7,9,10,11.2), out of which:	17.734.135	16.014.569	19.002.126	16.513.596
- Company's contributions to social security (pensions)	12.028.765	10.845.975	13.296.756	10.845.975
Other compensations for employees - meal tickets	4.027.801	2.681.448	4.027.801	2.681.448
Other compensations for employees - holiday vouchers	162.000	132.480	162.000	132.480
Other compensations for employees - other	6.341.431	4.557.468	6.345.889	4.825.646
<b>Total employee benefits expense</b>	<b>99.986.135</b>	<b>87.966.887</b>	<b>105.569.576</b>	<b>90.509.147</b>

	Separate		Consolidated	
	2017	2016	2017	2016
Average number of employees	1.324	1.296	1.334	1.304
Actual number of employees at the end of financial year	1.365	1.304	1.375	1.312

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

## 12. INCOME TAX

For year ended at 31<sup>st</sup> December 2017, the Company has calculated a current income tax of RON 1.951.595 and the Group a current income tax of RON 4.067.292.

	Separate		Consolidated	
	2017	2016	2017	2016
Current income tax	(1.951.595)	(1.466.429)	(4.067.292)	(1.555.098)
Current income tax computed according to the Fiscal Inspection Report F-MC15/08.02.2016	-	(68.974)	-	(68.974)
Deferred income tax:	1.904.760	1.165.525	2.017.180	1.124.665
- Deferred income tax credit	2.181.589	2.439.178	2.294.009	2.439.179
- Deferred income tax charge	(276.829)	(1.273.653)	(276.829)	(1.314.514)
<b>Income tax</b>	<b>(46.835)</b>	<b>(369.878)</b>	<b>(2.050.112)</b>	<b>(499.407)</b>

The Company and the Group computed deferred tax from different temporary differences for fixed assets and other items.

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:

	Separate		Consolidated	
	2017	2016	2017	2016
<b>Profit before income tax</b>	<b>33.102.201</b>	<b>1.247.068</b>	<b>38.285.488</b>	<b>1.664.792</b>
Income taxes calculated at the nominal applicable tax rate (16%)	5.296.352	199.531	6.125.678	266.367
Tax effect of deductible / non-taxable elements, out of which:	(9.521.106)	(10.445.823)	(9.514.717)	(10.485.201)
- Fiscal depreciation	(8.028.833)	(8.168.553)	(8.022.444)	(8.207.931)
- Legal reserve	-	(9.977)	-	(9.977)
- Revenues from reversal of allowances	(1.492.273)	(2.267.293)	(1.492.273)	(2.267.293)
Tax effect of taxable / non-deductible elements, out of which:	11.648.502	11.813.471	11.740.830	11.856.677
- Realization of revaluation reserve	2.721.247	2.799.534	2.721.247	2.799.534
- Accounting depreciation	6.728.015	6.714.904	6.728.015	6.714.904
- Allowances expenses	2.071.679	2.180.782	2.137.440	2.200.412
- Other items	127.561	118.251	154.128	141.827
Tax credit, out of which:	(5.472.153)	(100.750)	(5.472.153)	(100.750)
- sponsoring expense	(175.390)	(82.283)	(175.390)	(82.283)
- reinvested profit in equipment	(5.296.352)	(18.467)	(5.296.352)	(18.467)
- 10% withholding tax in USA	(411)	-	(411)	-
Effect of tax rates in the USA	-	-	1.187.654	18.005
<b>Computed income tax</b>	<b>1.951.595</b>	<b>1.466.429</b>	<b>4.067.292</b>	<b>1.555.098</b>
<b>Income tax reported in the statement of income</b>	<b>1.951.595</b>	<b>1.466.429</b>	<b>4.067.292</b>	<b>1.555.098</b>

According to the Romanian regulations, in year 2017 TMK-ARTROM had an income tax credit for the profit reinvested in equipment, electronic computers and peripheral equipment of RON 33.102.201 which were purchased and put into operation in second and fourth quarter 2017 mainly for technological equipment from Heat Treatment Complex. These income tax credit represents 16% from the reinvested profit and it was in amount of RON 5.296.352.

As a result of the implementation of the protectionist policies for steel and aluminum trade, respectively, the introduction in March 2018 in the USA of import duties on 25% steel products, the company estimates the negative impact as moderate.

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

**12. INCOME TAX (continue)**

In 15.02.2016 the comprehensive fiscal control for period 2005-2009 was finished. Through that was established the additional debts for income tax and VAT in amount of RON 1.332.027 and interest and penalties in amount of RON 2.889.444 which were appealed by the Company.

Deferred tax relates to the following:

**Statement of financial position**

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
<b><u>Deferred income tax assets</u></b>				
Allowance for doubtful accounts receivable	251.577	200.393	251.577	200.393
Employee benefits	422.211	396.482	422.211	396.482
Provisions for management bonuses	514.361	285.831	621.331	330.060
Provisions for quality complaints	46.982	48.833	46.982	48.833
Adjustments of inventories	861.563	990.429	861.563	990.429
Provisions for unused vacations	4.839	5.200	10.008	5.200
Provisions for emission certificates	234.697	-	234.697	-
Provisions for risks and charges	-	-	-	1.153
Provisions for decommissioning property, plant and equipment	35.096	35.096	35.096	35.096
<b>Total (a)</b>	<b>2.371.326</b>	<b>1.962.264</b>	<b>2.483.465</b>	<b>2.007.646</b>
<b><u>Deferred income tax liabilities</u></b>				
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	36.911.648	38.407.346	36.955.007	38.496.045
<b>Total (b)</b>	<b>36.911.648</b>	<b>38.407.346</b>	<b>36.955.007</b>	<b>38.496.045</b>
<b>Net deferred tax income (a) - (b)</b>	<b>(34.540.322)</b>	<b>(36.445.082)</b>	<b>(34.471.542)</b>	<b>(36.488.399)</b>

**Statement of comprehensive income**

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
<b><u>Deferred income tax assets</u></b>				
Allowance for doubtful accounts receivable	51.185	(117.790)	51.185	(117.790)
Employee benefits	25.729	(71.981)	25.729	(71.981)
Provisions for management bonuses	228.530	10.739	302.573	52.459
Provisions for emission certificates	234.697	-	234.697	-
Provisions for quality complaints	(1.851)	1.640	(1.851)	1.640
Adjustments of inventories	(128.866)	125.449	(128.866)	125.449
Provisions for unused vacations	(361)	4.298	(361)	4.298
Provisions for risks and charges	-	(134.967)	-	(133.879)
<b>Total (a)</b>	<b>409.063</b>	<b>(182.612)</b>	<b>483.106</b>	<b>(139.804)</b>
<b><u>Deferred income tax liabilities</u></b>				
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	(1.495.697)	(1.348.137)	(1.534.074)	(1.264.469)
<b>Total (b)</b>	<b>(1.495.697)</b>	<b>(1.348.137)</b>	<b>(1.534.074)</b>	<b>(1.264.469)</b>
<b>Net deferred tax income (a) - (b)</b>	<b>1.904.760</b>	<b>1.165.525</b>	<b>2.017.180</b>	<b>1.124.665</b>

### 13. EARNINGS PER SHARE

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

Earnings per share amounts in RON	Separate		Consolidated	
	2017	2016	2017	2016
<b>Earnings</b>				
Net profit	33.055.366	877.190	36.235.376	1.165.385
Average number of shares	116.170.334	116.170.334	116.170.334	116.170.334
<b>Earnings per average number of shares</b>	<b>0,28</b>	<b>0,01</b>	<b>0,31</b>	<b>0,01</b>

During 2017 there were no transactions involving ordinary shares or potential ordinary shares.

### 14. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2017, ended at 31 December, were as follows:

#### Separate

	Land and buildings RON	Machinery and equipment RON	Transport and motor vehicles RON	Furniture and fixtures RON	Construction in progress RON	Total RON
<b>Cost</b>						
<b>At 1 January 2017</b>	<b>121.952.100</b>	<b>488.526.383</b>	<b>13.375.333</b>	<b>1.941.463</b>	<b>45.602.115</b>	<b>671.397.394</b>
Additions	-	-	-	-	151.582.889	151.582.889
Disposals	(261.441)	(2.841.009)	(2.446.816)	(9.369)	-	(5.558.635)
Transfers	1.457.475	65.172.407	1.146.849	120.445	(67.897.176)	-
Transfers from inventories	-	-	-	-	3.473.711	3.473.711
<b>At 31 December 2017</b>	<b>123.148.134</b>	<b>550.857.781</b>	<b>12.075.366</b>	<b>2.052.539</b>	<b>132.761.539</b>	<b>820.895.359</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2017</b>	<b>(21.056.294)</b>	<b>(147.448.941)</b>	<b>(6.764.897)</b>	<b>(922.904)</b>	-	<b>(176.193.036)</b>
Depreciation charge for the period	(4.101.021)	(36.225.819)	(1.022.787)	(165.285)	-	(41.514.912)
Disposals	57.503	1.401.583	2.009.637	9.301	-	3.478.024
<b>At 31 December 2017</b>	<b>(25.099.812)</b>	<b>(182.273.177)</b>	<b>(5.778.047)</b>	<b>(1.078.888)</b>	-	<b>(214.229.924)</b>
<b>Net book value</b>						
At 31 December 2017	98.048.322	368.584.604	6.297.319	973.651	132.761.539	606.665.435

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

**Consolidated**

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	Total
	RON	RON	RON	RON	RON	RON
<b>Cost</b>						
<b>At 1 January 2017</b>	<b>122.021.958</b>	<b>488.696.234</b>	<b>13.375.333</b>	<b>1.982.858</b>	<b>45.602.115</b>	<b>671.678.498</b>
Additions	-	18.538	-	8.840	151.582.889	151.610.267
Disposals	(261.441)	(2.841.009)	(2.446.816)	(9.369)	-	(5.558.635)
Transfers	1.457.475	65.172.407	1.146.849	120.445	(67.897.176)	-
Translation differences	(6.685)	(16.254)	-	(3.961)	-	(26.900)
Transfers from inventories	-	-	-	-	3.473.711	3.473.711
<b>At 31 December 2017</b>	<b>123.211.307</b>	<b>551.029.916</b>	<b>12.075.366</b>	<b>2.098.813</b>	<b>132.761.539</b>	<b>821.176.941</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2017</b>	<b>(21.068.270)</b>	<b>(147.467.275)</b>	<b>(6.764.897)</b>	<b>(924.521)</b>	-	<b>(176.224.963)</b>
Depreciation charge for the period	(4.123.577)	(36.260.946)	(1.022.787)	(173.564)	-	(41.580.874)
Disposals	57.503	1.401.583	2.009.637	9.301	-	3.478.024
Translation differences	2.042	3.150	-	484	-	5.676
<b>At 31 December 2017</b>	<b>(25.132.302)</b>	<b>(182.323.488)</b>	<b>(5.778.047)</b>	<b>(1.088.300)</b>	-	<b>(214.322.137)</b>
<b>Net book value</b>						
At 31 December 2017	98.079.005	368.706.428	6.297.319	1.010.513	132.761.539	<b>606.854.804</b>

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

**Separate**

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	Total
	RON	RON	RON	RON	RON	RON
<b>Cost</b>						
<b>At 1 January 2016</b>	<b>115.522.787</b>	<b>453.879.622</b>	<b>13.302.463</b>	<b>1.857.674</b>	<b>11.497.561</b>	<b>596.060.107</b>
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
<b>At 31 December 2016</b>	<b>121.952.100</b>	<b>488.526.383</b>	<b>13.375.333</b>	<b>1.941.463</b>	<b>45.602.115</b>	<b>671.397.394</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2016</b>	<b>(17.258.222)</b>	<b>(112.961.256)</b>	<b>(5.534.820)</b>	<b>(763.385)</b>	-	<b>(136.517.683)</b>
Depreciation charge for the period	(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
<b>At 31 December 2016</b>	<b>(21.056.294)</b>	<b>(147.448.941)</b>	<b>(6.764.897)</b>	<b>(922.904)</b>	-	<b>(176.193.036)</b>
<b>Net book value</b>						
At 31 December 2016	100.895.806	341.077.442	6.610.436	1.018.559	45.602.115	<b>495.204.358</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

**Consolidated**

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	Total
	RON	RON	RON	RON	RON	RON
<b>Cost</b>						
<b>At 1 January 2016</b>	<b>115.522.787</b>	<b>453.879.622</b>	<b>13.302.463</b>	<b>1.857.674</b>	<b>11.497.561</b>	<b>596.060.107</b>
Additions	-	-	-	-	77.195.554	<b>76.914.450</b>
Disposals	(105.844)	(3.831.191)	(6.009)	-	-	<b>(3.943.044)</b>
Transfers	6.605.015	38.647.803	78.879	125.184	(45.456.881)	-
Transfers from inventories	-	-	-	-	2.365.881	<b>2.365.881</b>
<b>At 31 December 2016</b>	<b>122.021.958</b>	<b>488.696.234</b>	<b>13.375.333</b>	<b>1.982.858</b>	<b>45.602.115</b>	<b>671.397.394</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2016</b>	<b>(17.258.222)</b>	<b>(112.961.256)</b>	<b>(5.534.820)</b>	<b>(763.385)</b>	-	<b>(136.517.683)</b>
Depreciation charge for the period	(3.841.382)	(36.634.644)	(1.232.899)	(161.136)	-	<b>(41.838.134)</b>
Disposals	31.334	2.128.625	2.822	-	-	<b>2.162.781</b>
<b>At 31 December 2016</b>	<b>(21.068.270)</b>	<b>(147.467.275)</b>	<b>(6.764.897)</b>	<b>(924.521)</b>	-	<b>(176.193.036)</b>
<b>Net book value</b>						
<b>At 31 December 2016</b>	<b>100.953.688</b>	<b>341.228.959</b>	<b>6.610.436</b>	<b>1.058.337</b>	<b>45.602.115</b>	<b>495.453.535</b>

Land 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 first semester of year 2017 by purchases of independent fixed assets and by putting into operation the contracting or self-made investments.

During year 2017 were 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 14.844.328 (31 December 2016: RON 16.866.801).

The disposal of property, plant and equipment in 2017 in amount of RON 5.558.635 are represented by:

- undepreciated value of parts replaced during capital repairs made in 2017 in amount of RON 1.651.805 (2016: RON 1.777.972) and their depreciated value of RON 1.141.499 (2016: RON 2.160.841),
- sales of property, plant and equipment of RON 2.188.137 (with an undepreciated value of RON 1.861.537 and a depreciated value of RON 326.600) and
- disposals of property, plant and equipment in amount of RON 577.194 (with an undepreciated value of RON 102.205 and a depreciated value of RON 474.989).

The corresponding revenues are in amount of RON 559.256 as at 31<sup>st</sup> December 2017.

The gross value of fully depreciated items of property, plant and equipment in use as at 31<sup>st</sup> December 2017 is of RON 25.894.194 (31 December 2016: RON 12.027.449).

Out of total property, plant and equipment as of 31<sup>st</sup> December 2017, properties with a net book value of RON 18.016.751 were pledged in favour of BCR (as at 31 December 2016 there were no pledged properties).

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

The Company and the Group have ongoing the investment project „Heat treatment complex”. The project started in December 2015. As at the end of 2017 the Heat Treatment Complex was in testing phase, part of the equipment was put partially into operation, following that the entire reception of the investment to be completed in the first quarter of 2018.

In the net carrying amount of „Construction in progress” the Company and the Group included the amount of RON 2.692.055 which represents borrowing costs capitalized in 2017 according to IAS 23 Borrowing costs, revised (2016: RON 1.300.713 for Company and Group). Interest expense capitalized in 2017 by the Company and the Group was in amount of RON 2.361.247 (2016: RON 3.584).

#### Financial leasing and assets in progress

The carrying amount of property, plant and equipment representing vehicles and lathes held under finance lease at 31<sup>st</sup> December 2017 was of RON 1.627.930 (31 December 2016: RON 476.351). Assets held under lease are pledged as guarantees for finance lease.

#### 15. INTANGIBLE ASSETS

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

Movements in intangible assets during year 2017 were as follows:

#### Separate

	Licenses and trademarks RON	Other intangible assets RON	Intangible assets in progress RON	Total RON
<b>Cost</b>				
At 1 January 2017	552.651	2.155.620	-	2.708.271
Additions	53.841	7.759	239.487	301.087
Transfers	-	239.487	(239.487)	-
<b>At 31 December 2017</b>	<b>606.492</b>	<b>2.402.866</b>	<b>-</b>	<b>3.009.358</b>
<b>Amortisation and impairment</b>				
At 1 January 2017	(425.408)	(83.374)	-	(508.782)
Amortisation	(87.244)	(447.934)	-	(535.178)
<b>At 31 December 2017</b>	<b>(512.652)</b>	<b>(531.308)</b>	<b>-</b>	<b>(1.043.960)</b>
<b>Net book value</b>				
At 31 December 2017	93.840	1.871.558	-	1.965.398

## 15. INTANGIBLE ASSETS (continued)

### Consolidated

	Licenses and trademarks	Other intangible assets	Intangible assets in progress	Total
	RON	RON	RON	RON
<b>Cost</b>				
At 1 January 2017	552.651	2.168.760	-	2.721.411
Additions	53.841	7.759	239.487	301.087
Transfers	-	239.487	(239.487)	-
Translation differences	-	(1.257)	-	(1.257)
<b>At 31 December 2017</b>	<b>606.492</b>	<b>2.414.749</b>	<b>-</b>	<b>3.021.241</b>
<b>Amortisation and impairment</b>				
At 1 January 2017	(425.408)	(84.798)	-	(510.206)
Amortisation	(87.244)	(450.410)	-	(537.654)
Translation differences	-	235	-	235
<b>At 31 December 2017</b>	<b>(512.652)</b>	<b>(534.973)</b>	<b>-</b>	<b>(1.047.625)</b>
<b>Net book value</b>				
At 31 December 2017	93.840	1.879.776	-	1.973.616

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, Testing and acceptance, deployment, go live and go live support, software development and Integration, Customized user manuals, Migration. As at 31.12.2017 AX software had an inventory value of 2 344 584 lei.

Movements in intangible assets during year 2016 were as follows:

### Separate

	Licenses and trademarks	Other intangible assets	Intangible assets in progress	Total
	RON	RON	RON	RON
<b>Cost</b>				
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)	-
<b>At 31 December 2016</b>	<b>552.651</b>	<b>2.155.620</b>	<b>-</b>	<b>2.708.271</b>
<b>Amortisation and impairment</b>				
At 1 January 2016	(331.889)	(46.878)	-	(378.767)
Amortisation	(93.519)	(36.496)	-	(130.015)
<b>At 31 December 2016</b>	<b>(425.408)</b>	<b>(83.374)</b>	<b>-</b>	<b>(508.782)</b>
<b>Net book value</b>				
At 31 December 2016	127.243	2.072.246	-	2.199.489



**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

**15. INTANGIBLE ASSETS (continued)**

**Consolidated**

	Licenses and trademarks RON	Other intangible assets RON	Intangible assets in progress RON	Total RON
<b>Cost</b>				
At 1 January 2016	506.905	50.522	1.340.501	1.897.928
Additions	45.746	13.140	764.597	823.483
Transfers	-	2.105.098	(2.105.098)	-
At 31 December 2016	552.651	2.168.760	-	2.721.411
<b>Amortisation and impairment</b>				
At 1 January 2016	(331.889)	(46.878)	-	(378.767)
Amortisation	(93.519)	(37.920)	-	(131.439)
At 31 December 2016	(425.408)	(84.798)	-	(510.206)
<b>Net book value</b>				
At 31 December 2016	127.243	2.083.962	-	2.211.205

**16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

**16.1. Financial assets**

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
<b>Other financial receivables</b>				
Securities carried at cost	4.027	4.027	-	-
Deposits for letters of guarantee	963.146	1.040.438	963.146	1.040.438
Granted guarantees, from which:	167.513	163.250	167.513	163.250
- Guarantees granted to related parties (note 25)	46.109	44.936	46.109	44.936
<b>Total other financial receivables</b>	<b>1.134.686</b>	<b>1.207.715</b>	<b>1.130.659</b>	<b>1.203.688</b>
<b>Total other financial assets</b>	<b>1.134.686</b>	<b>1.207.715</b>	<b>1.130.659</b>	<b>1.203.688</b>

In 2016, TMK-ARTROM Slatina Board of Directors decided the approval of set-up of a trade entity in USA, named TMK Industrial Solutions LLC, having TMK-ARTROM as sole partner. The financial investment of TMK-ARTROM in the subsidiary is of 1.000 USD (exchange rate 4,0271 RON/USD). The Company presents the investment in TMK Industrial Solutions LLC at acquisition cost.

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. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

### 16.2. Other financial liabilities

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Long-term interest-bearing bank loans	99.305.999	19.256.218	99.305.999	19.256.218
Long-term interest-bearing borrowing-related parties (note 25)	70.193.087	77.620.946	70.193.087	77.620.946
Un-amortized cost of debt origination fees	(54.314)	-	(54.314)	-
<b>Balance of long-term loans</b>	<b>169.444.772</b>	<b>96.877.164</b>	<b>169.444.772</b>	<b>96.877.164</b>

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

Future repayments	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Long- and short-term loans and borrowings, net of future interests	379.123.100	292.589.290	379.123.100	292.589.290
Interest payable at reporting date	1.039.291	677.257	1.039.291	677.257
Un-amortized cost of debt origination fees	(233.892)	(150.313)	(233.892)	(150.313)
<b>Total long- and short-term loans and related interest and un-amortized cost</b>	<b>379.928.499</b>	<b>293.116.234</b>	<b>379.928.499</b>	<b>293.116.234</b>
Future interests	16.758.044	7.842.331	16.758.044	7.842.331
<b>Total future repayments for loans and related interest</b>	<b>396.686.543</b>	<b>300.958.565</b>	<b>396.686.543</b>	<b>300.958.565</b>

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

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

Bank	Type of loan	Currency	2017 Contracted amount	Due date (mm/dd/yyyy)	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	99.305.999	21.311.672
<b>Total long-term bank loans</b>						<b>99.305.999</b>	
TMK EUROPE GmbH	Long-term borrowing	USD	22.837.540	09/25/2022	Libor+0.5%	70.193.087	18.037.540
<b>Un-amortized long-term cost</b>						<b>(54.314)</b>	
<b>Total</b>						<b>169.444.772</b>	

Bank	Type of loan	Currency	2016 Contracted amount	Due date (mm/dd/yyyy)	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
<b>Total long-term bank loans</b>						<b>19.256.218</b>	
TMK EUROPE GmbH	Long-term borrowing	USD	22.837.540	09/25/2022	Libor+0.5%	77.620.946	18.037.540
<b>Un-amortized long-term cost</b>						<b>-</b>	
<b>Total</b>						<b>96.877.164</b>	

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

### Finance lease

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Lease payments less than 3 months, gross	105.511	52.213	105.511	52.213
Lease payments between 3 and 12 months, gross	290.228	120.301	290.228	120.301
Lease payments between 1 and 5 years, gross	1.059.433	31.525	1.059.433	31.525
<b>Total minimum lease payments, gross</b>	<b>1.455.172</b>	<b>204.039</b>	<b>1.455.172</b>	<b>204.039</b>
Less: future finance charges	81.781	3.964	81.781	3.964
<b>Present value of minimum lease payments</b>	<b>1.373.391</b>	<b>200.075</b>	<b>1.373.391</b>	<b>200.075</b>
Distributed as follows:				
Maturing within 1 year	360.797	168.978	360.797	168.978
Maturing between 1 and 2 years	335.006	31.097	335.006	31.097
Maturing between 2 and 3 years	328.571	-	328.571	-
Maturing between 3 and 4 years	278.200	-	278.200	-
Maturing between 4 and 5 years	70.817	-	70.817	-
<b>Total</b>	<b>1.373.391</b>	<b>200.075</b>	<b>1.373.391</b>	<b>200.075</b>

At 31 December 2017, TMK-Artrom had on-going with BCR Leasing IFN S.A. 8 financial lease contracts for the purchase of 6 vehicles and 2 lathes (31 December 2016: TMK-Artrom had on-going with BCR Leasing IFN S.A. 6 financial lease contracts for the purchase of 6 vehicles).

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

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Long-term interest-bearing bank loans, current portion	37.554.818	76.875.748	37.554.818	76.875.748
Short-term bank loans	156.692.186	91.589.778	156.692.186	91.589.778
Short-term interest-bearing borrowing - related parties (note 25)	15.377.010	27.246.600	15.377.010	27.246.600
Interest related to long-term bank loans	579.157	383.162	579.157	383.162
Interest related to short-term bank loans	289.017	126.978	289.017	126.978
Interest related to long-term borrowings - related parties (note 25)	124.772	84.999	124.772	84.999
Interest related to short-term borrowings - related parties (note 25)	46.345	82.118	46.345	82.118
Un-amortized short-term cost	(179.578)	(150.313)	(179.578)	(150.313)
<b>Total</b>	<b>210.483.727</b>	<b>196.239.070</b>	<b>210.483.727</b>	<b>196.239.070</b>

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

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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

Bank	Type of loan	Currency	2017 Contracted amount	Due date (mm/dd/yyyy)	Interest rate	Amount repayable RON equivalent	Amount repayable EUR
UNICREDIT BANK	Credit for funding general needs	EUR	16.000.000	02/17/2019	EURIBOR 1M+margin	65.235.795	13.999.999
BANCPOST	Uncommitted overdraft	EUR	20.000.000	07/11/2019	EURIBOR 3M+margin	91.456.392	19.627.099
<b>Total short-term bank loans</b>						<b>156.692.187</b>	
BCR ERSTE	Overdraft - current portion	EUR	20.000.000	10/03/2018	EURIBOR 3M+margin	37.554.817	8.059.493
<b>Total short part of long-term bank loans</b>						<b>37.554.817</b>	
TMK EUROPE GmbH	Short-term borrowing	EUR	5.000.000	06/30/2018	3,50%	15.377.010	3.300.000
<b>Total short-term borrowings from related parties</b>						<b>15.377.010</b>	
<b>Total</b>						<b>209.624.014</b>	

Bank	Type of loan	Currency	2016 Contracted amount	Due date (mm/dd/yyyy)	Interest rate	Amount repayable RON equivalent	Amount 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
<b>Total short-term bank loans</b>						<b>91.589.778</b>	
BCR ERSTE	Overdraft 3 years - current portion	EUR	20.000.000	10/03/2017	EURIBOR 3M+margin	76.875.748	16.928.883
<b>Total short part of long-term bank loans</b>						<b>76.875.748</b>	
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
<b>Total short-term borrowings from related parties</b>						<b>27.246.600</b>	
<b>Total</b>						<b>195.712.126</b>	

## **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.;
    - Real estate mortgage on land, having courtyard as category of use, with an area of 69.339 square meters with no. 58253 plus C1 – industrial and utility building, having the area built on the ground of 66.346 square meters, identified with no. 58253-C1, located in Slatina, Draganesti street, no. 30, Olt County, tabulated in the Land Book of Slatina with no. 58253;
    - 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. which according to the addendum from 23.06.2015 decreased to EUR 26 mil., and according to the addendum from 16.03.2017 decreased to EUR 16 mil. and from which at 31.12.2017 the amount used was of EUR 13.999.999 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, which by addendum signed in 5 October 2017 was increased to 20 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 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.

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

At 31.12.2017 the Company had issued the following bank letter guarantees and also the following letters of credit opened for the payment of contractual liabilities both for TMK-ARTROM S.A. suppliers and for TMK- RESITA S.A. suppliers, as follows:

No.	Issuing Bank	The beneficiary of the letter of credit	Number of letter of credit	The amount of the contract regarding the issue of letter of credit	Currency	The balance of unrealized letter of credit	Due date of letter of credit
1	2	3	4	5	6	7	8
1	BCR	SMS GROUP s.p.a	IO97531	1,299,000	EUR	1,299,000	15.04.2018
2	BCR	SMS GROUP s.p.a	IO97532	126,900	EUR	126,900	15.04.2018
3	BCR	SMS GmbH	IO97750	1,880,000	EUR	62,912.80	31.03.2018
4	BCR	SMS GROUP s.p.a	IO97626	267,500	EUR	267,500	10.01.2018
5	BCR	SMS GmbH	IO97625	235,000	EUR	235,000	23.05.2018

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	NIS JSC Novi SAD	of quality	GO62287/836/12.09.16	63.238	EUR	20.05.2018
2	BCR	NIS JSC Novi SAD	of quality	GO62392/844/12.10.16	25.187	EUR	09.07.2018
3	BCR	NIS JSC Novi SAD	of quality	GO63939/844/30.12.16	140.691	EUR	17.09.2018
4	BCR	INOTAL Aluminiumfeldolgozo	for good payment	G068318/832	80.000	EUR	28.02.2018
5	BCR	TRANS GAZ SA	of participation	G065158/828/08.03.17	3.333.015	EUR	31.03.2018
6	BCR	NIS JSC Novi SAD	of quality	GO67172/844/09.08.17	46.063,2	EUR	06.04.2019
7	BCR	NIS JSC Novi SAD	of quality	GO68222/836/04.10.17	64.650	EUR	06.09.2019
8	BCR	NIS JSC Novi SAD	of quality	GO68887/832/17.11.17	51.482,4	EUR	27.07.2019
9	BCR	NIS JSC Novi SAD	of quality	GO68889/832/17.11.17	20.115	EUR	29.07.2019
10	BCR	NIS JSC Novi SAD	of quality	GO68888/832/17.11.17	24.386,4	EUR	28.07.2019

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

The undrawn credit facilities are as follows:

<b>Lender</b>	<b>Type of facility</b>	<b>Currency</b>	<b>Amount of agreement</b>	<b>Amount available</b>	<b>Expiry date</b>
BCR	Overdraft	EUR	20.000.000	8.527.492	10/03/2018
UNICREDIT	Credit line	EUR	16.000.000	1.000.001	02/17/2018
BANCPOST	Overdraft	EUR	10.000.000	372.901	07/11/2018
BCR	Investment loan	EUR	25.000.000	1.697.005	07/11/2023

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 at RON 4.000.000 in 24.07.2015 and in August 2016 through addendum a new decrease was made down to RON 2.000.000.

At 31.12.2017 there were no promissory notes discounted and warranted for 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 signed with Banca Comerciala Romana SA a Contract of Reverse Factoring - according to which BCR will accept for financing invoices issued by the suppliers of TMK-ARTROM and TMK-RESITA an 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 July 2015 the of the contract was increased to RON 51.000.000 and in September 2016 the value was increased to RON 65.000.000. At 31.12.2017 from this limit RON 1.850.000 were allocated for TMK-ARTROMs suppliers and from this the amount of RON 1.274.716 was used. As 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.

As at 31.12.2017, all financial ratios agreed through the loan contracts signed with banks were complied.

The Company has to maintain certain conditions, related to its capital, which are imposed by contracts concluded with BCR and BANCPOST: combined net debt reported to combined EBITDA, combined EBITDA, combined EBITDA reported to Net service of combined debt, based on the combined financial statements, shareholder's equity in total combined assets.

Unicredit Bank analyses the financial indicators such as: net debt outside the Group reported to EBITDA.



**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

**Other long-term liabilities**

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Long-term sundry creditors	21.954	4.733	21.954	4.733
Investment subsidy	33.515	3.017	33.515	3.017
Long-term guarantees	673.611	560.664	673.611	560.664
<b>Balance of other long-term liabilities</b>	<b>729.080</b>	<b>568.414</b>	<b>729.080</b>	<b>568.414</b>

**16.3. Changes in liabilities from financing activities**

Changes in liabilities arising from financing activities were as follows in the year ended December 31, 2017:

	Separate		Consolidated	
	Interest-bearing loans and borrowings RON	Finance lease liabilities RON	Interest-bearing loans and borrowings RON	Finance lease liabilities RON
Balance at January 1, 2017	293.116.234	200.075	293.116.234	200.075
Foreign exchange (gain)/loss	817.627	28.613	817.627	28.613
Finance costs	8.791.552	31.864	8.791.552	31.864
Acquisition of assets by means of finance lease	-	1.516.230	-	1.516.230
Net cash lows (used in)/from financing activities	77.203.086	(403.391)	77.203.086	(403.391)
<b>Balance at December 31, 2017</b>	<b>379.928.499</b>	<b>1.373.391</b>	<b>379.928.499</b>	<b>1.373.391</b>

**16.4. Fair value of financial instruments which are not accounted for at fair value**

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

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

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

Financial liability	Hierarchy of fair value	31 December 2017	
		Carrying value RON	Fair value RON
Long-term bank loans - variable rate	3	99.305.998	98.942.292
Long-term intercompany borrowings - variable rate	3	70.193.087	63.448.710

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

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

## 17. OTHER NON-CURRENT ASSETS

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Prepayments for property, plant, and equipment	11.519	10.059.567	11.519	10.059.567
Gas emission certificates with greenhouse effect	3.658.055	4.085.482	3.658.055	4.085.482
Prepaid expenses TL	556.112	-	556.112	-
- Prepaid expenses - related parties TL	471.997	-	471.997	-
Other non-current assets	-	-	30.223	33.420
<b>Total</b>	<b>4.225.686</b>	<b>14.145.049</b>	<b>4.255.909</b>	<b>14.178.469</b>

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

## 18. INVENTORIES

Inventories consist of the following:

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Work in progress	32.848.066	56.144.998	32.848.066	56.144.998
Raw materials	59.442.496	36.218.736	59.442.496	36.218.736
Finished goods	48.750.178	25.496.727	48.750.178	25.496.727
Consumables	19.287.220	16.346.634	19.287.220	16.346.634
Finished goods in transit	36.036.770	14.277.337	36.087.907	14.277.337
Other materials	6.799.597	6.137.991	6.799.597	6.137.991
Semi-finished goods	13.269.639	4.515.703	13.269.639	4.515.703
Raw materials to be purchased	-	2.943.453	-	2.943.453
Raw materials and consumables at third parties	1.251.264	1.588.322	1.251.264	1.588.322
Consigned finished goods	1.090.062	934.567	1.090.062	934.567
Merchandise and packaging	33.929	23.266	33.929	23.266
Merchandise at third parties (in transit)	24.659.263	-	24.659.263	-
<b>Total</b>	<b>243.468.484</b>	<b>164.627.734</b>	<b>243.519.621</b>	<b>164.627.734</b>

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

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

## 18. INVENTORIES (continued)

Inventories of the parent company and the Group increased by RON 79.646 thousands, respectively by RON 79,697 thousands (by 50%) as a result of the increase in activity. The stock of finished goods increased by 91%, finished goods and merchandise purchased from group in transit mainly to the US market and due to DDP sales conditions to customers increased by 425%, raw materials inventories increased by 52%.

### Ageing analysis of inventories:

#### Separate

	Below 1 year RON	1 - 2 years RON	2 - 3 years RON	Over 3 years RON	Total RON
<b>2017</b>	202.888.713	21.959.619	7.531.773	11.088.379	243.468.484
<b>2016</b>	127.923.406	21.487.081	4.223.661	10.993.586	164.627.734

#### Consolidated

	Below 1 year RON	1 - 2 years RON	2 - 3 years RON	Over 3 years RON	Total RON
<b>2017</b>	202.939.850	21.959.619	7.531.773	11.088.379	243.519.621
<b>2016</b>	127.923.406	21.487.081	4.223.661	10.993.586	164.627.734

Slow moving inventories are safe stocks consisting mainly of raw materials and spare parts to be used in the production process.

In 2017 were set up allowances for inventories considering net realizable value – the movement of the adjustments is presented below:

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
<b>Balance January 1st</b>	<b>6.190.181</b>	<b>5.406.122</b>	<b>6.190.181</b>	<b>5.406.122</b>
Additional allowances set 18	5.835.665	10.122.636	5.835.665	10.122.636
Resumption / Allowances used 18	(6.641.076)	(9.338.577)	(6.641.076)	(9.338.577)
<b>Balance at the end of reporting period</b>	<b>5.384.770</b>	<b>6.190.181</b>	<b>5.384.770</b>	<b>6.190.181</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

## 19. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables consist of the following:

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Trade receivables, from which:	218.739.476	202.385.458	219.397.148	201.536.940
- Receivables from other related parties (note 25)	14.048.523	9.670.563	13.613.495	8.441.523
Other receivables - VAT	15.220.171	10.419.588	15.220.171	10.419.588
Sundry debtors, from which:	3.145.748	1.924.033	3.145.748	1.884.896
- Sundry debtors - related parties (note 25)	947.901	573.606	947.901	534.469
Employee claims	422.285	445.199	422.285	445.199
Settlements between affiliates	-	321.551	-	-
Recoverable income tax	3.211.307	249.401	3.278.749	310.319
<b>Less:</b>				
Allowance for doubtful accounts receivable	(2.242.756)	(2.011.085)	(2.242.756)	(2.011.085)
<b>Total</b>	<b>238.496.231</b>	<b>213.734.145</b>	<b>239.221.345</b>	<b>212.585.857</b>

Trade receivables are non-interest bearing and generally have an average collection period of 72 days (2016: 98 days).

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

	Separate RON	Consolidated RON
<b>At 1 January 2017</b>	<b>2.011.085</b>	<b>2.011.085</b>
Impairment adjustments expenses	437.409	437.409
Used	(205.738)	(205.738)
<b>At 31 December 2017</b>	<b>2.242.756</b>	<b>2.242.756</b>

In year 2017 the Company used RON 205.738 from value adjustment recognised for Dural due to the collection and registered expenses in amount of RON 437.408 mainly for customer Nuova Cu.MA Sud to which the Company asked through court to pay the debt having a term of 40 days.

### Ageing analysis of trade receivables

#### Separate

	Neither past due nor impaired	Past due but not impaired					Past due and impaired	Total
		< 30 days	30–60 days	61–90 days	91–120 days	> 120 days		
	RON	RON	RON	RON	RON	RON	RON	RON
<b>2017</b>	183.705.156	25.863.315	5.282.248	787	144.495	468.783	3.274.692	218.739.476
<b>2016</b>	179.466.845	18.372.861	1.474.316	86.141	3.374	764.637	2.217.284	202.385.458

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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

**Consolidated**

	Neither past due nor impaired	Past due but not impaired					Past due and impaired	Total
	RON	< 30 days RON	30–60 days RON	61–90 days RON	91–120 days RON	> 120 days RON	RON	RON
<b>2017</b>	183.732.164	26.129.431	5.646.796	787	144.495	468.783	3.274.692	219.397.148
<b>2016</b>	178.618.327	18.372.861	1.474.316	86.141	3.374	764.637	2.217.284	201.536.940

TMK-Artrom SA and the Group highlighted in trade receivables these amounts:

**Separate**

Receivables	Currency	2017		2016	
		RON	Foreign currency	RON	Foreign currency
Internal customers	LEI	51.511.833		39.830.527	
	EUR	8.920.618	1.914.419	44.102.229	9.711.794
External customers	EUR	119.743.382	25.697.659	107.381.970	23.646.687
	USD	33.944.610	8.722.757	7.701.558	1.789.686
	CAD	10.751	3.462	-	-
Doubtful customers	LEI	1.544.093		1.217.474	
	EUR	1.730.598		999.810	220.169
Notes issued by customers	LEI	1.333.591		1.151.890	
<b>Total</b>		<b>218.739.476</b>		<b>202.385.458</b>	

**Consolidated**

Receivables	Currency	2017		2016	
		RON	Foreign currency	RON	Foreign currency
Internal customers	LEI	51.511.833		39.830.527	
	EUR	8.920.618	1.914.419	44.102.229	9.711.794
External customers	EUR	119.743.382	25.697.659	107.381.970	23.646.687
	USD	34.602.282	8.451.448	6.853.040	1.890.074
	CAD	10.751	3.462	-	-
Doubtful customers	LEI	1.544.093		1.217.474	
	EUR	1.730.598		999.810	220.169
Notes issued by customers	LEI	1.333.591		1.151.890	
<b>Total</b>		<b>219.397.148</b>		<b>201.536.940</b>	

As of 31<sup>st</sup> December 2017 the Company registered doubtful customer receivables in amount of RON 3.274.692 (1 January 2017: RON 2.217.284). For the amounts registered in this category value adjustments were recognized RON 2.242.756, because they are considered to have high risk on collection.

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

From the amount of RON 183.705.156 separate trade receivables at 31.12.2017 neither past due nor impaired, the amount of RON 103.143.821 is considered without risk, and includes the following categories:

- RON 80.468.440, respectively 43,8% representing receivables insured by COFACE Germany;
- RON 9.015.393, respectively 4,91% receivables covered by export letters;
- RON 13.659.988, respectively 7,44% intercompany receivables.

The difference of RON 80.561.335, respectively 43,85% 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:

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Prepayments for services, inventories, from which:	63.022.969	98.100.197	63.030.052	98.122.264
- Prepayments for services, inventories - related parties (note 25)	62.966.821	98.019.745	62.966.821	98.019.745
Prepaid expenses	1.385.930	1.699.043	1.481.283	1.739.076
- Prepaid expenses - related parties	-	286.108	-	286.108
Income tax, VAT, interest and penalties appealed, computed according to the Fiscal Inspection Report F-MC15/08.02.2016	1.941.576	1.941.576	1.941.576	1.941.576
<b>Total</b>	<b>66.350.475</b>	<b>101.740.816</b>	<b>66.452.911</b>	<b>101.802.916</b>

The amount of RON 62.966.821 (without VAT) represents advances given to TMK Resita S.A. (31 December 2016: RON 98.019.745).

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

## 21. CASH AND SHORT-TERM DEPOSITS

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Cash on hand	8.812	16.005	8.812	16.005
Cash at banks in RON	1.168.126	385.660	1.168.126	385.660
Cash at banks in foreign currency	9.643.776	16.360.174	10.427.430	17.665.376
Short-term deposits	4.253	9.957	4.253	9.957
<b>Total</b>	<b>10.825.193</b>	<b>16.771.796</b>	<b>11.608.847</b>	<b>18.076.998</b>

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

TMK-Artrom constituted interest-bearing overnight deposits at Banca Comerciala Romana, depending on the availability of cash in bank account at the end of the day. TMK-ARTROM has constituted at Banca Comerciala Romana also collateral deposits in EUR for letters of guarantee opened in favour of a customer in amount of EUR 1.067.612.

Short-term deposits	Separate		Consolidated	
	2017	2016	2017	2016
in RON	4.253	9.957	4.253	9.957

There is no restricted cash.

### Other current assets

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Deposits for letters of guarantee TL	1.067.612	-	1.067.612	-
<b>Total</b>	<b>1.067.612</b>	<b>-</b>	<b>1.067.612</b>	<b>-</b>

## 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 2017	(116.170.334)	2,51	(291.587.538)	(291.587.538)
Balance 31 December 2017	(116.170.334)	2,51	(291.587.538)	(291.587.538)

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

### **Legal and other reserves**

#### **Separate**

	Legal reserve RON	Other reserves RON	Total RON
<b>Balance at 1 January 2016</b>	<b>15.122.069</b>	<b>2.481.407</b>	<b>17.603.476</b>
Increase from the profit of the year	56.582	-	56.582
Increase from reinvested profit	5.771	109.651	115.422
<b>Balance at 31 December 2016</b>	<b>15.184.422</b>	<b>2.591.058</b>	<b>17.775.480</b>
Increase from reinvested profit	1.655.110	31.400.256	33.055.366
<b>Balance at 31 December 2017</b>	<b>16.839.532</b>	<b>33.991.314</b>	<b>50.830.846</b>

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

The Company reinvested RON 33.055.366 from the profit of the financial year in electronic computers and peripheral equipment which were purchased and put into operation in 2017. The Company has the obligation to keep these assets for at least one period equal to half of the duration of the economic use determined according to the applicable accounting regulations, but not more than 5 years. 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 1.655.110, it was transferred at the end of financial year at other reserves.

Reserves representing tax incentives can not be used to raise share capital, distribute or cover losses. If the provisions of this paragraph are not complied with, these amounts are taxed as income items in the fiscal period in which they are used. If they are maintained until liquidation, they are not taken into account in the tax result of the liquidation.



**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

### Consolidated

	Legal reserve	Other reserves	Foreign currency translation	Total
	RON	RON	RON	RON
<b>Balance at 1 January 2016</b>	<b>15.122.069</b>	<b>2.481.407</b>	-	<b>17.603.476</b>
Increase from the profit of the year	56.582	-	-	56.582
Increase from reinvested profit	5.771	109.651		115.422
Set-up of reserves representing foreign exchange differences from the conversion of a foreign operation included in the consolidation	-		31.980	31.980
<b>Balance at 31 December 2016</b>	<b>15.184.422</b>	<b>2.591.058</b>	<b>31.980</b>	<b>17.807.460</b>
Increase from reinvested profit	1.655.110	31.400.256	-	33.055.366
Set-off reserves representing foreign exchange differences from the conversion of a foreign operation included in the consolidation	-	-	(7.865)	(7.865)
<b>Balance at 31 December 2017</b>	<b>16.839.532</b>	<b>33.991.314</b>	<b>24.115</b>	<b>50.854.961</b>

Conversion reserve represent foreign exchange rate differences from the conversion of subsidiary foreign operations, which has a different functional currency than RON that is USD.

### Retained earnings

#### The structure of separate retained earnings

Account name	Balance at 31 December 2017	Balance at 31 December 2016	Nature
Retained earnings representing undistributed profit	29.733.676	29.028.489	Can be distributed or used to cover losses
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	14.455	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	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	99.033.489	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	38.796.592	32.285.523	Can be distributed or used to cover losses
Distribution from profit of the year to legal and other reserves	(33.055.366)	(172.004)	
Period result	33.055.366	877.190	
<b>Total retained earnings</b>	<b>178.803.290</b>	<b>178.803.289</b>	

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

In April 2017, under the approval of GSM dated 27.04.2017 the Company registered the allocation of the accounting profit of year 2016, in amount of RON 877.190, 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 56.582 legal reserve less the part of reinvested profit and RON 5.771 legal reserve of reinvested profit according to provisions of article 22 regarding the exemption of income tax of the reinvested profit from Law 227/2015 "Fiscal Code";
- Other reserves of the reinvested profit RON 109.651 representing reinvested profit in technological equipment – machinery, equipment and electronic computers and accesories according to provisions of article 22 regarding the exemption of income tax of the reinvested profit from Law 227/2015 "Fiscal Code";
- Retained earnings representing undistributed profit RON 705.186.

### The structure of consolidated retained earnings

Account name	Balance at 31 December 2017	Balance at 31 December 2016	Nature
Retained earnings representing undistributed profit	30.021.871	29.028.489	Can be distributed or used to cover losses
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	14.455	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	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	99.033.489	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	38.796.592	32.285.523	Can be distributed or used to cover losses
Distribution from profit of the year to legal and other reserves	(33.055.366)	(172.004)	
Period result	36.235.376	1.165.385	
Total retained earnings	182.271.495	179.091.484	

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

Retirement compensations are given according to the collective labour 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.

The actuarial valuation of employee benefits, according to IAS 19, it is made by PricewaterhouseCoopers Audit SRL.

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

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

	2017 RON	2016 RON
<b>Net liability at the beginning of the year</b>	<b>2.909.557</b>	<b>2.927.896</b>
Expense recognized in statement of income	284.375	304.925
Benefits paid	(123.568)	(61.106)
Components of defined benefit costs recorded in OCI	(36.040)	(262.158)
<b>Net liability at the end of the year</b>	<b>3.034.324</b>	<b>2.909.557</b>
Short-term liabilities	337.359	296.904
Long-term liabilities	2.696.965	2.612.653

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 is 2.9% which corresponds to experience data over the last 6 years.

**Discount rate:** the discount rate applied is the discount rate at 30 December 2017 published by the European Insurance and Occupational Pensions Authority ("EIOPA"). Overall, the discount rate increases in 2017 compared to 2016 on average by 36%. At the end of the previous year the risk free rate applied was the average risk free interest rate at 30 December 2016 for government bonds issued in lei as, per Bloomberg.

**Salaries indexation and long term inflation:** base salaries are projected to increase by 22.9% on 1 January 2018 (out of which an increase of 19.9% is due to changes in social contributions imposed by Emergency Ordinance 79/2017), 3.1% on 1 July 2018 and 1 January 2019 and 3% per annum starting 1 January 2020, in line with inflation projected by the National Bank for T4 2018, which is 3.2%.

For the computation of the death benefit it was used an average monthly salary amounting to RON 2,418 as at 31 December 2017.

**Taxes:** the amended IAS 19 requires social charges and other taxes on benefit plans to be included in the measurement of the benefit obligation to the extent that they relate to benefits in respect of service before the balance sheet date. Social charges are levied in Romania only for the retirement benefit included in our valuation. During the year 2017 it was performed a correction for elimination of social contributions from the valuation of death benefit, since no such taxes are payable.

The rate of 2.25% that is in force starting 1 January 2018 as per Emergency Ordinance 79/2017 was used for the purpose of our actuarial valuation, meaning that the benefit obligation and corresponding periodic components were increased by this rate. This rate corresponds to the actual effective rate of 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. The information is extracted from the revised law on pensions number 263/2010 issued by the Labour Ministry.

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

The management considers that the going concern assumption is applicable for the Company as at 31 Decembrie 2017 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	PV of Employee Death Benefits	Total 2017	Total 2016
	RON	RON	RON	RON
<b>Opening defined benefit obligation as at 1 January</b>	<b>2.343.161</b>	<b>566.396</b>	<b>2.909.557</b>	<b>2.927.896</b>
Current service cost	144.834	48.008	192.842	217.499
Interest cost	76.671	14.862	91.533	87.426
<b>Remeasurement (gains)/losses:</b>	<b>54.595</b>	<b>(90.635)</b>	<b>(36.040)</b>	<b>(262.158)</b>
- Remeasurement (gains)/losses arising from experience	(89.855)	5.533	(84.322)	126.618
- Remeasurement (gains)/losses arising from changes in financial assumptions	261.323	(75.200)	186.123	(213.900)
- Remeasurement (gains)/losses arising from changes in demographic assumptions	(116.873)	(20.968)	(137.841)	(174.876)
Benefits paid	(118.768)	(4.800)	(123.568)	(61.106)
<b>Closing defined benefit obligation as at 31 December</b>	<b>2.500.493</b>	<b>533.831</b>	<b>3.034.324</b>	<b>2.909.557</b>

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

	PV of Retirement Benefits	PV of Employee Death Benefits	Total 2017	Total 2016
	RON	RON	RON	RON
Current service cost	144.834	48.008	192.842	217.499
Net interest expense	76.671	14.862	91.533	87.426
<b>Components of defined benefit costs recorded in profit or loss</b>	<b>221.505</b>	<b>62.870</b>	<b>284.375</b>	<b>304.925</b>

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

	PV of Retirement Benefits	PV of Employee Death Benefits	Total 2017	Total 2016
	RON	RON	RON	RON
<b>Opening net liability arising from defined benefit obligation</b>	<b>2.343.161</b>	<b>566.396</b>	<b>2.909.557</b>	<b>2.927.896</b>
Components of defined benefit costs recorded in profit or loss	221.505	62.870	284.375	304.925
Components of defined benefit costs recorded in OCI	54.595	(90.635)	(36.040)	(262.158)
Benefits paid	(118.768)	(4.800)	(123.568)	(61.106)
<b>Closing net liability arising from defined benefit obligation</b>	<b>2.500.493</b>	<b>533.831</b>	<b>3.034.324</b>	<b>2.909.557</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

Estimation of the profit or loss charge for the financial year 2018 (forecast):

	PV of Retirement Benefits	PV of Employee Death Benefits	Total
	RON	RON	RON
Current service cost 2018	148.887	57.783	206.670
Net interest expense 2018	107.313	23.376	130.689
<b>Total</b>	<b>256.200</b>	<b>81.159</b>	<b>337.359</b>

Other disclosures

	2017	2016
Average benefit duration	13	11
Average age of employees	45	47
Average discount rate	4,40%	3,23%
Average salary increase	3%	2%

## 24. TRADE AND OTHER PAYABLES (CURRENT)

Trade and other payables consists of the following:

	2017 RON	2016 RON	2017 RON	2016 RON
Current trade payables, from which:	180.834.028	153.901.779	178.769.971	153.713.559
- Intercompany trade payables (note 25)	124.183.529	115.188.187	122.035.033	114.942.085
Payables for non-current assets, from which:	26.635.259	12.171.029	26.635.259	12.171.029
- Intercompany payables for non-current assets (note 25)	-	192.562	-	192.562
Bills of exchange payable	1.143.186	3.692.171	1.143.186	3.692.171
Short-term guarantees	187.615	135.796	187.615	135.796
Accrued and other liabilities	20.611	89.377	20.611	89.377
<b>Total financial liability</b>	<b>208.820.699</b>	<b>169.990.152</b>	<b>206.756.642</b>	<b>169.801.932</b>
Accrued and withheld taxes on payroll	6.074.675	5.635.927	6.074.675	5.635.927
Salaries and Wages	2.288.955	1.865.509	2.288.955	2.069.467
Advances from customers	4.211.020	2.096.244	4.211.020	2.096.244
Liabilities for other taxes	229.443	161.211	233.678	161.211
<b>Total non-financial liability</b>	<b>12.804.093</b>	<b>9.758.891</b>	<b>12.808.328</b>	<b>9.962.849</b>
<b>Grand total</b>	<b>221.624.792</b>	<b>179.749.043</b>	<b>219.564.970</b>	<b>179.764.781</b>

Separate trade payables are non-interest bearing and are, normally, settled on an average of 69 days term (2016:75 days).

Concerning the Company's debts to the fiscal authorities, as of 31<sup>st</sup> December 2017, there is a balance to be paid RON 6.304.118 (1 January 2017: RON 5.797.138), 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 debts of RON 1.332.027 and interest and penalties in amount of RON 2.889.444).

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

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 be 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).

The Company has constituted a provision for taxes as a result of the fiscal control in amount of RON 1.941.576 (Note 26).

## **25. TRANSACTIONS WITH RELATED PARTIES**

TMK EUROPE GmbH Germania, company which is part of PAO TMK, is the major shareholder of TMK - Artrom 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
- TMK Land SRL	Romania	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

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

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

**The balances of transactions with related parties**

Trade Receivables	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
TMK RESITA S.A.	12.020.870	7.778.750	12.020.870	7.778.750
TMK Middle East Dubai	1.203.734	333.703	1.203.734	333.703
PAO TMK Russia	388.177	-	388.177	-
TMK Industrial Solutions LLC, Houston	435.028	1.526.619	-	-
TMK Assets Bucharest	714	3.600	714	3.600
TMK IPSCO International USA	-	27.171	-	324.750
Land Properties Investments Bucharest	-	720	-	720
<b>Total</b>	<b>14.048.523</b>	<b>9.670.563</b>	<b>13.613.495</b>	<b>8.441.523</b>

Other Assets	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
TMK RESITA S.A. (advances for purchase of goods)	62.966.821	98.019.745	62.966.821	98.019.745
PAO TMK (sundry debtors)	553.578	459.880	553.578	459.880
TMK Assets Bucharest (long-term receivables - guarantees)	46.109	44.936	46.109	44.936
TMK RESITA S.A. (sundry debtors)	392.226	72.545	392.226	72.545
Trade House TMK Russia (sundry debtors)	2.097	2.044	2.097	2.044
TMK Industrial Solutions LLC, Houston (settlements between affiliates)	-	318.159	-	-
TMK Industrial Solutions LLC, Houston (interest for settlements between affiliates)	-	3.392	-	-
TMK Industrial Solutions LLC, Houston (sundry debtors)	-	39.137	-	-
<b>Total</b>	<b>63.960.831</b>	<b>98.959.838</b>	<b>63.960.831</b>	<b>98.599.150</b>

Trade Payables	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
PAO TMK Russia	119.820.387	109.108.523	119.820.387	109.108.523
TMK Europe GmbH Germany	866.787	5.194.568	866.787	5.194.568
TMK Industrial Solutions LLC, Houston	2.148.496	246.102	-	-
TMK Italia s.r.l. Italy	780.710	712.579	780.710	712.579
RosNITI JSC Russia	-	27.247	-	27.247
TMK Assets Bucharest	921	867	921	867
TMK-Inox Russia	471.370	55	471.370	55
Sarl Prieure Saint Jean de Bebian France	94.858	90.808	94.858	90.808
<b>Total</b>	<b>124.183.529</b>	<b>115.380.749</b>	<b>122.035.033</b>	<b>115.134.647</b>

Other liabilities	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
TMK Europe GmbH (borrowing)	85.570.097	104.867.546	85.570.097	104.867.546
TMK Europe GmbH Germany (interest owed at reporting date)	171.116	167.117	171.116	167.117
<b>Total</b>	<b>85.741.213</b>	<b>105.034.663</b>	<b>85.741.213</b>	<b>105.034.663</b>



**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

**Transactions with related parties**

Sales (Turnover)	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
TMK RESITA S.A. (waste product, pipes, re-invoiced fero materials from domestic market (Metalimpex), perceives commission, management services)	32.155.648	23.318.327	32.155.648	23.318.327
TMK Industrial Solutions LLC, Houston (pipes for resale, audit services)	5.242.162	1.486.508	-	-
TMK Middle East Dubai (pipes)	2.743.175	1.504.825	2.743.175	1.504.825
Sinarsky pipe plant Russia (pipes)	1.051.554	551.879	1.051.554	551.879
PAO TMK Russia (claim for billets - raw material)	382.496	-	382.496	-
TMK GLOBAL Switzerland (pipes)	101.146	110.410	101.146	110.410
TMK Italia s.r.l. Italy (audit services)	22.994	24.829	22.994	24.829
TMK Europe GmbH Germany (audit services)	22.770	20.634	22.770	20.634
TMK Assets Bucharest (management services)	4.275	6.750	4.275	6.750
Land Properties Investments Bucharest (management services)	800	2.400	800	2.400
TMK IPSCO International USA (pipes)	-	8.840.913	3.647.869	10.325.125
TMK IPSCO Canada (pipes)	-	89.370	-	89.370
TMK Real Estate Bucharest (management services, sale of property, plant and equipment and other materials)	-	5.250	-	5.250
<b>Total</b>	<b>41.727.020</b>	<b>35.962.095</b>	<b>40.132.727</b>	<b>35.959.799</b>

Purchases	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
TMK RESITA S.A. (billets - raw material, other materials)	511.983.820	371.502.648	511.983.820	371.502.648
TMK Artrom SA	-	-	-	-
PAO TMK Russia (pipes and blooms for resale, consulting services, financial costs)	238.764.306	123.631.991	238.764.306	123.631.991
TMK Europe GmbH Germany (agent commission for pipes sales, materials for own consumption, spare partes, debit notes for quality claims)	11.359.572	27.925.183	11.359.572	27.925.183
TMK Italia s.r.l. Italy (agent commission for pipes sales, reinvoice of costs from third party)	9.133.514	8.395.022	9.133.514	8.395.022
TMK Industrial Solutions LLC, Houston (agent commission for sales of pipes produced by TMK-Artrom and pipes of Russian origin, wharfage and other costs in USA Ports)	8.684.728	2.356.078	-	-
TMK Assets Bucharest (rent and apartment maintenance)	541.865	315.172	541.865	315.172
TMK INOX Russia (steel pipes for resale)	469.850	228.626	469.850	228.626
Sarl Prieure Saint Jean de Bebian France (protocol expenses)	94.598	144.559	94.598	144.559
Sinarsky pipe plant Rusia (debit note for claim)	83.954	124.855	83.954	124.855
RosNITI JSC Russia (research and development services)	16.515	90.302	16.515	90.302
TMK Real Estate Bucharest (rent and apartment maintenance, car rent)	-	45.229	-	45.229
<b>Total</b>	<b>781.132.722</b>	<b>534.759.665</b>	<b>772.447.994</b>	<b>532.403.587</b>



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

### **Borrowings within the Group – short-term**

TMK Europe GmbH Germany, is creditor with the amount of RON 15.377.010 equivalent of EURO 3.300.000 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 30.06.2018.

### **Borrowings within the Group – long-term**

TMK Europe GmbH Germany it is creditor with the amount of RON 70.193.087 representing USD 18.037.540,03 related to the borrowing agreement w/n/01.12.2008, respectively the assignment of receivables no. 054/20.02.2002 from AVAS (AVAB) in initial amount of 22.837.540,03 USD and 38.425,07 RON.

In 2015 have been reimbursed 4.800.000 USD and 38.425,07 RON from the loan in accordance with the payment schedule.

The Company established guarantees in favour TMK EUROPE GmbH Germany, as follows:

1. First rank mortgage on the land with an area of 203.651,82 square meters and the buildings constructed;
2. Pledge without disposal first rank on hot rolling line, rolling HPT 250, ultrasonic NDT facility; AWW250 Assel mill, Planer D 38-90; oven FTT SKW75 Pilger mill, heating installation induction, heat treatment furnace rank normalization and the other assets of the TMK-ARTROM under registration no 2004-1080142242453-QJU/24.03.2004.
3. First rank mortgage on land in area 211.614,54 sqm and related buildings inside TMK-ARTROM under the contract no. 1869/14.10.2003.
4. Real guarantee without disposal of goods first rank over the other assets of TMK-ARTROM as enrolment in movable electronic archive, no 2002-1034612284359-IUD/14.10.2003.

During the EGMS from November 17, 2008 there has been approved the change in the nature and the payment postponement of debt owed by the Company to TMK Europe GmbH in amount of USD 22.837.540,03 in the following conditions. The debt shall be paid in 57 instalments starting from 25 January 2014 until 25 September 2018 inclusively.

The first 56 monthly instalments will be worth 400.000 USD and the 57th will be worth 437.540.03 USD.

The payment of debt amounting to 38.425,07 RON of the Company to TMK Europe GmbH from 25 January 2014 will be paid in USD at the official RON/USD exchange rate of the National Bank of Romania on the last working day of year 2013. The debt has an interest rate of LIBOR + 0.5% per year starting on 1 January 2009.

The interest is calculated and paid on the 15th of each month for the previous month.

In 21.11.2013 was signed Amendment No. 1 to Contract of 01.12.2008 according to which the loan reimbursement begins with 25.01.2015, maintaining the same number of instalments.

In 3.12.2015 was concluded Addendum no .2 on which repayment of loan shall be suspended for a period of three years and will be resumed starting in January 2019 in 44 instalments in the amount of 400.000 USD and a last instalment of 437.540,03 USD as a result on 31.12.2015 the full amount of the loan was long-term.

On 08.08.2016 according to Addendum no. 3 were expressly dropped all the movable and immovable guarantees mentioned above.

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

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

The interest due by TMK-ARTROM S.A. on 31.12.2017 is of USD 32.062,60, respectively RON 124.772.

Cash compensations granted to key-employees registered in year 2017 are in amount of RON 15.248.799 (2016: RON 14.141.141).

**26. PROVISIONS**

Other short-term provisions	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Accruals for managers bonuses ST	3.214.756	1.786.442	3.702.163	1.916.512
Provisions for taxes	1.941.576	782.824	1.941.576	782.824
Provisions for emission certificates	1.466.859	-	1.466.859	-
Provisions for quality complaints material cost ST	264.437	240.506	264.437	240.506
Provisions for quality complaints additional cost ST	21.272	56.770	21.272	56.770
Accruals for unused vacations	30.241	32.500	65.240	32.500
<b>Total</b>	<b>6.939.141</b>	<b>2.899.042</b>	<b>7.461.547</b>	<b>3.029.112</b>

  

Other long-term provisions	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Provisions for decommissioning property, plant and equipment	219.350	219.350	219.350	219.350
Provisions for quality complaints additional cost	7.931	7.931	7.931	7.931
<b>Total</b>	<b>227.281</b>	<b>227.281</b>	<b>227.281</b>	<b>227.281</b>

The Company registered in 2017 expenses with provisions in amount of RON 1.466.859 for the deficit of certificates needed to cover the greenhouse gas emissions for the production made in 2017.

In 2017, the Company registered the difference of RON 1.158.752 provisions for taxes representing debts and accessories (interest and penalties) estimated to be recorded as a result of the background tax control up to the amount paid.

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

**26. PROVISIONS (continued)**

The movement in separate 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 emission certificates	Provisions for risks and expenses	Total
<b>At 1st January 2016</b>	<b>231.652</b>	<b>55.374</b>	<b>1.719.322</b>	<b>5.638</b>	<b>893.743</b>	-	<b>843.546</b>	<b>3.749.275</b>
Expense with provisions recognized in statement of income	415.309	98.418	1.786.442	26.862	-	-	-	2.327.031
Amounts used	(406.455)	(97.022)	(1.719.322)	-	(110.919)	-	(338.904)	(2.672.622)
Unused amounts reversed	-	-	-	-	-	-	(504.642)	(504.642)
<b>At 31 December 2016</b>	<b>240.506</b>	<b>56.770</b>	<b>1.786.442</b>	<b>32.500</b>	<b>782.824</b>	-	-	<b>2.899.042</b>
Expense with provisions recognized in statement of income	412.609	113.209	3.214.756	30.241	1.158.752	1.466.859	-	6.396.426
Amounts used	(388.678)	(148.707)	(1.786.442)	(32.500)	-	-	-	(2.356.327)
<b>At 31 December 2017</b>	<b>264.437</b>	<b>21.272</b>	<b>3.214.756</b>	<b>30.241</b>	<b>1.941.576</b>	<b>1.466.859</b>	-	<b>6.939.141</b>

The movement in consolidated 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 emission certificates	Provisions for risks and expenses	Total
<b>At 1st January 2016</b>	<b>231.652</b>	<b>55.374</b>	<b>1.719.322</b>	<b>5.638</b>	<b>893.743</b>	-	<b>843.546</b>	<b>3.749.275</b>
Expense with provisions recognized in statement of income	415.309	98.418	1.916.512	26.862	-	-	-	2.457.101
Amounts used	(406.455)	(97.022)	(1.719.322)	-	(110.919)	-	(338.904)	(2.672.622)
Unused amounts reversed	-	-	-	-	-	-	(504.642)	(504.642)
<b>At 31 December 2016</b>	<b>240.506</b>	<b>56.770</b>	<b>1.916.512</b>	<b>32.500</b>	<b>782.824</b>	-	-	<b>3.029.112</b>
Expense with provisions recognized in statement of income	412.609	113.209	3.810.276	66.688	1.158.752	1.466.859	-	7.028.393
Amounts used	(388.678)	(148.707)	(1.996.879)	(32.500)	-	-	-	(2.566.764)
Translation differences	-	-	(27.746)	(1.448)	-	-	-	(29.194)
<b>At 31 December 2017</b>	<b>264.437</b>	<b>21.272</b>	<b>3.702.163</b>	<b>65.240</b>	<b>1.941.576</b>	<b>1.466.859</b>	-	<b>7.461.547</b>

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

**26. PROVISIONS (continued)**

In 2017 separate and consolidated long-term provisions did not register any movement.

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 2016	-	7.931	219.350	227.281
At 31 December 2016	-	7.931	219.350	227.281
At 31 December 2017	-	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.

**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.

TMK-ARTROM borrows mainly on variable interest rates. In 2017, 95,94% from loans had variable interest rates, the rest fixed rate, EURIBOR serves mainly as the basis for the calculation of interest rate. Loans which had LIBOR as calculation basis for the interest rate represented 18,5% of portfolio at 31.12.2017 and 27% at 31.12.2016. At 31<sup>st</sup> December 2017 and at 31<sup>st</sup> December 2016 the Company did not have 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. In year 2017 EUROBOR registered negative values being levelled at 0 according to credit contracts.

On 31<sup>st</sup> December 2017, the Company did not have financial assets with variable interest rate.

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

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

	Variation in margin	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
<b>31 December 2017</b>			
increase in LIBOR	10,00	(83,7)	(70,3)
decrease in LIBOR	(10,00)	83,7	70,3
<b>31 December 2016</b>			
increase in LIBOR	10,00	(38,40)	(32,20)
decrease in LIBOR	(10,00)	38,40	32,20

### **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 2017 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.

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

	Percentage volatility	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
<b>31 December 2017</b>			
EUR/RON	10%	(32.359)	(27.182)
EUR/RON	-10%	32.359	27.182
USD/RON	10%	(3.290)	(2.764)
USD/RON	-10%	3.290	2.764
<b>31 December 2016</b>			
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

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

### **Liquidity risk**

Liquidity risk arises when the Company encounters difficulties to fulfil 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 31.12.2017 about 55% from the total of loans and borrowings are due in the following 12 months, because the indebtedness rate is monitored in the way it do not exceed the limit established by the management. We also mention that the access to the financing sources it is available, and the bank loans due in 12 months can be extended with the existing creditors according to the contracts in force.

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

#### **Separate**

<b>Liquidity risk</b>	<b>Less than 3 months RON</b>	<b>3 to 12 months RON</b>	<b>1 to 5 years RON</b>	<b>&gt;5 years RON</b>	<b>Total RON</b>
<b>2017</b>					
Interest bearing loans (including future interest)	68.304.544	149.187.166	168.776.617	10.652.109	396.920.436
Leasing	105.511	290.228	1.059.433	-	1.455.172
Other non-current liabilities	-	-	729.080	-	729.080
Trade and other payables	152.982.733	55.837.966	-	-	208.820.699
<b>Total</b>	<b>221.392.788</b>	<b>205.315.360</b>	<b>170.565.130</b>	<b>10.652.109</b>	<b>607.925.387</b>
<b>2016</b>					
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	150.691.513	19.298.639	-	-	169.990.152
<b>Total</b>	<b>205.637.079</b>	<b>164.771.679</b>	<b>83.984.701</b>	<b>17.478.024</b>	<b>471.871.483</b>

#### **Consolidated**

<b>Liquidity risk</b>	<b>Less than 3 months RON</b>	<b>3 to 12 months RON</b>	<b>1 to 5 years RON</b>	<b>&gt;5 years RON</b>	<b>Total RON</b>
<b>2017</b>					
Interest bearing loans (including future interest)	68.304.544	149.187.166	168.776.617	10.652.109	396.920.436
Leasing	105.511	290.228	1.059.433	-	1.455.172
Other non-current liabilities	-	-	729.080	-	729.080
Trade and other payables	150.904.446	55.852.196	-	-	206.756.642
<b>Total</b>	<b>219.314.501</b>	<b>205.329.590</b>	<b>170.565.130</b>	<b>10.652.109</b>	<b>605.861.330</b>
<b>2016</b>					
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	150.503.293	19.298.639	-	-	169.801.932
<b>Total</b>	<b>205.448.859</b>	<b>164.771.679</b>	<b>83.984.701</b>	<b>17.478.024</b>	<b>471.683.263</b>

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

Financial indicators of the loan contracts were respected as at 31<sup>st</sup> December 2017 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 fulfil 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 treasury**

The net treasury from operating activities decreased in 2017 compared to the previous period due to the increase in inventories.

The net treasury from investment activities decreased in 2017 compared to 2016 as a result of the increase in the volume of payments for acquisitions of property, plant and equipment mainly for the execution of the investment project "Complex of thermal treatments".

The net treasury from financing activities increased in 2017 as compared to 2016 due to withdrawals from the BCR ERSTE-7 investment credit and short-term credits for financing current activity.

### **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.)

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

### *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).

### *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 customers with agent TMK Italia, agent TMK EUROPE and agent TMK INDUSTRIAL SOLUTIONS, as well as directly on adjacent markets from East Europe.

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

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

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



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

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 and in December 2015 the Company decided to extend the insurance contract signed with COFACE Germany with one more year. In 28 November 2016 the agreement was extended until 28.11.2017 and later until 28.12.2018. At 31.12.2017 credit limits granted by Coface S.A covered 56% of requested limits for external customers and on internal market 41% of requested limits. As at 31.12.2017 59% from the receivables which are insured were covered by Coface. For 5% from the total third parties receivables were opened irrevocable letters of credit or guarantee letters received. 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. Customers covered by COFACE are third-party customers from EU, Romania and non-EU markets (including USA and Canada).

As at 31.12.2017 Donalam customer had 40,49% from the total turnover of year 2017.

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

Credit risk derives from cash and deposits from banks. A part from the cash and deposit from banks are pledged in favour of banks for securing loans.

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.

## **28. AUDIT COMPANIES FEES**

In 2017, statutory auditor Ernst & Young Assurance Services S.R.L. had a contractual fee for the statutory financial audit of EUR 54.800 (for statutory audit of the Company's individual annual financial statements). The services contracted with the statutory auditor, other than statutory audit services, amounted to EUR 3.000, representing other insurance services in respect of some mandatory Company reporting. No other services than those mentioned above were provided and paid.

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

Total commitments for the acquisition of property, plant and equipment as at 31<sup>st</sup> December 2017 are of RON 21.755.240 (31 December 2016: RON 79.273.056).

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.

Litigation in conflict with the National Agency for Fiscal Administration ("ANAF") and with the General Administration of Large Taxpayers ("DGAMG"):

- In 15.02.2016 was ended the tax inspection for the period 2005-2009 and were issued the following documents: (i) Tax Inspection Report No. F - MC 15 dated 8 February 2016; (ii) The tax decision on additional tax obligations for payment no. F - MC 4 dated 8 February 2016; and (iii) Decision regarding unchanging the taxable base no. F - MC5 dated 8 February 2016 (registered by TMK - ARTROM under the number 1735 dated 15 February 2016). Through these, additional debts were set for the income tax in the amount of RON 796.197, delay increase amounting RON 1.524.559 and delay penalties amounting RON 262.427.
- TMK- ARTROM paid the additional debts established for the income tax under the tax facilities conditions granted by OUG 44/2015. Thus TMK-ARTROM paid the amounts established in The Tax Inspection Report applying some reductions of (i) 77,1% of delay increases and of (ii) 54,2% of interests. Also the delay penalties established for TMK-ARTROM were cancelled.
- Thus, in the first quarter of 2016 TMK-ARTROM paid the additional debits established by the tax inspection report worth: (i) RON 1.332.027, representing the difference for income tax and VAT and (ii) RON 787.113 representing increases and penalties. Through Decision no. 202 dated 19 April 2016 were calculated accessories between the tax audit report date and the actual payment date of established debts.
- Through cancellation decision no. 3687 dated 24 May 2016 issued by ANAF according to stipulations of OUG 44/2015 have been cancelled accessories in the amount of RON 2.129.582 of which RON 2.102.332 amounts established in the tax inspection report (RON 1.663.294 representing increases and delay penalties and RON 439.037 delay penalties) the difference representing accessories between the date of the tax inspection report and the actual payment date of established debts.
- Regarding the additional debits and accessories established by the tax inspection report, the company filed a complaint against ANAF's decision, which was rejected. Accordingly, TMK - ARTROM filed a petition to challenge the ANAF's decision to reject the appeal (received on 13 October 2016) requesting the court:
  - A. Mainly:
    1. Cancellation of the Tax Inspection Report No. F-MC 15 dated 8 February 2016;
    2. Cancellation of all subsequent acts of the above-mentioned report, namely the annulment of: the tax decision on the additional tax obligations established by the tax inspection report no F-MC 4 dated 8 February 2016 and Decision regarding unchanging the taxable base no. F - MC5 dated 8 February 2016;
    3. Obligation of the National Tax Administration Agency and the General Directorate for Administration of the Large Taxpayers to pay the court costs.
  - B. In subsidiary:
    1. Cancellation in totality of Decision no. 42 dated 7 October 2016 n the settlement of the appeal filled by TMK – ARTROM, through which ANAF, through DGAMG, the dispute settlement service, dismissed as unreasonable the complaint filed by TMK – ARTROM;
    2. cancellation in part of the tax inspection report no. F-MC 15 dated 8 February 2016 and The tax decision on additional tax obligations for payment no. F - MC 4 dated 8 February 2016, regarding:

**TMK ARTROM S.A.**  
**SEPARATE AND CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2017**

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

**29.COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

- a. Income tax in amount of RON 727.223, interest/ delay increases in value of RON 1.392.488 and delay penalties in value of RON 239.693;
  - b. the monthly VAT in value of RON 481.237, interest/delay increases in value of RON 867.632 and delay penalties in value of RON 158.622; and
  - c. interest/ delay increases and delay penalties calculated for the period 20 July 2010 – 15 December 2015;
3. Obligation of the ANAF and DGAMC parties to pay the sums paid by TMK - ARTROM on the basis of the tax decision regarding the additional tax obligations established by the tax inspection no. F-MC 4 dated 8 February 2016.

On 13 October 2017, the Bucharest Court of Appeal, through Civil Sentence no. 3678 rejected the plea of inadmissibility of the main head of claim as unreasonable, admitted the exception of the lack of passive procedural quality of ANAF, rejecting the action against it for lack of passive procedural quality, and dismissed the action against DGAMC as unreasonable.

TMK-ARTROM has appealed against the Bucharest Court of Appeal's decision to reject the action as unintentional. The appeal is filed against the High Court of Cassation and Justice. The file is in the administrative proceedings, since the first term of the trial has not been established.

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

	Separate		Consolidated	
	2017 RON	2016 RON	2017 RON	2016 RON
Less than one year	1.088.634	755.890	1.460.490	1.114.381
Between one and two years	1.409.632	236.750	1.795.445	967.712
Between two and tree years	1.401.772	229.200	1.801.542	1.346.612
	<b>3.900.038</b>	<b>1.221.840</b>	<b>5.057.477</b>	<b>3.428.705</b>

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

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

On 08.03.2018 USA approved the introduction of custom duties on the steel imports introduction of customs duties on steel imports at 25%, a tariff that comes into force from 23.03.2018, 15 days after the approval date.

In the near future some countries that are allies on security issues with the US will be able to call for talks on this topic to eliminate or set lower rates, depending on the arguments put forward by each party. The European Union is leading negotiation with USA at this moment for exclusion of the countries members of the Union from applying import custom duties in USA, in accordance with the statements made by the officials of the European Commission and European Parliament.

In the same time, The European Union has announced that it is launching an investigation into the implementation of safeguard safeguards to protect the EU market against the diversion through EU of the exports from the countries touched by US tariffs. The aim is to determine the safeguard measures and their intensity designed to protect the EU market.

The company constantly updates information, negotiations with customers to reduce the impact of this measure.

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

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