



TMK-ARTROM S.A.

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EUID: ROONRC.J28/9/1991; J28/9/31.01.1991  
VAT No. RO 1510210/1992  
Subscribed and Paid Share Capital: 291.587.538,34 lei

## SEPARATE AND CONSOLIDATED REPORT OF ADMINISTRATION ("Report")

Prepared in accordance with ORDER MFP 881 and 2844/12.12.2016 as amended and supplemented, regarding the Accounting Regulations in compliance with the International Financial Reporting Standards, Law no. 24/2017 on Issuers of Financial Instruments and Market Operations and F.S.A. Regulation no. 5/2018 on Issuers of Financial Instruments and Market Operations regarding the consolidated activity of the TMK-ARTROM SA parent company for the financial year 2018 and the consolidated activity of the TMK-ARTROM Group for the financial years 2016, 2017 and 2018

This report will accompany the separate financial statements and the consolidated financial statements for the year 2018 together with the restated consolidated financial statements for the years 2016 and 2017.

The Company and its significant Romanian subsidiary, TMK-REȘIȚA S.A. ("TMK-Resita"), together with TMK-Italia s.r.l. ("TMK-Italy") and TMK Industrial Solutions LLC ("TMK-USA"), and TMK Assets S.R.L. ("TMK-Assets") are a group within the meaning of this Report, the "Group" or "TMK Artrom Group". Only in the purpose of this Report, the Group together with its major shareholder, TMK Europe GmbH, under common control of PAO TMK, will be named "TMK Group".

The Group TMK Artrom decided to apply the consolidation method by pooling interests called by IFRS "pooling of interests" to consolidate the financial statements of all entities under its joint control. As a result of the acquisition of majority shares of TMK Resita on 21 December 2018, were restated under IFRS consolidated financial statements of the Group for the years 2016 to 2017.

TMK Artrom Group applied in the Consolidated Financial Statements the method of pooling of interests as newly acquired (direct or indirect) subsidiaries were acquired from entities under joint control of the TMK Group (acquisition from TMK Europe GmbH which is 100% owned by PAO TMK) and, therefore, from the perspective of the party controlling the TMK group, there has been no change in control.

Under the pooling method, the assets and liabilities of the subsidiaries transferred under joint control are presented at the predecessor's accounting data. Consequently, as TMK's financial statements do not consolidate at TMK Europe GmbH level but directly at PAO TMK, the value reflected by the consolidated financial statements of the TMK Group for TMK RESITA and other indirect subsidiaries, transferred on 21 December 2018 is the reflected at the same value in the Group's Restated Consolidated Financial Statements for the years 2018, 2017, 2016. Thus, the subsidiaries' assets included in the Consolidated Financial Statements of the Group for 2018, 2017, 2016 are reflected in the amounts recognized in the financial statements of the TMK Group prepared in accordance with IFRSs and are based on the fair values from the original acquisition date by TMK (thorough TMK Europe GmbH). As the financial statements do not consolidate at TMK Europe GmbH but at the PAO TMK level, whenever the notion of predecessor is used in this Report, it will be understood purely for accounting purposes PAO TMK.

**DISCLAIMER:** This Report has been drafted in Romanian and the English version represents solely an informal translation of the Romanian version. In case of discrepancies between the two version, the Romanian version shall prevail.



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ISO/TS 16949

# INDEX

<b>INTRODUCTION .....</b>	<b>5</b>
<b>Overview .....</b>	<b>5</b>
<i>The main events that took place in the financial year 2018 .....</i>	<i>7</i>
<b>FEBRUARY.....</b>	<b>7</b>
<b>APRIL .....</b>	<b>7</b>
<b>NOVEMBER.....</b>	<b>9</b>
<b>DECEMBER .....</b>	<b>9</b>
<b>1. ANALYSIS OF THE ISSUER'S ACTIVITY .....</b>	<b>12</b>
1.1. a) Description of the issuer's core business: .....	12
b) Specifying the date of establishment of the issuer: .....	12
c) Description of any significant merger or reorganization of the issuer, its subsidiaries or controlled companies during the financial year .....	12
d) Description of the purchases and / or disposal of assets: .....	13
e) Description of the main results of the issuer's activity evaluation: .....	14
1.1.1. General evaluation elements: .....	14
1.1.2. Assessment of the issuer's technical level .....	17
1.1.3. The assessment of the technical–material acquisition activity (indigenous sources, import sources).....	20
1.1.4. Assessment of sale activity.....	21
1.1.5. Evaluation of issues related to the employee / staff of the issuer .....	22
1.1.5. The assessment of the legal aspects related to the impact of core business of the issuer over the environment.....	24
1.1.7. Assessment of research and development activity .....	25
<b>1.1.8. Assessment of the issuer activity regarding the risk management.....</b>	<b>25</b>
<b>1.1.9. Prospective elements regarding the issuer's activity .....</b>	<b>28</b>
<b>2. TANGIBLE ASSETS OF THE ISSUER.....</b>	<b>29</b>
<b>2.1 . The location and the main production capacity characteristics owned by the company ...</b>	<b>29</b>
<b>2.2. Description and analysis of the wear degree of properties of the issuer .....</b>	<b>30</b>
<b>2.3. Specifying potential problems related to ownership of tangible assets of the Company .....</b>	<b>31</b>
There are no problems related to ownership of tangible assets of the company.....	31
<b>3. MARKET SECURITIES ISSUED BY THE ISSUER.....</b>	<b>31</b>
3.1. Presentation of markets in Romania and other countries where the issued securities are negotiated .....	31
3.2. Description of company policy on dividends. Dividends due paid/accrued in the last 3 years and, if applicable, reasons for any decrease in dividends over the last 3 years. ....	32
3.3. Description of any activities of the issuer to purchase its own shares. ....	33



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
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TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

3.4. If the issuer has subsidiaries, including number and nominal value of shares issued by the parent company held by subsidiary.....	33
3.5. If the issuer has issued bonds and / or other debt securities, the presentation of how the issuer pays its obligations towards the holders of such securities. ....	33
<b>4. BUSINESS LEADERSHIP .....</b>	<b>33</b>
4.1. Presentation of the list of company administrators and the following information for each administrator: .....	33
4.2. The list members of the executive management of the issuer. For each, the following information is presented: .....	39
4.3. For all persons listed under 4.1. and 4.2. the disclosure of possible litigation or administrative proceedings in which they have been involved in the past 5 years regarding their activity within the issuer and those relating to that person's ability to perform his duties within the issuer. ....	40
<b>5. FINANCIAL-ACCOUNTING STATEMENTS.....</b>	<b>40</b>
a) balance sheet items: assets that are at least 10% of total assets, cash and other liquidities available, reinvested earnings, total current assets, total current liabilities; .....	40
b) income statement: net sales; gross income; cost and expense items with a weight of at least 20% in net sales or gross incomes; risk provisions and for various expenses; reference to any sale or closure of a segment of activity performed in the last year or to be carried out in the following year; dividends declared and paid; .....	49
c) cash flow: all the changes in the cash in the core business, investments and financial activities, the cash at the beginning and at the end of the period. ....	60
Financial indicators: .....	62
1. Liquidity indicators .....	63
2. Risk indicators .....	63
3. Activity indicators .....	64
4. Profitability indicators .....	64
<b>Other information .....</b>	<b>65</b>
Corporate Governance Statement .....	67
Code compliance statement.....	74
Consolidated non-financial statement - Sustainability report according to GRI .....	94
Important events occurring after the end of the financial year .....	94
Statement of responsible persons .....	95



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5L-0352

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## Informative data:

## TMK-ARTROM SA

Company Headquarter	Street Draganesti, no 30, Slatina, County Olt, Romania,230119
Phone number	+40249436862, +40249434640, +40249434641
Fax number	+40249434330, +40249437288
Registration number at the Trade Registry Office	J28/9/1991 as at 31.01.1991
Unique Identifier at European Level (EUID):	ROONRC.J28/9/1991
LEI Code:	315700M25SMOU44FAN52
Tax identification Code	RO 1510210
Class, type, number and principal characteristics of the securities issued by the company	Registered dematerialised and ordinary shares
Subscribed and paid-up share capital	291,587,538.34 lei
The regulated market on which the issued securities are traded	Bucharest Stock Exchange Regulated Market - STANDARD category (ART market symbol)

## TMK-ARTROM Group - component entities at 31 December 2018

Company name	Company - parent	Shareholding (%)
TMK-ARTROM SA SLATINA	TMK Europe GmbH	92.7282
TMK INDUSTRIAL SOLUTIONS LLC	TMK-ARTROM SA SLATINA	100
TMK REȘIȚA SA	TMK-ARTROM SA SLATINA	99.99237
TMK ASSETS SRL	TMK-REȘIȚA SA REȘIȚA	100



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In this report, the terms „ TMK-ARTROM Group”, „ The Group” are sometimes used for practical reasons when referring to TMK-ARTROM and its subsidiary in general, and the terms „Company”, "The Parent Company" and „The Company” are sometimes used for practical reasons when referring to TMK-ARTROM.

## INTRODUCTION

### Overview

#### Information about the Group

**TMK- ARTROM SA** was established in 1982, is a joint stock company registered in Slatina, Drăgănești Street, no. 30, Olt County, Romania. The plant is specialised in the production of seamless pipes for industrial applications, including mechanical or automotive engineering. The main activity of the company is the production of tubes, pipes, hollow profiles and related fittings, of steel NACE 2420.

The Company is a wholly private equity company whose majority shareholder TMK Europe GmbH gained control in 2002 (at that moment, Sinara Handel GmbH). TMK-EUROPE GmbH has sole shareholder Russian company - PAO TMK. (On 9 July 2015, OAO TMK changed its name to PAO TMK). PAO TMK has its headquarters in Moscow, Russia. The final beneficiary of PAO TMK is D.A. Pumpyanskiy. The consolidated financial statements of the TMK Group are available for consultation by the public at [www.tmk-group.com](http://www.tmk-group.com).

TMK-ARTROM SA is an open company. The regulated market on which the issued securities are traded is the Bucharest Stock Exchange - the Regulated Market - the STANDARD category - the market symbol **ART**.

The company is administered by a Board of Directors consisting of seven (7) members while the daily operations of the company are run by a Management Board consisting of seven (7) members.

The President of the Management Board is The Chief Executive Officer and member in the Board of Directors and represent the Company in the relations with third parties. The others members of the Management Board are executive officers and are not members of the Board of Directors.

TMK-ARTROM currently holds an important share of the European market for industrial seamless pipes including mechanical pipes, hydraulic cylinders, pipes for the automotive and power industry. More than 85% of the pipe production of the plant is destined for the outside, mainly in countries of the European Union, USA and Canada.

**TMK REȘIȚA S.A.** is a closed joint stock company organized according to the Romanian legislation with private capital. The social and administrative headquarters of the Company are in Romania, Caras-Severin County, REȘIȚA, Traian Lalescu Street, no.36, registered with the Trade Register under no. J11 / 59/1991, CUI 1064207 (hereinafter referred to as "TMK -Resita"). The main object of activity is the production of ferrous metals in primary forms and ferro-alloys, NACE code 2410.

In July 1771, the first two blast furnaces were commissioned for the steel mill in Resita.. CSR expanded and went on to become a major European steel mill during the 19th and 20th centuries. The steel mill was nationalised in the mid-1900s and was operated by the Romanian government. Renamed Combinatul Siderurgic Resita S.A., the company was listed on the RASDAQ on November 11th 1996 and become public. The company then went through a difficult transition period, including a failed privatization in 2000 and its subsequent reorganization procedure. The problems at that time and the conflicting interests led to the cancellation of the first privatization and demanded the return of CSR to the Romanian government.



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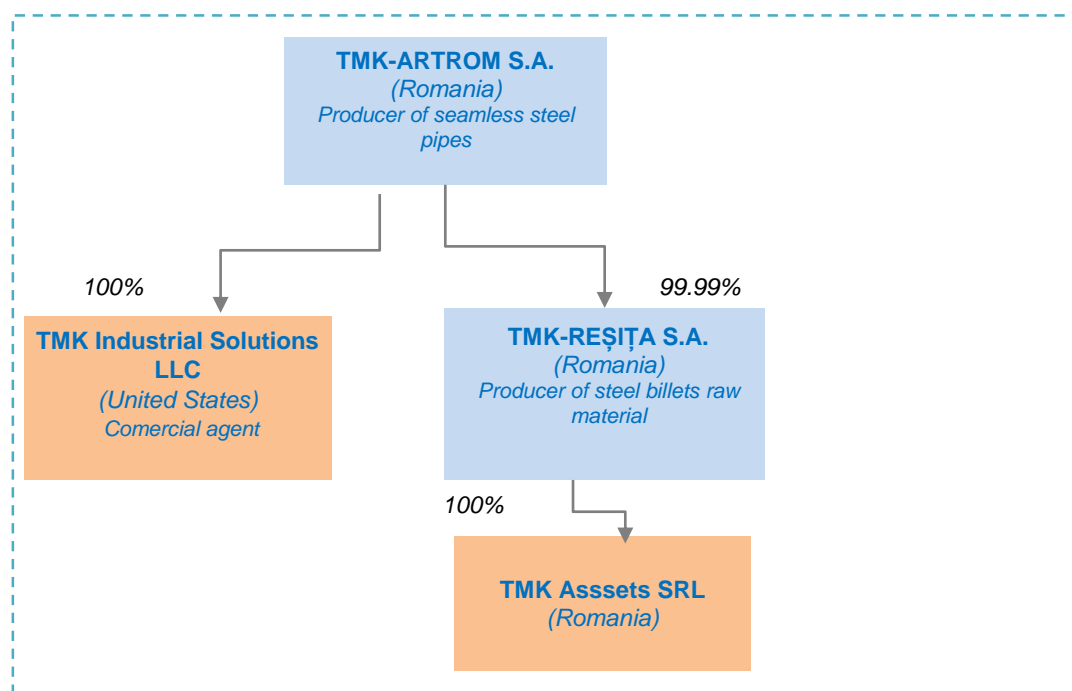
The privatization process resumed in 2003, and in mid-2004 the company was sold by AVAS to Sinara Handel GmbH (now TMK Europe GmbH).

The acquisition of the company by the TMK group has quickly proven to be beneficial for CSR (renamed TMK-REȘIȚA in 2006), as investments in production and management capabilities combined with financial aid have helped restore and modernize the factory and restore steel to the center of the community.

The company is administered by a Board of Directors consisting of five (5) members while the daily operations of the company are run by a Management Board consisting of seven (7) members. The President of the Management Board is the Chief Executive officer and member of the Board of Directors and represent the company in the relation with third parties. The other six members of the Management Board are executive officers appointed by the Board of Directors and are not members of the Board of Directors.

**TMK INDUSTRIAL Solutions LLC** was registered on 26 April 2016 with a share capital of 1.000 USD having as sole associate TMK-ARTROM SA. and act as trade agent for promoting and sale of industrial pipes produced by the TMK companies for the US market. The purpose of this investment is to develop a sales system specializing in industrial pipes in the American market that will increase the turnover of the company and the group in this field. TMK INDUSTRIAL Solutions LLC is headquartered in 10940 W. Sam Houston Pkwy N., apartment Houston 325, TX 77 064, USA and operating under US law, Delaware.

**TMK ASSETS SRL** is a limited liability company organized according to the Romanian legislation, with private capital, having its registered office in Bucharest, District 1, Daniel Danielopolu street no. 2, ground floor, room 2, registered with the Trade Register under no. J40 / 12479/2006, fiscal code RO 18902022. The main object of activity is renting and sub-leasing of own or rented real estate, NACE code 4110. The sole associate is TMK REȘIȚA SA.



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## Important Events in the Financial Year 2018

### *The main events that took place in the financial year 2018*

#### FEBRUARY

On 16 February 2018, took place the official launch of the steel pipe heat treatment plant which ended the second phase of the investment program. Through this TMK-ARTROM strengthens its market presence with superior tubes for mechanical applications and exploration of oil and gas, adding to the investment portfolio another 36 million EUR. Thanks to the new equipment, the company will increase Premium production share in the portfolio of orders. The large-scale investment project allows heat treatment of long pipes rarely encountered in Europe. The annual capacity of the heat treatment plant is over 160.000 tons of pipes. The design and supply of the equipment was carried out by the SMS Group, one of the world leaders in equipment for the metallurgical industry.

#### APRIL

TMK-ARTROM took part in Tube Dusseldorf 2018, the largest exhibition in the world of pipe industry.

TMK-ARTROM joined the TMK team (one of the largest oil and gas industry pipelines) and has traditionally participated in the Tube 2018 International Specialized Exhibition.

At the TMK exhibition stand, visitors from Europe, the USA, Australia and the Middle East have become familiar with the company's entire range of pipes. TMK-ARTROM presented its entire range of industrial pipe production including new Industrial Pipes Premium as heat treated seamless pipes and deformed and cold-formed pipes for the manufacture of hydraulic cylinders and auto components.

During TUBE 2018 Cristian Drinciu, Chief Operational Officer of TMK-ARTROM made the presentation about the new approach concept ARTROM TMK of Premium Industrial Pipe and relations / close cooperation with customers. The key objective - to ensure the highest quality at every stage of production, from the melting of steel produced in accordance in accordance with specific customer requirements, commercial services Premium and flexible support offered to customers by dedicated sales network of industrial pipes TMK European Division (the informal name given to the group TMK, companies TMK Europe, TMK Artrom, TMK Resita, TMK Italia S.r.l.)

Within the exhibition TMK European Division has hosted a reception in honour of partners and customers, over 200 representatives from around 100 companies worldwide - customers, equipment manufacturers and material suppliers. Adrian Popescu - CEO of TMK-ARTROM, supported the welcome speech, thanking them for their efficient collaboration and expressed their confidence that mutually beneficial mutual cooperation would be further expanded.

The 16th edition of the TUBE 2018 International Specialized Exhibition took place during the period 16 - 20 April 2018 in Dusseldorf (Germany). It is the most important in the pipe industry and takes place every two years. This year, 1240 companies from 57 countries participated in the exhibition.

At a corporate level, on 25 April an extraordinary general meeting of the shareholders approved: (a) the change in the registered address of the Bucharest working point of TMK-Artrom which was moved at No. 2 Daniel Danielopolu street, 1st floor, district 1 Bucharest; (b) the increase in the number of members of the consultation committees of TMK-Artrom from two members to three members, the increase in the number of members of the Board of Directors from 5 members to 7 members by appointing two independent members; (c) reconfirming, for a new 4 years mandate, the members of the Board of Directors that were already members of the Board of Directors and, the appointment for a 4 years mandate of the two new members of the Board of Directors, (all mandates of the members of the Board of Administrators expiring on 25 April 2022) and, reappointing for a 4 years mandate ending on 25 April 2022, the members



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of the Management Board; (d) approving the updated version of the articles of incorporation of TMK-Artrom.

On the same date (25th April 2018) was held the Ordinary General Shareholders Meeting which approved the Management Report of the Board of Directors for 2017, the report of the financial auditor for 2017, separate and consolidated annual financial statements prepared under IFRS for 2017 and the proposal of the Board of Directors regarding the distribution of the accounting profit of the year 2017, in amount of RON 33,055,366, to legal reserve under the Company Law, at least 5 % of the annual gross profit (but not more than 20% of the share capital) including the legal reserve related to the reinvested profit under the provision of art 22 regarding the tax exemption of the reinvested profit from law 227/2015 regarding Tax Code, the amount of RON 1,655,110; and to „Other reserves related to the reinvested profit” the amount of RON 31,400,256 representing the reinvested profit in technological equipment - machinery, equipment and installations as well as in electronic computers and peripheral equipment according to the provisions of art. 22 regarding the tax exemption of the reinvested profit from Law 227/2015 regarding the Tax Code. It also approved the discharge of the members of the Board of Directors for the financial year 2017, the income and expense budget and the activity program for 2018, the investment program 2018, the credit ceilings for 2018, including the extension of loan agreements expiring in 2017 and the new sources of financing of circulating capital needed in 2018 and the loans needed to finance investment projects, reconfirmation of the financial auditor Ernst & Young Assurance Services SRL as the company's financial auditor for the year 2018 and the costs of statutory audit services for 2018.

By decision of the General Shareholders Meeting, the following changes were approved in the company's management and structure of the board of directors. Thus, the structure of the Board of Directors has changed from 5 members to 7 members. **The Board of Directors** in the new structure was elected for a period of 4 years with the mandate until 25 April 2022, the BoD component being:

Andrey Zimin- Chairman of BoD  
 Adrian Popescu- Member/ Chief Executive Officer (CEO)  
 Tat Florin-Tudor – Independent Member  
 Nastase Vlad – Independent Member  
 Surif Mikhail – Member  
 Parkhomchuk Andrey- Member  
 Olga Nikolaeva – Member

Also it was approved the structure of the **Management Board** with a mandate until 25 April 2022 as follows:

Adrian-Popescu - President & Chief Executive Officer  
 Cristian Drinciu –Chief Operational Officer  
 Valeru Mustata –Chief Commercial Logistic and Administrative Officer-CCO  
 Cristiana Vaduva –Chief Economical & Accounting Officer-CEAO  
 Constantin Neacsu –Executive Plant Officer -ExPO  
 Evgeny Cernyy –Chief Financial Officer – CFO  
 Alexander Pavlov –Chief Procurement Officer

On 25th April 2018 It took place the first meeting (in the new formula) of the Board of Directors which approved the establishment and composition of the Audit Committee of the Board of Directors of TMK-ARTROM SA (in accordance with Article 13 from the Article of Incorporation of the Company) consisting of three members:

DI.Florin-Tudor Tat - Chairman of the Audit Committee



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DI.Mikhail Surif - member of the Audit Committee,

DI Nastase Vlad - member of the Audit Committee.

The Audit Committee acts as an advisory body to the Board of Directors on economic and financial matters.

### **Sustainability Report according to GRI**

TMK-ARTROM S.A. has prepared and published its first sustainability report that has been developed in accordance with the Global Reporting Initiative (GRI) Standards and is primarily intended for employees, shareholders, business partners, the local community, and any interested person, part of the consolidated report of administration on 31.12.2017. This first report wanted to give you unambiguously our commitment to all stakeholders to build a transparent and reliable information on our activities.

### **NOVEMBER**

The Board of Directors of TMK-Artrom SA, legally gathered on 28 November 2018, decided to approve the acquisition by TMK-Artrom of all the shares held by TMK Global SA Geneva, Switzerland as sole shareholder in TMK Italia S.r.l. Until 31.12.2018 the contract was not signed.

### **DECEMBER**

On 21 December 2018 at 11:00 the Extraordinary General Meeting of Shareholders of TMK\_Artrom SA approved the acquisition by the Company of a number of 131,010,874 shares, representing 99.99237% of TMK-Resita's share capital held by TMK Europe GmbH.

The price of the shares to be paid by TMK-Artrom for a number of 131,010,874 shares, representing 99.99237% of the TMK-Resita's share capital is EUR 62,290,000, that is EUR 0.475/share.

Also on 21 December 2018, TMK Italia S.r.l. bought the rest of TMK REȘIȚA's shares from the former shareholder TMK Holding Luxembourg. The price of all shares acquired from TMK Holding Luxembourg was equal to 4,100 EUR, which represent 0.41 EUR. The price was calculated based on the company's value determined by the evaluation report issued by Darian DRS S.A. on 30 September 2018.



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## Social activities

### REGARDING THE SOCIAL ACTIVITIES, IN 2018 TMK-ARTROM PARTICIPATED IN NUMEROUS CULTURAL, EDUCATIONAL AND SOCIAL ACTIONS

**Invest in babies** - in May 2018 the New Born Section of Slatina Emergency Hospital received from TMJ-Artrom a RON 30,000 donation within the project "Invest in babies". The money was used to buy the latest generation, of medical devices, TMK –ARTROM thus joining medical staff in their effort to provide the necessary materials for the delivery of quality medical services.

**Cultural Autumn** – in the autumn of 2018 TMK-Artrom has been involved in cultural projects taking place in Romania on the occasion of the celebration of the Russian Culture Days in Romania, marked by piano concerts, exhibitions and fairs, etc. The Russian Cultural and Science Center in Romania and TMK-Artrom presented a series of unique and limited editions. Among them - the Collection of Photographs and Historical Documents devoted to 140 years of diplomatic relations between Russia and Romania, the collection of Russian-written Russian-language poems with Romanian translation and, last but not least, the book of facts, interest and information useful information about Russia in Romanian language.

In October 2018, TMK-Artrom, as a member of the Romania-Russia Chamber of Commerce, offered sponsorship for the great show of the Russian military choir of the Red Army. The concert took place at the Palace Hall in Bucharest.

**A hand and a schoolbag** - in September 2018, TMK Artrom successfully completed the project "A hand and a school bag" through which 339 children from 11 schools in villages and communes located in Olt county received school bags and school supplies.

**Blood for life** – at the end of 2018, in partnership with the Blood Transfusion Center Slatina, TMK-Artrom carried out the first edition of the project "Blood for Life!", aiming at ameliorating the existing blood deficit at both local and national level, this project involving more than 50 TMK-Artrom employees.

**On Christmas Eve!** - in this action a team of carol singers from TMK-ARTROM, played the carols of the elderly people from the Elderly People's Home of the Slatina Adult Services Complex and donated gifts.

**Children's Books** – within this project TMK-Artrom has donated more than 1100 books in the Osica and Cilieni villages.

**Santa is coming!** – in this action more than 550 children from schools in Slatina and nearby villages have wandered employees TMK-Artrom and were rewarded with gifts.



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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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## The main financial indicators for 2018

### The Group TMK-ARTROM

Financial Indicators	2018	2017	2016
Production of pipes (tons)	199,878	192,685	170,980
Sale of pipes production TMK -ARTROM (tons)	200,446	185,416	169,806
Income (thousand RON)	1,396,646	1,185,628	762,827
Profit of the financial year (thousand RON)	79,576	26,620	2,928
Net global result of the period (thousand RON)	80,124	26,566	3,135
Adjusted EBITDA * (thousand RON)	203,233	120,843	81,057
EBIT (thousand RON)	116,286	41,586	14,925
Adjusted EBITDA margin, %	14.6%	10.2%	10.6%

### TMK-ARTROM SA separate

Financial Indicators	2018	2017	2016
Production of pipes (tons)	199,878	192,685	170,980
Sale of pipes production TMK -ARTROM (tons)	200,565	185,614	169,917
Income (thousand RON)	1,385,787	1,065,446	761,911
Profit of the financial year (thousand RON)	56,570	33,055	877
Net global result of the period (thousand RON)	56,886	33,091	1,139
Adjusted EBITDA * (thousand RON)	135,885	88,855	53,282
EBIT (thousand RON)	82,428	41,871	11,365
Adjusted EBITDA margin, %	9.8%	8.3%	7%
Gain/(Loss) per share (RON)	0.49	0.28	0.01

\*Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, impairment and depreciation, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in provisions (except for provision for bonuses), (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash, non-recurring and unusual items.

Note: The above mentioned indicators / figures may be rounded to the nearest whole number, and therefore may result in small differences in summation or comparison with the exact figures mentioned in the financial statements.



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TUV CPR:  
EN 10210-1,2  
EN 10255

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DNV-GL Rules  
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## 1. ANALYSIS OF THE ISSUER'S ACTIVITY

### 1.1. a) Description of the issuer's core business:

TMK-ARTROM SA is a joint stock company whose main activity is the production of tubes, pipes, tubular profiles and related fittings, of steel, NACE code 2420.

The company is a privately owned company.

The company headquarter is in Romania, Slatina, 30 Draganesti Street, Olt County.

### b) Specifying the date of establishment of the issuer:

TMK-ARTROM SA Slatina was established in 1982 and is registered with the Trade Registry of the Olt Tribunal under the number J28 / 9/1991.

TMK- ARTROM SA SLATINA is a private owned company of which the majority shareholder TMK Europe GmbH has acquired control in 2002.

### c) Description of any significant merger or reorganization of the issuer, its subsidiaries or controlled companies during the financial year:

On 28 November 2018 Board of Directors of TMK-Artrom, decided to approve the acquisition by TMK-Artrom of all shares held by TMK Global SA as sole shareholder in TMK Italia SRL. The price for the acquisition of 50,000 shares, with a nominal value of 1 EUR each, totalling 50,000 EUR, representing 100% of the share capital of TMK Italia, is of 1,730,800 EUR, with a value of 34.61 EUR each share, value determined through the Evaluation Report at 31 October 2018, report issued by Darian DRS SA as at 27 November 2018; the price will be paid by TMK-Artrom from its own financial resources within 90 days from the date of the signing by TMK Global SA and TMK-Artrom of the sale-purchase contract of the shares. The corresponding contract for this transaction was not signed until 31 December 2018.

On 21 December 2018 at 11:00 the Extraordinary General Meeting of Shareholders of TMK\_Artrom SA approved the purchase of a number of 131,010,874 shares by the Company, representing 99.99237% of TMK-Resita's share capital held by TMK Europe GmbH.

The price of the shares to be paid by TMK-Artrom for a number of 131,010,874 shares, representing 99.99237% of the TMK-Resita's share capital is EUR 62,290,000, that is EUR 0.475/share.

The price shall be paid by TMK-Artrom from its own financial resources as follows:

1. EUR 100,000 is to be paid within thirty (30) days from the execution of the sale-purchase agreement of the shares concluded between TMK-Europe GmbH and TMK-Artrom and the transfer of the ownership over the shares following the signing of TMK Resita's Shareholders (Shares) Registry by TMK Europe GmbH and TMK-Artrom;
2. The remaining price of EUR 62,190,000 shall be paid during a five (5) years period, starting with 2019, in equal instalments of 12,438,000 EUR each, no later than 31 December for every year. TMK-Artrom may pay such instalments in full or partially in advance, as well as to extend the payment term for such instalments (implicitly reducing the value of the instalments) for another period of maximum five (5) years, depending on the available financial resources.

As this agreement provides for interest-free payment, according to IFRS 9, the debt to TMK Europe is presented at fair value. The initial amount was reduced using the interest rate for a similar loan - the last received from BCR - using the interest rate of 1.9% and the value of 3,148,224 EUR (14,683,001 lei).



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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
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ISO/TS 16949

As for an amount due from the relationship with the shareholder, the difference between the fair value and the nominal value is transferred as an element of equity.

Thus the debt balance for investments in subsidiaries / subsidiaries to TMK EUROPE as at 31.12.2018 is in the amount of 275,831,330 lei equivalent to 59,141,776 EUR.

Also on 21 December 2018, TMK Italia S.r.l, private equity company headquartered in Lecco, Italy, bought the rest of TMK REȘIȚA's shares. The price of all shares is equal to 4,100 EUR, which represent 0.41 EUR/share. The price was calculated based on the company's value determined by the evaluation report issued by Darian DRS S.A. on 30 September 2018.

#### **d) Description of the purchases and / or disposal of assets:**

TMK-ARTROM, one of the top European producers in the production of seamless pipes for industrial applications, has commissioned with the company SMS group, one of the largest manufacturers of lines and equipment for manufacturing processes of all types of pipes, heat treatment plant for seamless steel pipes, named HTP (Heat Treatment Plant).

Heat treatment plant produce seamless steel pipes for applications in oil and gas industry but also high-strength pipes for mechanical applications. Annual production capacity is of 160,000 tons per year and treat the TMK-ARTROM fabricated steel pipes, including extra thick wall pipes up to 60 mm but also larger pipe diameters in line with the company's future development plans. Heat treatment plant has a modern know-how, flexibility of furnaces for performing a wide range of treatments required in applications industrial pipe, an advanced system for management of combustion for both furnaces which ensures a uniform heating of the pipes. The furnaces meet requirements for heat treatment process qualification according to API (American Petroleum Institute) and SAE AMS (Aero-space Material Specification) standards which are the most recognised standards for a large area of applications, like oil and gas, automotive, aeronautical industry.

The heat treatment plant provided by the SMS Group allows for various processes, such as quenching and recovery treatments, normalization treatments annealing or other heat treatment combination.

Thanks to the high flexibility of the product, the heat treatment plant is also suitable for cost-effective processing of small batches and different product groups. Eco-friendly burners with very low nitrogen oxide emissions in the furnace allow for fuel savings of at least 10% compared to conventional burners

Combustion efficiency also ensures a reduction of natural gas consumption by 1.5 million cubic meters / year, reflecting accordingly the CO<sub>2</sub> / CO and NO<sub>x</sub> emissions.

The cumulating of all the benefits of this project leads to the consolidation of TMK Artrom's position in the industrial pipe market and the reduction of the influence of the excessive competitive situation in the area of the common products.

By installing this heat treatment plant, TMK-ARTROM S.A. is enhancing its presence in the market with pipes for mechanical applications and for oil and gas applications.

In the second half of 2018, another pipe loading handling mechanism was installed for this heat treatment plant and was installed in the area where the old CTTR furnace (part of old heat treatment plant) was dismantled.

Other investments made for TMK-ARTROM in 2018 were:

- (i) For energy efficiency, was begun replacing mercury fluorescent lamps in the industrial hall: WS.1-ASSEL and WS.2-CPE, with efficient LED-based lighting lamps, and this goal was completed in 2018.
- (ii) Various equipment has been purchased, of which the most important are: two pipe cutting machines; and a spindle briquetting press to recover and reuse the blasting oil, and to more



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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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efficiently transport TMK-ARTROM to TMK-RESITA span, now in the form of briquettes, and to increase the efficiency of melting them in the Arc Electric Furnace from TMK RESITA.

### **e) Description of the main results of the issuer's activity evaluation:**

#### **1.1.1. General evaluation elements:**

According to OMFP no. 881 of 25 June 2012 on the application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards, starting with the financial year of 2012, companies whose values securities are admitted to trading on a regulated market are required to apply International Financial Reporting Standards (IFRS) at the individual annual financial statements approved by the Order of the Deputy Prime Minister, Finance Minister, no.1286/2012 for approving the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market.

The Order no. 1286/2012 was repealed by Order no 2844/12.12.2016 approving the Accounting Regulations compliant with International Financial Reporting Standards applicable starting with the financial statements of the year 2016.

For all periods up to and including the year ended December 31, 2011, the company prepared the financial statements in accordance with the Romanian accounting standards under the Order of the Minister of Public Finance no. 3055 /2009. The financial statements for the year ended 31 December 2012 are the first financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Therefore, the Company has prepared financial statements in accordance with IFRSs starting 1 January 2012, respecting accounting policy methods. For the preparation of these financial statements, the opening balance sheet was prepared on 1 January 2011, the date of transition to IFRSs, in accordance with IFRS 1.

The separate and consolidated financial statements of the Group, for the financial years 2016, 2017 and 2018 were prepared in accordance with the provisions of Order no. 2844/2016 for the approval of the Accounting Regulations in accordance with International Financial Reporting Standards, with all subsequent amendments and clarifications. These provisions are in line with the provisions of the International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU"), except for the provisions of IAS 21 "Effects of Changes in Foreign Exchange Rates on the Functional Currency".

TMK Artrom decided to apply the consolidation pooling interests method named by IFRS "pooling of interests" to consolidate the financial statements of all entities under its joint control. As a result of the acquisition of majority shares of TMK Resita on 21 December 2018, the Group's consolidated financial statements for the years 2016 and 2017 were restated.

#### **The basis for consolidation**

TMK Artrom applied in the Consolidated Financial Statements the method of pooling of interests as newly acquired (direct or indirect) subsidiaries were acquired from entities under joint control of the TMK Group (acquisition from TMK Europe GmbH which is 100% owned by the PAO TMK), and therefore no change in control occurred from the perspective of the party controlling the TMK group.

Under the pooling method, the assets and liabilities of the subsidiaries transferred under joint control are presented at the predecessor's accounting data. Consequently, as TMK's financial statements are not consolidated at TMK Europe GmbH level but directly at PAO TMK level, the amount reflected by TMK's consolidated financial statements for TMK Reșița and other indirect subsidiaries transferred on 21 December 2018 is reflected in the same amount in the Group's Restated Consolidated Financial Statements for the years 2018, 2017, 2016. Thus, the subsidiaries' assets included in the Consolidated Financial Statements of the Group for 2018, 2017, 2016 are reflected in the amounts recognized in the financial



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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
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ISO/TS 16949

statements of the TMK Group prepared in accordance with IFRSs and are based on the fair values from the original acquisition date by TMK (thorough TMK Europe GmbH). As the financial statements are not consolidated at TMK Europe GmbH level but at the PAO TMK level, whenever the notion of predecessor is used in this Report, it will be understood purely for accounting purposes PAO TMK.

TMK Artrom's book values remain the same as those in the separate TMK Artrom financial statements prior to acquisition.

The only goodwill recognized in the Consolidated Financial Statements of the Group must be the initial goodwill belonging to TMK Group (as reflected in the consolidated financial statements at the PAO TMK level) and in the case of the acquired subsidiaries it was zero. Any difference between the total net book value of the net assets, including the trading fund recorded in the consolidated financial statements of the TMK Group and the agreed payment amount for the purchase of the shares, is accounted for in the consolidated financial statements as an adjustment of equity.

The acquisition of the majority shares of TMK Resita held on 21 December, 2018, but by applying the pooling of interests method, the consolidated financial statements IFRS of TMK Artrom including comparatives from 2015, 2016 and 2017 are presented as TMK Artrom would be acquired its subsidiary, when were originally acquired by the predecessor the TMK Group (at the level of consolidated financial statements of PAO TMK). Thus, the Group resumed the periods prior to the combination to reflect that there was no change in final control.

The financial information in the consolidated financial statements are restated for the periods prior to the business combination under joint control to reflect the combination as it would have arisen since the beginning of the earliest period presented, regardless of the effective date of the combination. It was decided that the earliest period reflected to be 2016 but were also presented compared to 2015.

Thus, the assets and liabilities of TMK REȘIȚA and TMK Assets included in the Group's consolidated financial statements have been restated in accordance with IFRSs and adjusted to align their accounting policies with the accounting policies applied by TMK Artrom and TMK prior to 21 December 2018, these subsidiaries managing the accounting and preparing the separate financial statements in accordance with the local accounting legislation adopted by Order of the Ministry of Finance no. 1802 of 29 December 2014 for the approval of the Accounting Regulations on the separate annual financial statements and the consolidated annual financial statements, as subsequently amended and supplemented.

Consolidation method by applying the pooling of interests requires that the financial statements of the combined entities are combined as if they had always been combined.

Consolidated financial statements have been prepared in accordance with the usual consolidation procedures to reflect the combined results of the Group, consistent with all items of assets, liabilities, income and expense. All intragroup balances, unrealized transactions and gains on transactions between Group companies are eliminated.

Under the pooling of interest method, the assets and liabilities of the subsidiaries transferred under joint control are recorded at the historical cost of the predecessor and in the Consolidated Financial Statements of the Group for the years 2018, 2017, 2016.

Applying the "pooling of interests" method, the Consolidated Financial Statements of the Group, including the comparatives of the years 2016 and 2017, are presented as if TMK Artrom had acquired the TMK Resita and TMK Assets subsidiaries at the time they were originally procured by the predecessor.

The assets and liabilities of TMK Resita and TMK Assets included in the Group's consolidated financial statements for 2018, 2017, 2016 are reflected in the amounts recognized in the consolidated financial statements of the TMK Group prepared under IFRSs and are based on fair values from the date of acquisition by the predecessor TMK Europe GmbH.

According to the separate and consolidated financial statements prepared under the orders OMFP 881/25.06.2012, OMFP 2844/12.12.2016 and OMFP 470/11.01.2018, the company registered the following indicators as at 31.12.2018:



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**TMK-ARTROM Group**

	thousand RON		
	2018	2017	2016
Profit before tax	97,465	28,888	2,288
Net accounting profit of which:	79,576	26,620	2,928
Operating profit	116,286	41,586	14,925
Financial loss	(18,821)	(12,698)	(12,637)
Exceptional result	-	-	-
Current income tax expense	(10,258)	(4,122)	(1,694)
Deferred income tax - revenues	4,045	10,092	9,933
Deferred income tax - expenses	(11,676)	(8,238)	(7,600)
Income	1,396,646	1,185,628	762,827
Cost of sales	(1,077,687)	(994,932)	(639,611)
Export	73%	69%	70%
Market share for seamless steel industrial pipes in Europe	16.1%%	17.5%	17.1%
Market share for seamless steel industrial pipes in North America	4.9%	3.9%	1.5%
Liquidity	1.15	1.02	1.01

**TMK-ARTROM SA separate**

	Thousand RON		
	2018	2017	2016
Profit before tax	67,781	33,102	1,247
Net accounting profit of which:	56,570	33,055	877
Operating profit	82,428	41,871	11,365
Financial loss	(14,647)	(8,769)	(10,118)
Exceptional result	-	-	-
Current income tax expense	(8,567)	(1,952)	(1,535)
Deferred income tax - revenues	1,507	2,182	2,439
Deferred income tax - expenses	(4,151)	(277)	(1,274)
Income	1,385,787	1,065,446	761,911
Cost of sales	(1,122,693)	(894,405)	(654,216)
Export	73%	75%	70%
Market share for seamless steel industrial pipes in Europe	16.1%%	17.5%	17.1%
Market share for seamless steel industrial pipes in North America	4.9%	3.9%	1.5%
Liquidity	1.37	1.26	1.29

The profit of the year 2018 increased compared to the profit of 2017 due to the increase of turnover from sale of pipes production TMK-ARTROM by 41%, mainly, due to the increase of average sale price by 30% and the quantity of sold pipes by 8%.



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5L-0352

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ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

TMK Artrom has a 16% market share on the Economic European Area ("EEA") for the industrial seamless pipes. Also, TMK Artrom has 5% market share in the North American seamless industrial steel pipes market (US & Canada)[2] .

The share in Europe slightly decrease in 2018 compared to the previous years (17.1% in 2016) due to the fact that we have delivered more seamless pipes on the US market, where we generally delivered alloyed steel pipes with heat treatment. Also our share on the North American market increased in 2018 to 4.9 % compared to 2016 when was of 1.5%

During the last year, TMK Artrom's products were sold in over 37 countries, with a focus on Europe and the Americas. From a total of over 640 clients worldwide, almost 400 clients were active during 2018.

### 1.1.2. Assessment of the issuer's technical level

**Description of the main products manufactured and/or services rendered mentioning:**

- a) the main markets for each product or service and the distribution methods;**
- b) the share of each category of products or services in the revenues and in the total turnover of the issuer for the last three years;**
- c) new products taken into consideration for which a substantial amount of assets will be affected in the next financial year as well as the stage of development of those products.**

TMK-Artrom has a production capacity of approximately 200,000 tons of seamless steel pipe per year, the company being recognized in Europe as one of the world's leading producers of seamless carbon steel pipes, low alloyed and alloyed with a dimensional range starting with an outer diameter of 15.88 mm to 254 mm and a wall of 1.5 mm to 60 mm. Seamless pipes produced in TMK-Artrom are designed for industrial applications, consisting of mechanical pipes, boiler tubes for high temperature applications and low temperature applications, pipework, pipes for the production of plugs, pipes for the production of hydraulic cylinders, precision pipes, etc.

The main products made by TMK-ARTROM are:

1. Mechanical pipes
2. Seamless steel pipes, for boilers and high temperature
3. Seamless steel pipes, for services at low temperature
4. Plain end pipes for pipelines
5. Pipes for jacks
6. Precision pipes, seamless
7. Seamless pipes for water and gas installations.
8. Boring pipes and rolled pipes for hydraulic cylinders
9. Polished exterior pipes for telescopic cylinders
10. Pipes cut to precise lengths for the automotive industry
11. Pipes for hydraulic cylinders suitable for boring and rolling operations.

The subsidiary of the TMK-ARTROM group, TMK RESITA SA, has a production capacity of 450,000 tons of billets and blooms per year and is a producer of continuous castings and includes the following range of semi-finished goods:

<sup>[2]</sup> The calculations of the market share have been computed based on the market report on the seamless steel pipes for industrial application market, issued by Lucintel (a global management consulting and market research firm) for the benefit of TMK Artrom and on the sales volumes registered by TMK Artrom in 2018.



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5L-0352

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ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA

- Round billets Ø 177 mm, Ø 220 mm, Ø 280 mm and Ø 350 mm, continuous casting for carbon steel pipes, low alloy and alloy, for the rolling of mechanical pipes, boiler pipes, pipework, pipe for the production of plugs, pipes for the production of hydraulic cylinders, precision pipes, etc.;
- Rounds semi goods Ø 177 mm, Ø 220 mm, Ø 280 mm and Ø 350 mm, continuously cast from carbon steel, low alloyed and alloyed, for hot plastic processing by forging / molding (flanges, rings, axes, pinions);
- Blooms 260x340 mm continuous cast steel, low alloy and alloy for hot plastic deformation, designed for lamination of medium and light profiles for machine building, lamination of shaped profiles or economical profiles for metal constructions and for hot processing by forging / molding (forged / molded parts, rings, flanges, trees).

The TMK-ARTROM Group is one of the market leaders aimed at increasing the volumes of premium products for mechanical engineering, automotive and energy industry. The pipes for industrial applications produced within the TMK-ARTROM Group include precision pipes, low temperature service pipes, pipe pipes, boiler pipes and high temperature services, mechanical pipes, pipes for plugs, precision pipes cut at fixed lengths, pipes drilled and rolled on the inside, pipes polished to the outside. The TMK-ARTROM Group capitalizes its own production chain from one end to the other that enables it to produce high quality billet for pipe production and then can be transformed into multi-purpose industrial pipes as well as machined steel pipes premium with all the important types of heat treatments. The final primary markets for seamless steel pipes for industrial applications produced by the TMK-ARTROM Group are in Europe and North America, but the TMK Group has expanded its customer base in South America, Asia and Africa. In addition to its production capacities, the TMK-ARTROM Group also has sales and distribution channels for the sale of its own pipes and for the pipes produced by its affiliates within the TMK Group.

### Consolidated sales volume and turnover

Product Type / Sales Destination	2018	2017	2016
	Quantity (tons)		
<b>Total seamless steel pipes</b>	<b>200,446</b>	<b>185,416</b>	<b>169,806</b>
1.1. Pipes for common use Europe *	133,044	137,649	137,853
1.2. Pipes for common use America **	12,965	8,477	4,073
1.3. Premium Pipes Europe	30,185	25,454	24,900
1.4. Premium Pipes America	24,251	13,836	2,981
Total billets and blooms TMK Reșița sold to third parties outside the Group TMK-Artrom	17,848	63,403	9,677
Total billets sold to TMK Artrom produced by TMK Reșița	239,842	236,682	200,227
Total sales of goods, of which :	78,358	85,716	69,427
2.1 Sale of goods Europa	75,452	67,077	68,979
2.2 Sale of goods America	2,906	18,640	449

\*Middle East, Turkey and North Africa - sales allocated to the European market

\*\* Canada, Brazil, USA and Mexico - sales allocated to the Americas market



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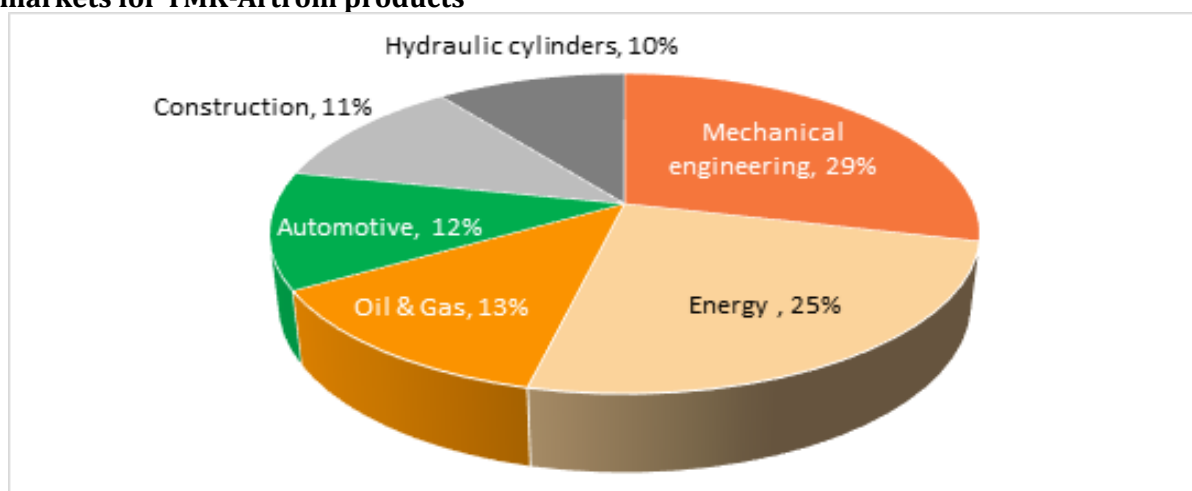
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OHSAS 18001

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PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA



**End-markets for TMK-Artrom products**

Sales were made in 2018 directly and through related business traders as follows:

- In Romania, Eastern Europe and Turkey, sales were made directly;
- In North and Central Europe, direct sale using the TMK-EUROPE agent in Dusseldorf, Germany, the majority shareholder;
- In South and West Europe, direct sale using TMK-ITALIA agent in Lecco, Italy;
- In America through TMK INDUSTRIAL SOLUTIONSS LLC, Houston, USA;
- In the Middle East through TMK-Middle East, Dubai, UAE.

Since June 2016, sales have been made by TMK-ARTROM directly to customers in North America following the conclusion of an agent contract with TMK INDUSTRIAL SOLUTIONSS LLC in June 2016.

Agents do not conclude commercial documents in the name and on behalf of TMK-ARTROM, but only provide commercial agent services to TMK-ARTROM.

Starting with 2018 it has been considering the increase of the share of high added value products and especially of pipes with heat treatments for quenching and return and not only. It has also been pursued and further pursued the growth of deliveries of products where additional services are provided, for example: fixed and precise length cuts, inside reaming and rolling, external polishing of pipes, etc.

In 2018, following a promotion more intense in the US market of pipes TMK-Artrom by TMK INDUSTRIAL SOLUTIONS LLC, acting as agent of TMK-Artrom in this market, and amid growing consumption at industrial pipes we managed to increase our sales volume by 67% compared to 2017, namely an increase of 14,903 tons. To this good result was also contributed the higher oil barrel price that generated a significant increase in extraction activity with direct repercussions on OCTG pipe consumption, which led to an OCTG pipe producer guidance to the production of such pipes thus reducing the pressure on the market of the industrial pipes produced by TMK-Artrom.

The company registered in 2018 the highest pipe production of 199,878 tons of pipes, registering an increase of 4% due to the increase of the volume of orders.

Evolution of the volume of pipe production from the privatisation of the company:

year	Quantity (to)
1999	24,177
2000	26,174
2001	42,153
2002	49,121
2003	59,315



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5CT-0440  
5L-0352

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OHSAS 18001

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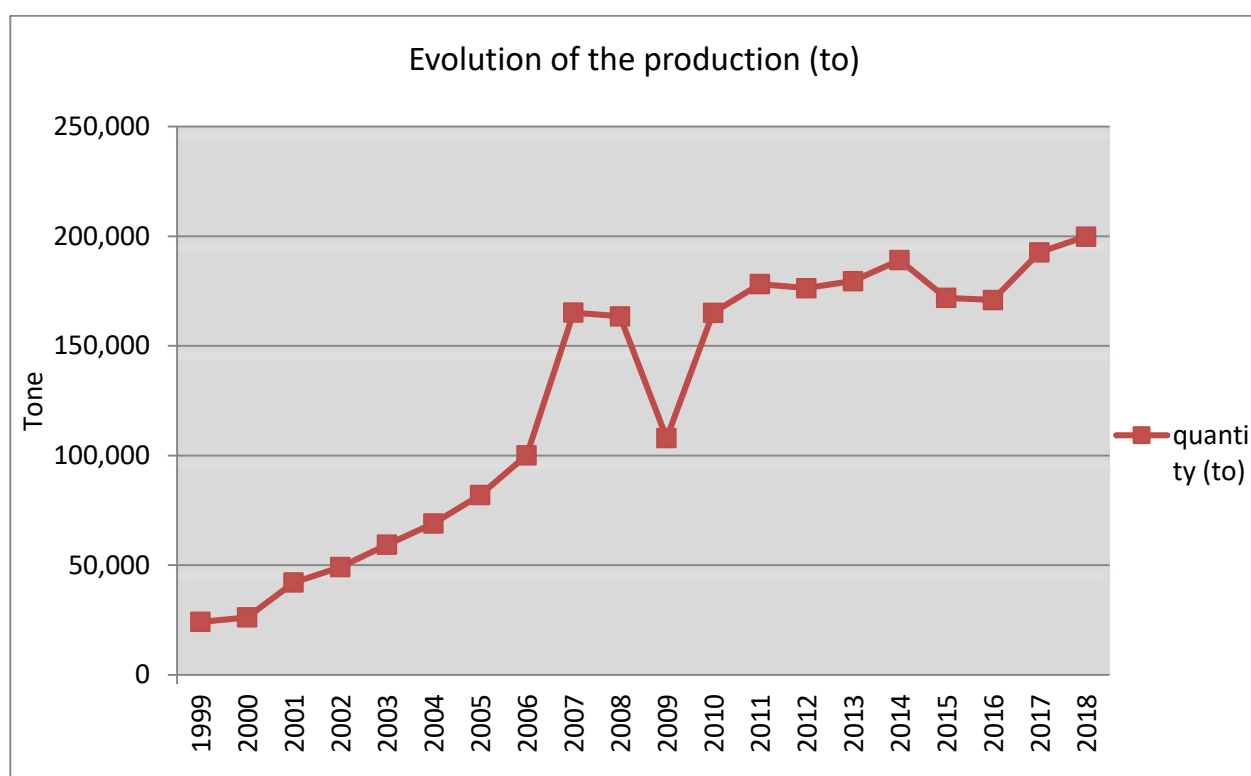
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2004	69,079
2005	81,955
2006	100,147
2007	165,196
2008	163,519
2009	107,936
2010	165,095
2011	178,210
2012	176,385
2013	179,553
2014	189,130
2015	171,910
2016	170,980
2017	192,685
2018	199,878



For the year 2019 no large investments are planned to involve the development of new products. We have proposed to assimilate in production new pipes with higher mechanical characteristics or TMK-C steel pipes for the oil and gas industry, but these do not involve large volumes or investments in 2019.

### 1.1.3. The assessment of the technical-material acquisition activity (indigenous sources, import sources)

**Specifying information about the safety of supply sources and raw-materials prices and sizes of raw materials and materials inventory.**



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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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EN 10255

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TMK-REȘITA SA is the only supplier of raw materials (billets) of TMK- ARTROM SA.

The raw material inventory as at 31.12.2018 increased compared to 31.12.2017 from 26,113 tons (2017) to 23,681 tons (2018).

TMK-ARTROM SA ensured the financing production activity of TMK RESITA SA through trade advances granted for delivery of billets to TMK-ARTROM which were in amount of 39,335,965 lei (without VAT) as at 31.12.2018 (as at 31.12.2017: 62,966,821 lei (without VAT)).

#### 1.1.4. Assessment of sale activity

##### a) Description of the sale evolution sequential on domestic market and/or external and sale prospects in the medium and long term:

Depending on the type of product market, TMK-ARTROM Group's revenues are as follows:

Year	Market	Romania thousand RON	Europe thousand RON	North and South America thousand RON	Other countries thousand RON	Total thousand RON
2018	Revenues	380,035	714,673	299,306	2,632	1,396,646
	Cost of sales	(328,713)	(555,116)	(191,579)	(2,279)	(1,077,687)
	<b>Gross profit on sales</b>	<b>51,322</b>	<b>159,557</b>	<b>107,727</b>	<b>353</b>	<b>318,959</b>
2017	Revenues	369,646	567,283	222,672	26,027	1,185,628
	Cost of sales	(353,422)	(471,277)	(148,864)	(21,369)	(994,932)
	<b>Gross profit on sales</b>	<b>16,224</b>	<b>96,006</b>	<b>73,808</b>	<b>4,658</b>	<b>190,696</b>
2016	Revenues	228,997	478,011	34,733	21,087	762,828
	Cost of sales	(212,448)	(386,340)	(21,323)	(19,500)	(639,611)
	<b>Gross profit on sales</b>	<b>16,549</b>	<b>91,671</b>	<b>13,410</b>	<b>1,587</b>	<b>123,217</b>

Depending on the type of product market, TMK-ARTROM's revenues are as follows:

Year	Market	Romania thousand RON	Europe thousand RON	North and South America thousand RON	Other countries thousand RON	Total thousand RON
2018	Revenues	373,835	712,940	296,380	2,632	1,385,787
	Cost of sales	(335,637)	(583,172)	(201,478)	(2,406)	(1,122,693)
	<b>Gross profit on sales</b>	<b>38,198</b>	<b>129,768</b>	<b>94,902</b>	<b>226</b>	<b>263,094</b>
2017	Revenues	264,547	563,200	211,672	26,027	1,065,446
	Cost of sales	(246,453)	(481,271)	(144,637)	(22,044)	(894,405)
	<b>Gross profit on sales</b>	<b>18,094</b>	<b>81,929</b>	<b>67,035</b>	<b>3,983</b>	<b>171,041</b>
2016	Revenues	229,613	478,010	33,201	21,087	761,911
	Cost of sales	(214,282)	(397,902)	(21,934)	(20,097)	(654,215)
	<b>Gross profit on sales</b>	<b>15,331</b>	<b>80,108</b>	<b>11,267</b>	<b>990</b>	<b>107,696</b>

For the first part of the year 2019 we estimate that we will have a stable level of orders that will ensure the capability of our production capacities, our main objective being to provide an improved structure due to heat treatment capacities that allow us to increase the volumes of pipes with heat treatments and implicitly to improve the average price of the pipe produced in TMK-Artrom. From the discussions we have held so far with our customers and observing the market evolution at the international level, we expect prices to grow slightly on hot rolled pipes starting with April and the volume of deliveries. In the case of cold pipes, the market has been and will remain stable at a high level.

We are confident that we will maintain an equally high volume of orders inclusively from the US market and this in spite of the import customs duties imposed as a result of the application of Section 232 as we have managed to convince our clients and to mostly pass the 25% import duty increase in the final selling price of products such as the impact in the profitability of sales in this area will be reduced. Also, the



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TRD 100/102  
Vd TUV

TUV CPR:  
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EN 10255

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DNV-GL Rules  
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quality of our products is highly appreciated by US market customers and this will allow us to maintain a high volume of orders that we will attract from this market.

The understanding of OPEC oil producers to further maintain a lower level of oil production, which should maintain a barrel price level around or above USD 60 / barrel, will certainly lead to a sustained a high level of drilling activity which will help the OCTG pipe consumption in the next period. Maintaining a stable market for OCTG pipes, will reduce the chance to have an increased competition for OCTG producers in industrial pipe segment.

#### **b) Description of the competitive situation in the business area of the company, share market of goods or services of the company and main competitors**

TMK Artrom has a market share of 16% in the European Economic Area (SEE) for seamless industrial pipes. TMK Artrom also has a 5% share in the seamless industrial pipe market in North America (USA and Canada). In the last year, TMK Artrom products have been sold in over 37 countries, with a focus on Europe and America.

**Local competitors** are:

- ArcelorMittal Roman
- Tenaris Silcotub Zalau

In the **European market**, the main external competitors are:

- Vallourec,
- Tenaris Dalmine,
- ArcelorMittal Ostrava,
- Podbrezova,
- Benteler
- Tubos Reunidos,
- Eschweiler,
- Interpipe,
- BMZ, etc,

**In USA**, the main competitors are:

- Timken,
- Michigan Seamless Tube, etc.

#### **c) Description of any significant dependence of the issuer to a single customer or to a group of customers of which loss have a negative impact on the issuer revenues.**

Not applicable.

The company has a total of over 640 customers worldwide, of which nearly 400 customers were active in 2018, of which the largest customer has <8% of sales and top 10 customers <25% of sales.

### **1.1.5. Evaluation of issues related to the employee / staff of the issuer**

#### **a) Specifying the number and level of training of company employees and the degree of unionization of the workforce;**

The average number of employees in 2018 within the Group was of 2,249 (2017: 2,068), of which 1,457 (2017: 1,324), people works within TMK-ARTROM. The structure of employees of TMK-ARTROM is the following: employees with higher education 16% and with secondary education 84%.



API:  
5CT-0440  
5L-0352

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ISO 14001  
OHSAS 18001

TUV:  
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TRD 100/102  
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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949

The effective number of employees, existing at TMK-ARTROM as at 31.12.2018 was of 1,486 employees increased with 121 employees compared to the staff registered at the end of 2017- 1,365 employees.

TMK INDUSTRIAL SOLUTIONS LLC had at the end of the year 2018 a number of 11 employees (2017: 10 employees).

The effective number of employees as at 31.12.2018 of TMK REȘITA was of 783 employees and 2 people at TMK ASSETS.

As at TMK-ARTROM, the remuneration of employees is paid in Lei under the provision of the Collective Labour Contract and the relevant legislation. In these are guaranteed in a percentage of 90% regardless the volume of production achieved, which transform this part of the cost from a variable cost in a fix cost.

The unionisation of the workforce within TMK-ARTROM is of 91%.

As at TMK RESITA, the remuneration of employees is paid in Lei under the provision of the Collective Labour Contract and the relevant legislation. In these are guaranteed in a percentage of 96% regardless the volume of production achieved, which transform this part of the cost from a variable cost in a fix cost.

The staff of the company is in a continuous improvement process, participating in numerous courses and training programs.

The unionisation of the workforce within TMK RESITA is of 99.5%.

The staff of the company is in a continuous improvement process, participating in numerous courses and training programs, both internal and external. Internal trainings are carried out within the company with employee lectors within the company among specialists who have trainers training.

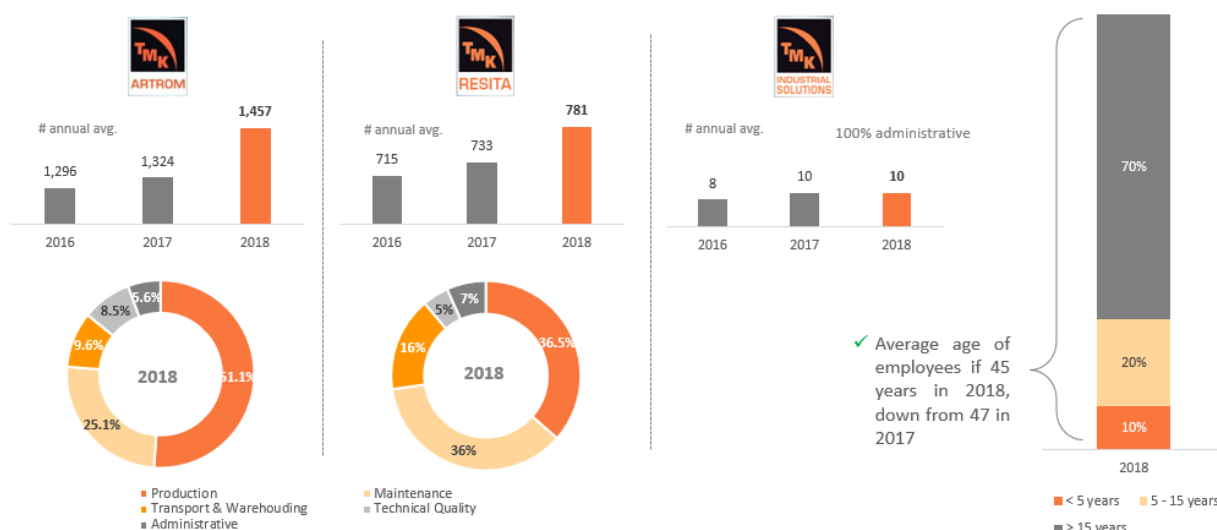
External training is based on an annual plan that sums up the training needs of all departments in terms of the technological needs of the production process, authorizations under the legal regulations in force for certain trades, as well as legislative changes.

## TMK ARTROM

### STAFF BREAKDOWN & TRAINING



✓ As of 31 December 2018, the group had 2,282 employees (2,249 employees on average for the year)<sup>(1)</sup>



✓ In 2018, the Company has increased the intensity and efficiency of professional training, including in the field of health and safety at work

✓ All TMK Artrom employees had the opportunity to attend to internal training courses and 550 employees benefited from at least one external<sup>(2)</sup> course, i.e. 38% of the average number of employees in 2018

Source: Company information

(1) The Group number of employees also takes into account the employees of TMK Assets namely 1 person as at 31 December 2018. The Group does not include TMK Italia employees as at the end of December, as TMK Italia acquisition by TMK Artrom was finalized on 5 February 2019. TMK Italia had an average of 13 employees in 2018, all administrative

(2) A course with an external lecturer



API:  
5CT-0440  
5L-0352

LRQA:  
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ISO 14001  
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TRD 100/102  
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EN 10210-1,2  
EN 10255

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**b) Description of the relationship between manager and employees and any conflictual elements which characterize these reports.**

The relationship of the management with employees is very good and was not registered conflictual elements.

In the last 15 years there have been no labor conflicts.

**1.1.5. The assessment of the legal aspects related to the impact of core business of the issuer over the environment**

**The synthetic description of the impact of basic activities of the issuer over the environment also any existing or expected litigation or regarding to the violation of the law on the environment protection.**

TMK-ARTROM ARTROM implemented and certified an integrated management system efficiently planned under ISO 9001:2015, integrated with an Environmental Management System and certified under ISO 14001:2015 and integrated also with Health and occupational safety Management System under ISO 45001:2018.

The top management from TMK-ARTROM established the policy in the quality management, environmental management, health and occupational safety and ensure that it:

- a) - is suitable for the purpose of organization;
- b) - includes the commitment for continuous improvement, prevention of pollution, decrease of the risks and meeting the requirements;
- c) - creates a framework for setting and analysing the objectives in the management of the quality and environmental, health and occupational safety management;
- d) - is communicated and understood at appropriate levels of the organization;
- e) - is systematically analysed for accuracy and continuity.

TMK- ARTROM determined how to identify environmental issues arising from business activities or company goods in order to determine their potential impact on environmental factors in the area.

The environmental aspects identified are:

- Low and medium environmental aspects
- Significant environmental aspects.

The identification/ determination of the general and specific environmental aspects, was performed based the following documents:

- The own procedure for identification and establishment of the environmental aspects;
- Legislation in force;
- Registrations of the measures imposed through authorisations: water management and environmental authorization IPPC (relating to integrated pollution control) and GES (relating to greenhouse gases);
- Analysis bulletins resulted after measurements made on environmental factors (water, air, soil);

In order to determine the activities and products that can have a significant environmental impact, TMK-ARTROM constantly monitors its environmental impact through activities and products.

The departments or positions responsible for these activities are specified in the system procedures, procedures / work instructions and job description.

To comply with legislation and to ensure access to normative acts in force (including those related to environmental matters), TMK-ARTROM is a subscriber to the "Official Gazette" in electronic format. Also available on the Intranet is a legislative soft. Systematic evaluation of compliance with the law is carried out in accordance with the related procedure.



API:  
5CT-0440  
5L-0352

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TUV CPR:  
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In setting environmental general objectives and specific objectives, management at the highest level takes into account the stated environmental policy, management commitment, legal provisions and other requirements, identified environmental issues, technological options and financial/trade requirements of the company.

Through these plans, it ensures that responsibilities are established and the resources needed to achieve the set environmental objectives are estimated.

The planning activity of environmental management includes:

- Planning objectives / targets and necessary resources;
- Development of environmental management programs;
- Implementation of environmental management programs;
- Actions for checking / monitoring environmental management programs.

There have been met all environmental protection standards and no litigation or complaints have been recorded.

In 2018, the company obtained a new water management permit and revised the integrated environmental permit and the greenhouse gas emission permit following the completion of the investment works "Modernization of Heat Treatment Plant of TMK-ARTROM SA " which by "low nox autorecovery" burner technology can be framed as a minor emission source.

Within the policy of optimizing resource consumption and compliance with environmental conditions for water and soil protection, TMK ARTROM has started the investment "Metallic hall for briquetting slag", which consisted in the construction of a metallic hall and the purchase of a slag machine resulting from the technological process of pipework.

This investment aims to protect the soil against accidental pollution, as well as to reduce the costs of transporting slag for recovery.

### 1.1.7. Assessment of research and development activity

#### **Specification of the expenses in the financial year and those which are anticipated in the next financial year for the research and development activity.**

The research expenses made registered an increase of 110% compared to the previous year and were carried out for the development of the technology for the rolling of stainless steel pipes and for the assimilation in the heat treatment plant of the alloy steel pipes with extra thick walls.

For the next year, the following research papers for the cold rolled pipe production technology from stainless steel for the oil drilling industry are planned for the production of mechanical heat-treated pipes with high mechanical resistivity at low temperatures for the development of thermal treatment technology through analyses compared between software simulations and practical results as well as the continuation of the project: "Increasing the productivity and durability of reduction roller cylinders by applying lubricating-deoxidizing material to the external surface of the pipes".

The results of the research expenditure did not result in the recognition of intangible assets of the nature of development expenditures.

### 1.1.8. Assessment of the issuer activity regarding the risk management

#### **Description of the issuer exposure to the price, credit, liquidity and cash flow risk.**

#### **Description of the issuer policies and objectives on the risk management.**

Through the work of TMK-ARTROM S.A. in 2018, the Company tried to reduce as much as possible the company's exposure to market, credit, liquidity and treasury risk.

*The company was not exposed to internal risks:*



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5L-0352

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TRD 100/102  
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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
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EN 10255

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The risks related to acquisition and sale (agreements which could not be met by suppliers, narrowing the sale market) were reduced by the fact that the main supplier of raw material is TMK-RESITA company within the group, and 86% of the production is intended for export, directly to customers, 0,6% being performed through companies within the group PAO TMK (related to the main shareholder TMK EUROPE GmbH Germany).

The company is exposed to the risk of credit from its operating activities (primarily for trade receivables) and from its financing activities, including deposits in banks and financial institutions, foreign exchange transactions and other financial instruments.

The credit risk of customers is managed under the established policies, procedures and control regarding the customer's credit risk management.

As of 1 July 2011, a Commercial Credit Committee was elected and its Rules of Procedure entered into force in order to better coordinate the financial discipline and the security of the Company's receivables.

Provisions of that Regulation shall apply to sales made directly to third parties, internally but also externally for direct sales to customers (agent TMK ITALIA, agent TMK EUROPE Germany, TMK INDUSTRIAL SOLUTIONS LLC) but also for direct sales in Eastern Europe.

The tracking activity monitoring of credit risk is made based on a set of rules and technical measures which classify and monitor the risk for each partner.

The company sell the goods to external and domestic partners providing them depending on each creditworthiness credit limits in amount calculated for periods between 30 and 120 days.

The credit limits granted are approved by the commercial credit Committee and are revised quarterly, but can be updated during the year when is necessary. Those are settled in order to minimize the risk concentration and to reduce, therefore, the potential financial losses due to failure to pay by the partners.

In order to limit the credit risk, the company concluded on 1 October 2012 with COFACE S.A. an insurance contract default risk for almost the entire portfolio of sales to third parties by Coface SA. In 2013 the company decided to maintain the insurance contract for the non-payment also with Coface but this time with the German subsidiary which could grant a smaller insurance premium in the same condition with the previous year. In December 2014 it was decided to extend for another year the insurance contract concluded with Coface GERMANY. In 2017 the contract with COFACE GERMANIA was extended for another year. The contract was extended automatically for 2019.

As at 31.12.2018 the credit limit granted by Coface covered to external market 76% from the required limits, and to domestic market 51% from the required limits. As at 31.12.2018, 62% of insurable receivables were covered by Coface. For 8% of the total receivables from third parties irrevocable letters of credit were opened. Clients not covered by Coface in 100% or has no letter of credit opened are closely monitored to limit possible loss of non-payment. Customers covered by COFACE are third-party customers in the EU, Romania and non-EU markets (including the US and Canada).

## TMK- RESITA

As of 1 July 2011, a Commercial Credit Committee was elected and its regulation came into force in order to better coordinate financial discipline and the security of the company's claims. The provisions of that Regulation apply to sales made directly to third parties, both internally and externally.

Monitoring of credit risk tracking activity is carried out according to a set of technical rules and measures that classify and monitor the risk of each partner. The company sells its products to external and domestic partners by offering them the creditworthiness of each credit limit for periods generally ranging from 30 to 60 days.

Credit limits granted are approved by the Commercial Credit Committee and are reviewed quarterly, but may be updated during the year when the situation so requires. They are set in such a way as



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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA

to minimize the concentration of risks and thus reduce the financial losses due to the potential failure of the partners to make payments.

In order to limit the credit risk, the Company ended on 1 July 2017 with COFACE S.A. a non-payment risk insurance contract. As at 31 December 2018, Coface's credit limits covered 13% of customer requests in Romania and 24% of external customer requests. As of 31.12.2018 there were no insurable claims on the balance. **TMK-ASSETS** did not enter into the insurance contract having perceived guarantees at the end of lease contracts.

The technological risks (unable acquisition of modern technology due to the problems mainly related to financing activities) have not existed because the company was engaged in a new investment process financed from own and borrowed sources namely a loan of EUR 25 million contracted with BCR for a period of 7 years.

In 2018, TMK-ARTROM did not face the risks generated by the human factor (strikes, incompetence) and / or informational risks (the inability to keep up with the new market trends).

The European Pipeline Market posted a rising pipe consumption in 2018 compared to the same period last year as a result of the positive situation in the European markets, USA, etc., which marked this year. The positive situation in the European Pipeline market was mainly driven by the high demand for pipes for the oil and gas industry in the US market, as well as by a rising consumption of pipes in the EU28 market, which allowed a much better coverage of capacities of pipe manufacturers in Europe and an almost monthly increase in seamless pipe prices by an average of EUR 20/ ton (products made also by TMK-Artrom).

According to specialized publications, the price of seamless industrial pipes (mechanical pipes, boiler pipes, precision pipes) increased significantly in 2018 (EUR +70/ ton) after 2017 rose by EUR 235/ (January 2017 - January 2018) and the mechanical pipe is the main product made by TMK-Artrom in 2018, 53% of the deliveries being represented by the mechanical pipes,

In 2018, competition on the industrial pipe segment has diminished as pipe producers in Europe have increasingly focused on the US market where the demand for OCTG pipes has increased as a result of rising OCTG pipe consumption amid growing investment in the exploitation of oil at the price of which exceeded USD 60 / barrel but also due to low inventories of OCTG pipes on this market. Under these conditions, the competition industry was reduced, so manufacturers such as TMK-Artrom, whose production capacities are dedicated to these types of products, recorded a higher volume of orders and rising prices.

In the latter part of the year, on the background of higher stocks and increasing oil market tensions and increasing protectionist measures, customers began to demand price reductions and reduce the quantities ordered, mainly to avoid the end-of-year inventory of too high stocks.

In 2018, TMK-Artrom sold the historical volume of 200,276 tonnes with 8% more compared to last year. The quantity of value-added premium products increased in 2018 by 38.5% compared to 2017.

In the case of TMK ARTROM, current and future cash receipts are sufficient to ensure that the relationship between creditors and shareholders is not affected.

In order to protect itself against the price risk, TMK-ARTROM determines the selling price of the products, starting from the price calculation by negotiating with the business partners according to the prices of the markets, in order to ensure the profitability threshold.

At the beginning of the year there are concluded framework agreements for the sale of the export products with trade houses within the group for TMK Middle East UAE and TMK Global.

The price for each order is determined based on the catalogue prices on sales markets.

In sales analysis are monthly tracked all value influences of quantity, structure and price.

In relations the with related companies, TMK-ARTROM uses only market prices.

Currency risk represents the potential effect that changing exchange rates might have on the profit and loss account and on the accounting balance sheet of TMK-ARTROM S.A.

Foreign exchange risk management has as its objective a loss minimization that might arise from variations in exchange rates.



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5L-0352

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ISO 14001  
OHSAS 18001

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PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA



On the short term, currency risk management aimed and still aims to maintain that expense elements which form the cost of operation performed to avoid the loss to be less than the loss which could be produced without protection against the currency risk.

It was followed that the payments in a certain currency to be made from the collections in that currency, eliminating in this way the cost of currency risk.

Currency auctions are negotiated with the bank and here are considered the higher currency exchanges which benefit from better exchange rates.

On the long term, it was aimed and is still aimed that the protection expenses of the exchange rate to be as lower as possible and to represent a lower share in the total loss derived from the currency risk.

As at 31 December 2018 TMK-Artrom concluded with BCR a framework agreement "Master Agreement ISDA/17.11.2011" through which it may run forward transactions but also other transactions with BCR up to a limit of EUR 850,000 treasury line.

In 2018 it was not necessary and was not concluded any agreement on derivatives transactions exchange transactions.

### 1.1.9. Prospective elements regarding the issuer's activity

#### a) Presentation and analysis of trends, elements, events or uncertainty factors affecting or likely to affect the issuer's liquidity as compared to the same period of the previous year.

Although it is difficult to analyze the trends / elements / events or uncertainty factors that could affect the Company's liquidity, from our point of view, the following key factors might be considered:

- (i) Decrease in sales prices of seamless steel pipes
- (ii) In 2018, the EURIBOR was maintained at negative rates throughout the year, while the LIBOR rate steadily increased and global economic and financial and political developments signaled the EURIBOR and LIBOR rates on the next the fund for maintaining the economic and financial crisis that could affect both the liquidity and the level of financial interest losses
- (iii) Increase the collection period for receivables for sale of pipes as a result of maintaining the economic and financial crisis
- (iv) During 2018, efforts have been made to increase supplier pay-outs (supplier rotation speeds have reached 59 days), the evolution of the commodity market, variations in the oil market can all converge towards shorter supplier pay-outs the conditions imposed on the market by utilities suppliers; the price of raw material - billets is increasing mainly due to the higher purchase price of old iron, graphite electrodes and ferro alloys
- (v) Oscillations of the exchange rates
- (vi) Lowering the price of oil barrel to close to the psychological threshold of USD 50 what would negatively affect the oil extraction investments with direct repercussions on the consumption of the pipe
- (vii) Decreases in volumes and negative changes in the structure of orders for the US market due to the implementation of protectionist policies for steel and aluminium trade, including the introduction of US import duties on 25% steel products. However, we estimate the negative impact to be moderate

#### b) Presentation and analysis of the capital spending effects, current or anticipated on the financial position of the issuer compared to the same period last year.

The Group defines capital expenses as cash acquisitions of property, plants, equipment, as well as intangible assets.

The capital expenses were in 2018 of RON 74,624,141 ( 2017: RON125,984,154) and had as main destination investment project "Heat Treatment Plant" as well as equipment to ensure the added value of the products.



API:  
5CT-0440  
5L-0352

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ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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Considering the provisions of the Law no. 227/2015 regarding the Fiscal Code, in 2017 the company benefited from the profit tax exemption of reinvested profit in technological equipment purchased and put into operation in 2018 mainly consisting of technological equipment within the Heat Treatment Plant.

**c) Presentation and analysis of events, economic changes transactions that materially affect the revenues from the core business.**

Among the elements that may affect revenues from the core business we mention:

**Positive:**

- The investment in heat treatments inaugurated in February 2018 will allow the TMK-Artrom plant to increase the share of allied steels with heat treatments that enjoy much higher prices than normal pipes and provide more consistent profit as competition on this sector is lower.
- The investment in heat treatments allows us to accept starting with 2018 a much larger volume of orders from the US market given that customers in this market demand in large quantities steel pipes allied with heat treatment and return and until this investment TMK-Artrom has a limited heat treatment capacity.
- Maintaining the oil barrel price to over USD 55 - 60 / barrel which will keep investors' appetite for new drilling pits in the US and not only with positive effects on OCTG pipe consumption and not only.
- Maintaining a high level of OCTG pipe consumption reduces the supply of industrial pipes on the market, which will allow the producers of such pipes (is also the case for TMK-Artrom) to enjoy high demand and maintain high levels of prices.
- Maintaining antidumping duty on Chinese seamless pipe.
- Measures of commercial protection of the metallurgical market which were adopted in 2018 provisionally (fixed import quotas and import duty of 25% over the free allowances) will be definitively adopted starting with 2 February 2019 including seamless pipes (excluded from the preliminary measures)

**Negative:**

- Rising the price of raw materials and materials:
  - a) The risk of an increase in the price of scrap on the background of higher demand due to higher consumption of metallurgical products;
  - b) The risk of re-increasing the price of graphite or refractory electrodes as happened in 2017 when, for example, the price of graphite electrodes increased from USD 2,000-3,000/ to the beginning of the year to USD 25,000-30,000/ to in the second part of the year;
- Lower oil prices with direct effects on investment in extraction and implicitly reduced OCTG pipe consumption which could eventually lead to increased competition on the industrial pipe market and higher pressure on the price of the steel pipes.

## **2. TANGIBLE ASSETS OF THE ISSUER**

### **2.1 . The location and the main production capacity characteristics owned by the company**

The main production capacities of TMK-ARTROM SA Slatina are:

- (i) Unit no 1 ASSEL: Hot rolling and finishing line for hot rolled pipe with heavy wall thickness in range of 60-224 mm, ASSEL type (120,000 tons / year) composed by several stands in line.
- (ii) Unit no. 2 CPE: The rolling and finishing CPE (Cross Piercing Elongator) with a capacity of 80,000 tons / year. The line was commissioned on 31 December 2006, at first with only 80% of its capacity. In 2007 we continued the investment process so that the mill's production capacity reached 80,000 tons. It produced pipes in the range of 21.3 -121 mm.
- (iii) Unit no. 3 for cold drawn/rolled pipes is composed mainly of a series of cold rolling mills: LAPIR Pilger mill type 50, 75, SKW 75 automatic Pilger mill and Pilger mill HPT 250 and drawing benches 15 tj, 30 tf, 45 tf, 50 tf, 150 tf. Also, the department is equipped with pipe finishing and delivery machines. It has a production capacity of 28,000 tons / year and can provide cold



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA

processing of pipes with diameters between 17 and 220 mm for the construction and manufacture of bearings.

- (iv) Unit no. 5 - ACH pipes for hydraulic cylinders: is the newest and most modern department within the company, with processing machines the newest available on the market, with a capacity of 20,000 tons/ year. Unit is the first investment in further processing operations for part of the pipes produced by other departments in order to increase value added and / or approach of some new market segments. The first product assimilated in this section consists of tubular pieces obtained by precision cutting of pipes. These products are mainly for the automotive industry. The second equipment put in function is a grinding machine outside pipes, in order to produce finished pipes ready for final operation of polishing before chrome plating. The latest investment made in this unit during 2015 was the commissioning of the two boring and rolling pipes for hydraulic cylinders. In 2017 were put into operation two CNC machining centres for processing drilling and tapping pipes automotive industry. During to 2018 was purchased in commissioned a measuring CNC machine for check the processed pipes dedicated for automotive industry.
- (v) Unit no. 6- HTP Heat Treatment Plant: is the newest and most modern unit of the company. In the first trimester of 2018, was finished with success the performance tests for the Heat Treatment Plant, followed by normal production with optimization and tuning.
- (vi) For a better technological flow, was installed a new cradle for supply the pipes of the Heat Treatment Plant.
- (vii) The annual capacity projected for this section is 165,000 tons per year and will perform heat-tempering, normalization, recoating and other thermal treatment combinations including heat straightening of thermally treated pipes covering the dimensional range of pipes produced in TMK-ARTROM, including for hardening of pipes with extra thick walls up to 60 mm.

The location of these capabilities is on the land in the ownership of TMK-ARTROM Slatina, Street Draganesti km. 30, Olt County.

The company also has in Slatina, street Ec. Teodoroiu, two secondary offices at the ground floor of blocks V22 and V23.

## 2.2. Description and analysis of the wear degree of properties of the issuer

The theoretical wear is generally low because useful life was extended for older machines the term of which would have expired on 31.12.2004 if the physical term of functioning and production of future income could be extended by 20-30 years. Also are new assets bought from outside the country.

On capacities situation is as follows:

- (i) The hot rolling line is in good technical condition. There have made investments modernization and automation of control systems and automatic operation of rolling mills in the line hot rolling, modernization of the transport system, adding in flow sheet of a heating by induction, modernization systems connection of rolling stands in rolling mills and finishing flow of investments in the finished product (marking, coating, packaging) and quality control equipment (magnetic powder) which led to the improvement of the quality of the finished product.
- (ii) The capacity rolling and cold drawing is in good condition, mills and benches operating at design capacity in terms of finite dimensional pipes according to technical documentation. The capacity is composed of both machines produced in Romania before 1989, and imported equipment commissioned in 1992, 2001 and 2007.
- (iii) The new production capacity, respectively the CPE mill German manufacturer (SMS-MEER) is the youngest of the new generation of economical rolling mill. Has been installed a rolling mill mandrels necessary to improve the quality of finished products and to reduce costs.

During 2018 current repairs were made for conducting the technological flow on designed parameters, and capital repairs for equipment and buildings which were recognized in the carrying value of tangible assets in the amount of 14,541,039 lei.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA

### 2.3. Specifying potential problems related to ownership of tangible assets of the Company

There are no problems related to ownership of tangible assets of the company.

## 3. MARKET SECURITIES ISSUED BY THE ISSUER

### 3.1. Presentation of markets in Romania and other countries where the issued securities are negotiated

TMK-ARTROM SA is an open company. Regulated market where the issued securities are traded is the Bucharest Stock Exchange Regulated Market - Market Category Standard - market symbol **ART**.

**a) Capital structure, including securities not traded on a regulated market, indicating the different classes of shares and, if applicable, for each class of shares, the rights and obligations attached to that class and percentage of total share capital they represent.**

The share capital as at 31.12.2018 is of 291,587,538.34 lei, divided in 116,170,334 shares, in nominal value of 2,51 lei each.

The structure of the shareholders at the date of the last extract from the Central Depository (7.12.2018) was as follows:

	%	Number of shares	Value subscribed and paid capital lei
TMK EUROPE GmbH	92.7282	107,722,706	270,383,992.06
Financial Investment Company OLTENIA SA	5.68%	6,597,432	16,559,554.32
Other shareholders individuals and companies	1.5918	1,850,196	4,643,991.96
<b>Total</b>	<b>100.00</b>	<b>116,170,334</b>	<b>291,587,538.34</b>

As at 24.02.2014 Financial Investment Company OLTENIA SA has become significant shareholder through transaction on secondary market with a number of shares held after transaction of 5,810,951 representing 5.002% from the share capital and the number of votes in GSM of TMK-ARTROM. As at 7.12.2018 Financial Investment Company OLTENIA SA owned a number of 6,597,432 shares representing 5.68% of the share capital.

The company's obligations are guaranteed by the social patrimony, the shareholders responding only to the subscribed share capital.

The shares owned gives shareholders the right to vote and dividends.

Shares are registered, embodied, numbered.

**b) any restrictions relating to the transfer of securities, such as limitations on the ownership of securities or the need to obtain approval of the entity or other holders of securities**

Not applicable.

**c) significant direct and indirect holdings of shares (including indirect holdings through pyramid structures and cross holdings of shares, as they are defined in regulations on the capital market)**

No significant indirect holdings, the direct ones being presented at a)



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

**d) holders of any securities with special control rights and a description of these rights.**

Not applicable

**e) the control system of any employee share award scheme, if control rights are not exercised directly by employees;**

Not applicable

**f) any restrictions on voting rights, such as limiting the voting rights of holders of a fixed percentage or number of votes, deadlines for exercising voting rights or systems by which, cooperating with the entity, financial rights attached to securities are separated from the ownership of securities.**

Not applicable

**g) any agreements between shareholders which are known to such entity and can lead to restrictions on transfer of securities and / or voting rights;**

Not applicable

**h) rules that provide the appointment or replacement of the Board members and modification of the entity's articles of incorporation;****The Ordinary General Meeting:**

- (i) Elects the members of the Board of Directors, establishes their remuneration, discharges them from their duties and revokes them;
- (ii) Establishes the powers and responsibilities of the Board of Directors

**The Extraordinary General Meeting decides** any other amendment to the articles of incorporation or any other decision which requires the approval of the Extraordinary General Meeting.

**i) Powers of Board members and, in particular those relating to the issuance or redemption of shares;**

Not applicable

**j) any significant agreements to which the entity is a party and which take effect, are modified or terminated based on a change in control of the entity, following a takeover public offering, and effects from it, unless the disclosure of such information would seriously prejudice the entity.**

This exception does not apply if the entity is specifically obliged to disclose such information under other legal requirements.

Not applicable

**k) any agreements between the entity and members of its Board of Directors or employees, by which there are provided compensations if they resign or are dismissed without reasonable cause or if the employment relationship ends because of a takeover public offering.**

Under individual labour contracts for employees or mandate contracts for managers and administrators.

**3.2. Description of company policy on dividends. Dividends due paid/accrued in the last 3 years and, if applicable, reasons for any decrease in dividends over the last 3 years.**

API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

In the last three years, the company has not granted or paid dividends.

The Board of Directors propose the distribution of separate accounting profit of TMK-ARTROM SA for 2018, in amount of 56,569,986.13 lei, as follows to:

1. Legal reserve under Law 31/1990, at least 5% from the annual gross profit (but not more than 20% from the share capital) 3,389,036 lei;
2. The carrying of the difference of the undistributed profit in the carried over result of the amount of 53,180,950.13 lei

The profit of the year 2018 of the subsidiary TMK INDUSTRIAL SOLUTIONS LLC was in amount of 5.298.104 lei (1.344.150 USD) and it is proposed to be carried over for the next period.

The profit of the year 2018 of the subsidiary TMK REȘIȚA SA was in amount of 15.724.880,37 lei and it is proposed to be distributed to the legal reserve, under the Law 31/1990, at least 5% of the annual gross profit, in amount of 786,244 lei and to cover the accounting losses from the previous years the amount of 14,938,636.37 lei.

The profit of the year 2018 of the subsidiary TMK ASSETS SRL was in amount of 489,401.98 lei and it is proposed to be distributed to the legal reserve, under the Law 31/1990, at least 5% of the annual gross profit, in amount of 25,251 lei and carried over the difference of profit 464,150.98 lei.

### **3.3. Description of any activities of the issuer to purchase its own shares.**

Not applicable.

### **3.4. If the issuer has subsidiaries, including number and nominal value of shares issued by the parent company held by subsidiary.**

Subsidiaries do not own shares of the parent company

### **3.5. If the issuer has issued bonds and / or other debt securities, the presentation of how the issuer pays its obligations towards the holders of such securities.**

Not applicable.

## **4. BUSINESS LEADERSHIP**

### **4.1. Presentation of the list of company administrators and the following information for each administrator:**

- a) CV (name, surname, age, qualification, professional experience, position and seniority);
- b) any agreement, understanding or family connection between that director and another person due to who that person was appointed director;
- c) Participation of the director to the capital of the company;
- d) list of persons affiliated to the company.

The company is managed by a Board of Directors composed of:

1. Andrey Zimin- Chairman of the Board of Directors
2. Adrian Popescu- Member/Chief Executive Officer
3. Mikhail Albertovich Surif - Member
4. Andrey Parkhomchuk - Member
5. Olga Nikolaeva - Member



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



6. Florin-Tudor Tat - independent member
7. Vlad Nastase – independent member.

## 1. **Andrei Zimin**

### a) CV

NAME: Zimin

SURNAME: Andrey

Nationality: Russian

Citizenship: Russian

Languages: English

Education:

- In 2003 graduated from State University of Foreign Affairs in Moscow having diploma in law.

Professional activity:

- 2003-2004- attorney in the law firm of Yust.
- 2004-2012- chief of the corporate Department of OAO TMK.
- Since 2012- present - Deputy General Manager of Legal Issues to PAO TMK.

***b) any agreement, understanding or family connection between that manager and another person due to who that person was appointed director;***

Not applicable

***c) Participation of the director to the capital of the company;***

Not applicable

***d) list of affiliated trading company.***

Mr. Andrei Zimin is Deputy General Manager of Legal Issues of PAO TMK (affiliate company).

## 2. **Adrian Popescu- Chief Executive Officer**

### a) CV

NAME: Popescu

SURNAME: Adrian

Nationality: Romanian

Citizenship: Romanian

Languages: English, French

Education:

- In 1985 he graduated from the Polytechnic Institute "Traian Vuia" of Timisoara, Faculty of Mechanics, Department of Machines Manufacturing Technologies, specialization of Technological Processes Automation / Machine Tools with Numerical Commands

Professional activity:

- 1985-1988 - trainee engineer at Slatina Pipe Company (currently TMK-ARTROM)
- 1989-1990 - Chief Engineer Maintenance Department – Trainee Chief Mechanical Engineer at Slatina Pipe Company (currently TMK-ARTROM)
- 1991 - Chief Engineer Refurbishment- Investment Service at ARTROM



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

- February 1992 - September 1992 - Technical Manager at ARTROM
- September 1992 - June 1998 – CEO and Chairman of the Board of Directors of ARTROM
- June 1998-April 1999 - CEO I SC L&IS Galati-Group AUSA
- April 1999-2009 - President of TMK-ARTROM
- 2004-2009 - President of TMK-RESITA
- Starting May 2009 – CEO TMK-ARTROM and TMK-RESITA. Also owns positions of Vorsitzender der Geschäftsführung (Chairman of BoD) in TMK-Europe and Chairman BoD in TMK-Italia Chairman BoD in TMK INDUSTRIAL SOLUTION

***b) any agreement, understanding or family connection between that manager and another person due to who that person was appointed director;***

Not applicable

***c) Participation of the director to the capital of the company;***

Mr. Popescu Adrian held a number of 4981 shares.

***d) list of affiliated trading company.***

Mr. Popescu Adrian is the Chief Executive Officer of TMK-RESITA SA, Vorsitzender der Geschäftsführung (Chairman of BoD) in TMK-Europe and Chairman BoD in TMK-Italia Chairman BoD in TMK INDUSTRIAL SOLUTION, all affiliated companies.

### 3. **Surif Mikhail**

***a) CV***

NAME: SURIF  
SURNAME: MIKHAIL  
Nationality: Russian  
Citizenship: Russian  
Languages: English

Education:

- 2001-2007- Ural State Technical University-UP1, Faculty of Physics and Technology, Standardization and Certification Program
- 2004-2007- Humanities Studies University, Faculty Business and Management, Finance and Banking Program
- 2009-2011- State University-School of High Economic Studies, Faculty of Economics, Corporate Finance Master Program

Professional activity

- 04.2007 – 08.2009- **Sinara Group**- Specialist Department of Planning and Investment Control
- 09.2009 – 08.2013- **OAO TMK**- Head of Budgeting Enterprises - Key and Consolidation
- 08.2013 – present - **PAO TMK**- Director of Economical and Planning Directorate

***b) any agreement, understanding or family connection between that manager and another person due to who that person was appointed director;***

Not applicable



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

**c) Participation of the director to the capital of the company;**

Not applicable

**d) list of affiliated trading company**

Mr. Surif Mikhail Director of Economical and Planning Directorate of PAO TMK (affiliate company).

**4. Parkhomchuk Andrey Vladimirovich****a) CV**

NAME: PARKHOMCHUK

SURNAME: ANDREY VLADIMIROVICH

Nationality: Russian

Citizenship: Russian

Languages: English, French, Ukrainian

Education:

- In 1985 graduated Chelyabinsk State Technological University, specialization Metallurgical Machinery and Equipment

Professional activity:

- 07.08.1989 – 22.03.1991- “Teplopribor” Chelyabinsk Factory (7.08.1989 - Milling Machine Operator Trainee; 2.01.1990 - 3rd Category Milling Machine Operator)
- 17.07.1995 – 17.12.2001 - “Mechel” Chelyabinsk Metallurgical Factory OJSC (17.07.1995- Design Engineer in Milling Department, design and estimate Department; 29.04.1997- III Category Engineer of Market Forecast Office in Marketing Department , Sales and Marketing Service; 07.07.1997- I II Category Engineer of Assortment in Marketing Department, Sales and Marketing Service; 25.01.1999- Director of Opportunity Analysis, marketing Segmentation; 26.12.2000- Deputy Director of Quality Metal Sales Department of Sales Direction)
- 18.12.2001 – 31.05.2004 - “ “ Uglemet – M” LLC / “ Mechel Trade House” LLC (18.12.2001- Director of Beloretsky subsidiary; 01.10.2002- Director of Metal Goods Department; 01.06.2003- Deputy Sales Director)
- 01.06.2004 – 31.01.2006- “Mechel Steel Group” OJSC / “MECHEL” OJSC (01.06.2004- Director of Metal Production Sales Department; 16.01.2006- Senior Vice President of Sales and Procurement)
- 01.02.2006 – 30.06.2006- “Mechel UK” LLC- Senior Vice President of Sales and Procurement
- 10.08.2006 – 23.03.2010 - TOV “ METINVEST HOLDING” Sales Director of Steel and Milling Division
- 02.07.2012 – until present - Trade House TMK Closed Joint Stock Company, First Deputy Director General, Management

**b) any agreement, understanding or family connection between that manager and another person due to who that person was appointed director;**

Not applicable

**c) Participation of the director to the capital of the company;**

Not applicable

**d) list of affiliated trading company.**

API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

Mr. Parkhomchuk Andrey is First Deputy Director General of „Trade House TMK” (affiliated company).

## 5. Olga Nikolaeva

### a) CV

NAME: NIKOLAEVA

SURNAME: OLGA

Nationality: Russian

Citizenship: Russian

Education:

- In 2001 graduated from State University for Industry in Moscow having diploma in law.

Professional activity:

- Between 2008-2012, Ms Olga Nikolaeva was Head of the Departments of maintaining the corporative processes management of corporative relationship and ownership in Evraz Holding LLC
- Since 2012, Ms Olga Nikolaeva Head of Corporative Department PAO TMK.

***b) any agreement, understanding or family connection between that manager and another person due to who that person was appointed director;***

Not applicable

***c) Participation of the director to the capital of the company;***

Not applicable

***d) list of affiliated trading company.***

Ms Olga Nikolaeva Head of Corporative Department PAO TMK (affiliated company).

## Florin-Tudor Tat

### a) CV

NAME: Tat

SURNAME: Florin-Tudor

Nationality: Romanian

Citizenship: Romanian

Languages: English

Education:

- 1989-1993 - Theoretical High School “Octavian Goga” Huedin, Cluj country
- 1993-1997 - Faculty of Economics within the University “Babes Bolyai Cluj-Napoca (Diploma in “Banks and Stock Exchange Markets”)
- 2007-2008 - EMBA program at Sheffield University (UK)

Professional activity:

02.2015 – to date Tudor Financial Trust- Owner, CEO

07.2010 – 02.2015, CEC Bank HQ- Project Manager

10.2009-07.2010- TFT Finance, Managing Partner

11.2007-10 .2009- Consilium Advisors, Financial Advisory

05.2006-10.2007, Alpha Bank Romania-Headquarter

10.2003-05.2006-Alpha Bank Romania-Dorobanti Branch-Branch Manager

02.2003-10.2003-Alpha Bank Romania-Otopeni Branch-Branch Manager

05.2002-02.2003-Alpha Bank Romania-Cluj Branch-Deputy Branch Manager



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

12.1999-05.2002- Alpha Bank Romania-Cluj Branch-Head of Credit Department  
 10.1998-12.1999-Alpha Bank Romania-Cluj Branch-Assistant Head of Import-Export Department  
 05.1996-10.1998- Alpha Bank Romania-Cluj Branch- Credit Analyst

***b) any agreement, understanding or family connection between that manager and another person due to who that person was appointed director;***

Not applicable

***c) Participation of the director to the capital of the company;***

Not applicable

***d) list of affiliated trading company.***

Not applicable

### **Vlad Nastase**

#### **a) CV**

NAME: Nastase

SURNAME: Vlad

Nationality: Romanian

Citizenship: Romanian

Languages: English

Education:

- 2012-2014- Executive MBA, Wien University Bucharest/Vienna
- 2000-2004- Law Faculty, Titu Maiorescu University

Professional activity:

2015 – to date Concilium Consulting-CEO

2012-2015-BCR- Head of regional Corporate Recovery

2012-2015- Board Member in the Board of Administrators of the Credit Guarantee Found for Private Investors

2012-2013- Chief Risk Officer/Executive Board member, Suport Collet (part of BCR Group)

2011-2012- Adviser to BCR's Risk Vice president, BCR

2009-2011- Deputy Legal Director-reporting directly to BCR's CEO, BCR

2008-2009- Head of Non-banking Legal Department, BCR

2007-2008- managing Partner, Concilium Consulting

2005-2008-legal Director, Ipsos Interactive Services

***b) any agreement, understanding or family connection between that manager and another person due to who that person was appointed director;***

Not applicable

***c) Participation of the director to the capital of the company;***

Not applicable

***d) list of affiliated trading company.***

Not applicable



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



#### 4.2. The list members of the executive management of the issuer. For each, the following information is presented:

- a) The period for which the person is part of the executive management;
- b) any agreement, understanding or family relationship between that person and another person by virtue of which that person has been appointed as a member of the executive management;
- c) participation of the respective person in the issuer's capital.

The Company's powers of management are delegated by the Company's shareholders through the Incorporation Act to the Chief Executive Officer and six executive officers, namely:

- 1) Adrian Popescu – Chief Executive Officer (CEO)- President of the Management Board
- 2) Vaduva Cristiana – Chief Economical and Accountancy Officer
- 3) Drînciu Cristian – Chief Operational Officer
- 4) Mustata Valeru – Chief Commercial Logistic and Administrative Officer
- 5) Chernyy Evgeny – Chief Financial Officer
- 6) Pavlov Alexandru – Chief Procurement Officer
- 7) Constantin Neacsu – Executive Mill Officer

Directors are appointed exclusively outside the Board of Directors except for the Chief Executive Officer who is also a member of the Board of Directors.

The Chief Executive Officer represents the company in relations with third parties and has full power to hire, fire, fix the remuneration of any employees, establish and modify at any time the organizational chart of the Company.

The company is validly represented in relations with third parties, including but not limited to financial institutions, courts of all levels of jurisdiction, governmental authorities, by the following persons acting together or separately, as follows:

1. by the Chief Executive Officer acting individually; or
2. by Chief Operational Officer (first signature) acting together with the Chief Economical and Accountancy Officer (second signature), under the mandate granted by the Chief Executive Officer, or
3. by Chief Commercial Logistic and Administrative Officer (first signature) acting together with the Chief Economical and Accountancy Officer (second signature), under the mandate granted by the Chief Executive Officer,
4. by Chief Financial Officer (first signature) acting together with the chief Economical and Accountancy Officer (second signature), under the mandate granted by the Chief Executive Officer
5. by Chief Procurement Officer (first signature) acting together with the chief Economical and Accountancy Officer (second signature), under the mandate granted by the Chief Executive Officer.
6. by Executive Mill Officer (first signature) acting together with the Chief Economical and Accountancy Officer (second signature), under the mandate granted by the Chief Executive Officer.

Chief Economical and Accountancy Officer exercises the Preventive Financial-Economic Control in the company.

#### a) the period for which the person is part of the executive management

Members of Management Board:

- 1) Adrian Popescu – mandate from 25.04.2018 to 25.04.2022 (GSM decision);
- 2) Vaduva Cristiana – mandate from 25.04.2018 to 25.04.2022;
- 3) Drînciu Cristian – mandate from 25.04.2018 to 25.04.2022;
- 4) Mustata Valeru – mandate from 25.04.2018 to 25.04.2022;



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5L-0352

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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

- 5) Evgeny Chernyy- mandate from 25.04.2018 to 25.04.2022;
- 6) Pavlov Alexander - mandate from 25.04.2018 to 25.04.2022;
- 7) Neacsu Constantin - mandate from 25.04.2018 to 25.04.2022;

The mandates were prolonged successively, with the last extension being in 25.04.2018.

**b) any agreement, understanding or family connection between that manager and another person due to whom that person was appointed as member of the executive management;**

For the members of executive management there are no agreements, understandings or family ties or other persons due to who that person was appointed member of executive management.

**c) participation of the respective person in the issuer's capital.**

The following directors own shares in capital:

Name surname	Number of shares held
Popescu Adrian	4,981
Vaduva Cristiana	19,356
Mustata Valeru	1,275

**4.3. For all persons listed under 4.1. and 4.2. the disclosure of possible litigation or administrative proceedings in which they have been involved in the past 5 years regarding their activity within the issuer and those relating to that person's ability to perform his duties within the issuer.**

On the date of this report, the Company does not have any information that would indicate the existence of any litigation or administrative proceedings against members of the Board of Directors or executive management of the Company, litigation / administrative procedures directly related to their work within the Group and / or the Company; and which could have had an impact on the price of the Company's shares or their ability to hold a membership in the above-mentioned management structures.

## 5. FINANCIAL-ACCOUNTING STATEMENTS

**Presenting an analysis of the current financial and economic situation compared to the past 3 years, referring at least:**

- a) balance sheet items: assets that are at least 10% of total assets, cash and other liquidities available, reinvested earnings, total current assets, total current liabilities;
- b) profit and loss account: net sales, net income or gross income; risk provisions for various expenses; referring to any sale or closure of an activity segment performed last year or to be made next year; declared and paid dividends;
- c) cash flow: all the changes in the cash in the core business, investments and financial activities, the cash at the beginning and at the end of the period.

- a) balance sheet items: assets that are at least 10% of total assets, cash and other liquidities available, reinvested earnings, total current assets, total current liabilities;

**BALANCE SHEET ITEMS, in simplified form:**

2018 separate	2017 separate	2016 separate	2018 consolidated	2017 consolidated	2016 consolidated	2015 consolidated
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ISO 14001  
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TRD 100/102  
Vd TUV

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EN 10255

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NAME OF INDICATORS	thousand RON	thousand RON	thousand RON	thousand RON	thousand RON	thousand RON	thousand RON
Intangible assets	1,694	1,965	2,199	2,755	3,360	3,771	2,406
Property, plant, equipment	621,466	606,665	495,204	1,134,522	1,127,167	1,023,752	1,003,894
Investments in subsidiaries	290,263	4	4	0	0	0	0
Financial assets	4,820	1,131	1,204	4,858	1,274	1,244	85
Deferred tax receivable	0	0	0	129	69	0	0
Other fixed assets	3,639	4,226	14,145	1,889	1,083	11,007	10,136
<b>TOTAL FIXED ASSETS</b>	<b>921,882</b>	<b>613,991</b>	<b>512,756</b>	<b>1,144,153</b>	<b>1,132,953</b>	<b>1,039,774</b>	<b>1,016,521</b>
Cash and cash equivalents	16,925	10,825	16,772	20,929	12,865	18,911	4,183
Trade receivables and other receivables	304,919	238,496	213,734	297,222	255,375	204,728	221,344
Inventories	205,017	238,084	158,438	308,095	313,076	221,574	182,974
Payments in advance	45,914	66,350	101,741	6,810	3,768	4,002	1,600
Other current assets	1,047	1,068	0	1,047	1,068	0	0
<b>TOTAL CURRENT ASSETS</b>	<b>573,822</b>	<b>554,823</b>	<b>490,685</b>	<b>634,103</b>	<b>586,151</b>	<b>449,216</b>	<b>410,101</b>
<b>TOTAL ASSETS</b>	<b>1,495,704</b>	<b>1,168,814</b>	<b>1,003,441</b>	<b>1,778,256</b>	<b>1,719,104</b>	<b>1,488,990</b>	<b>1,426,622</b>
Current liabilities: Amounts to be paid over a period of up to one year	417,760	439,408	379,056	552,123	576,779	442,753	321,655
Long-term liabilities: Amounts payable in a period exceeding one year	485,957	208,988	137,059	555,345	276,085	206,563	268,428
Equity	<b>591,987</b>	<b>520,418</b>	<b>487,326</b>	<b>670,788</b>	<b>866,240</b>	<b>839,674</b>	<b>836,539</b>
Equity attributable to the shareholders of the Company				670,737	866,174	839,610	836,475
Interest that do not control				51	66	64	64
<b>TOTAL LIABILITIES</b>	<b>1,495,704</b>	<b>1,168,814</b>	<b>1,003,441</b>	<b>1,778,256</b>	<b>1,719,104</b>	<b>1,488,990</b>	<b>1,426,622</b>

Total assets reported by the Group at 31 December 2018 were of RON 1,778,256 thousand, compared to RON 1,719,104 thousand as at 31 December 2017, of which the fixed assets represented RON 1,144,152 thousand (31 December 2017: RON 1,132,953 thousand, 31 December 2016: RON 1,039,774 thousand). Regarding TMK-ARTROM, The Company reported as at 31 December 2018 a total asset level of RON 1,495,704 thousand, increasing with 28% compared to 31 December 2017 mainly due to the increase in fixed assets, which increased by 50% reaching the level RON 921.882 thousand (31 December 2017: RON 613,991 thousand; 31 December 2016: RON 512,756 thousand) due to the realization of the investment project "Heat Treatment Plant", as well as other equipment that will ensure the increase of the added value of the products as well as the registration of the acquisition of the subsidiary TMK RESITA with **acquisition value 290,258,942 RON**.

**Fixed Assets** reported by the Group experienced a 1% increase on 31.12.2018 compared to 31.12.2017, due to the realization of the investment project "Heat Treatment Plant", as well as other equipment that will ensure the increase of the added value of the products.

According to the pooling of interests method, the assets and liabilities of subsidiaries transferred under joint control are recorded at the historical cost that they were recorded in the predecessor's consolidated financial statements in the consolidated financial statements of TMK-ARTROM for the reference period (2018, 2017, 2016). Considering that, at the level of TMK Europe (the predecessor's actual financial statements) have not been historically consolidated, the consolidated financial statements at the level immediately above the shareholder, ie at the PAO TMK Russia.



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5L-0352

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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

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ISO/TS 16949

As at 31 December 2018, the Group's property, plant and equipment are stated at cost, net of accumulated depreciation and / or accrued impairment losses, if any. The method of accounting depreciation of tangible assets within the group is the straight line method.

For separate TMK-ARTROM, as at 31 December 2018, property, plant equipment is presented at cost, net of accumulated depreciation and / or accrued impairment losses, if any.

As at 1 January 2011, for the preparation of the first set of IFRS Financial Statements, for all property, plant, equipment (including land, buildings, plant and equipment), the Company has selected as a deemed cost the revalued cost from 31 December 2010 (using a recalculation for 1 year, from 31 December 2011). Property, plant, equipment is evaluated at cost less cumulated depreciation and losses from impairment recognised on the evaluation date.

TMK-ARTROM SA has used for accounting depreciation of property, plants, equipment, the linear depreciation regime. The lifetimes used for the calculation of fixed asset accounting depreciation are determined by the best estimate of management of the asset's economic life and taking into account the technical characteristics and conditions of use.

For the calculation of the tax depreciation, the lifetime established according to GD 2139/2004 for the approval of the Catalogue on the classification and normal durations of fixed assets was used. For technological equipment, machines, tools and installations as well as for their computers and peripheral equipment, which were recorded during 2017, the accelerated depreciation regime was used, according to art. 28 alin. (6) (b) of Law no. 227/2015. For the means of transport registered during 2017, the degressive depreciation regime was used, according to art. 28 alin. (6) (c) of Law no. 227/2015. For the purpose of calculating the tax depreciation of other fixed assets, the linear depreciation regime was used.

In 2015, the company entered into a contract to acquire a new Informatic program "Integrated Microsoft Dynamics AX 2012". Starting November 2016, the IT program was put into operation. At 31.12.2018, the INFORMATIX AX program had an inventory value of RON 2.440.379.

The Group's **current assets** have increased to RON 634,103 thousand, as at 31 December 2018, from RON 586,151 thousand as at 31 December 2017 (31 December 2016: RON 449,216 thousand), mainly due to the increase of receivables, cash and cash equivalent, prepayments and other current assets. Also at the level of TMK-ARTROM the increase was maintained and the current assets increased by 4% reaching the level of RON 573,822 thousand as at 31 December 2018.

Group **receivables** registered an increase in the year 2018 by 16% due to the increase of the turnover compared to the same period of the previous year, the receivables reported by TMK-ARTROM individually have an increase by 28% due to the increase of the turnover.

As at 31 December 2018, The Group register doubtful customers in amount of RON 2,944 thousand for which were made value adjustments in amount of RON 2,731 thousand compared to 31 December 2017 when the Group registered doubtful customers in amount of RON 4,353 thousand for which were made value adjustments in amount of RON 3,126 thousand.

TMK-ARTROM individually as at 31 December 2018 register doubtful customers in amount of RON 1,866 thousand (31 December 2017: RON 3,275 thousand) for which were made value adjustments in amount of RON 1,566 thousand (31 December 2017: RON 2,243 thousand).

As at 31 December 2018, The Group TMK-ARTROM SA (consolidated) had to collect from the companies within the group TMK trade receivables in amount of RON 710 thousand (31 December 2017: RON 1,592 thousand), as far as TMK-ARTROM SA is concerned, has received from the TMK group companies trade receivables in the amount of RON 8,542 thousand (31 December 2017: RON 14,049 thousand).

TMK-ARTROM has to recover from the state budget the value added tax in the amount of RON 5,948 thousand, representing VAT to be reimbursed related to the November 2018 statements of the fiscal group and RON 11,888 thousand representing VAT to be reimbursed related to December 2018 statement of TMK-ARTROM SA as member of the fiscal group. Under the Decision no 2/30.04.2008 issued by N.A.F.A.-D.G.A.M.C. starting with June 2008, TMK ARTROM SA is representative of the fiscal group, consisting of TMK-ARTROM SA and TMK REȘIȚA SA. Through the Decision N.A.F.A no.22/28.05.2010 it was approved



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5CT-0440  
5L-0352

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ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA



the maintaining of the fiscal group for a period of 5 years and was extended through the Decision no. 6026/SRC dated 6.05.2015 for a period of minimum 2 years. The monthly payment obligation of TMK REȘIȚA SA is offset by the VAT to be reimbursed by TMK-ARTROM SA through the consolidated VAT statement of the fiscal group.

As at 31 December 2018, **the Group's inventories register** a decrease by 1.6 % due to the decrease of the inventories at the level of the parent company TMK-ARTROM by 13.9% mainly determined by the decrease of the purchased goods purchased from the PAO TMK Group

**The cash and cash equivalents** of both the Group and its parent increased 63% and 56% respectively, mainly as a result of earnings in the last days of 2018..

**The payments in advance** of the Group increased as at 31 December 2018 compared to 31 December 2017 from RON 3,768 thousand to RON 6,810 thousand.

As for TMK-ARTROM, advance payments have decreased on 31 December 2018 compared to 31 December 2017 from RON 66,350 thousand to RON 45,914 thousand due to the decrease of the prepayment granted to TMK REȘIȚA for financing the production activity of billets for TMK-ARTROM.

TMK-ARTROM SA ensured the financing of the production activity of TMK REȘIȚA SA through trade prepayments granted for deliveries of billets to TMK-ARTROM which were in amount of RON 39,335,965 (without VAT) as at 31 December 2018 (as at 31 December 2017: RON 62,966,821 (without VAT)).

**Total liabilities** of the Group, current and long term, increased from RON 852.864 thousand as at 31 December 2017 to RON 1,107,468 thousand as at 31.12.2018 mainly due to the registration of the price which has to be paid to TMK EUROPE for the acquisition of shares of TMK RESITA in total amount of EUR 62,290 thousand (RON 290,514 thousand) presented in financial statements at fair value of RON 275,831,330 equivalent to EUR 59,141,776.

**Total liabilities** of TMK-ARTROM, current and long term, increased with 42% from RON 648,397 thousand as at 31.12.2017 to RON 903,717 thousand as at 31.12.2018 mainly due to the registration of the price which has to be paid to TMK EUROPE for the acquisition of shares of TMK RESITA in total amount of EUR 62,290 thousand (RON 290,514 thousand) presented in financial statements at fair value of RON 275,831,330 equivalent to EUR 59,141,776.

### **Bank loans**

All loans in foreign currency were evaluated according to available exchange rates as at 31.12.2018. TMK INDUSTRIAL Solutions LLC –and TMK-RESITA the subsidiary of the group has no loans contracted at 31 December 2018, so all liabilities regarding loans are of the company TMK-ARTROM.

The bank loans situation at the end of 2018 compared to the previous year is as follows:

#### **Short-term bank loans:**

Banking company name	Currency	31 December 17		31 December 18	
		Balance lei	Balance foreign currency	Balance lei	Balance foreign currency
Line for financing general needs in UNICREDIT BANK	EUR	65,235,795	13,999,999	65,294,595	13.999.999
Overdraft unengaged for 3 years BANCPOST	EUR	91,456,392	19,627,099	0	0
Overdraft unengaged BANCA TRANSILVANIA	EUR			92,501,203	19.833.445
<b>Total short-term bank loans</b>		<b>156.692.187</b>	<b>33,627,098</b>	<b>157,795,799</b>	<b>33,833,444</b>



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5L-0352

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ISO 14001  
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TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

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DNV-GL Rules  
RINA

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Banking company name	Currency	31 December 16		31 December.17	
		<u>Balance lei</u>	<u>Balance foreign currency</u>	<u>Balance lei</u>	<u>Balance foreign currency</u>
Line for financing general needs in UNICREDIT BANK	EUR	49,043,880	10,800,000	65,235,795	13,999,999
Overdraft unengaged for 3 years BANCPOST	EUR	42,545,898	9,369,073	91,456,392	19,627,099
<b>Total short-term bank loans</b>		<b>91.589.778</b>	<b>20,169,073</b>	<b>156,692,187</b>	<b>33,627,098</b>

## Long term bank loans

Banking company name	Currency	Balance as at 31.12.2018					
		Amount due		<u>Maturity over one year</u>		<u>Maturity less than one year</u>	
		<u>lei</u>	<u>Foreign currency</u>	<u>lei</u>	<u>Foreign currency</u>	<u>lei</u>	<u>Foreign currency</u>
Overdraft credit line BCR ERSTE	EUR	59,706,974	12,801,941	59,706,974	12,801,941		
Loan investment BCR ERSTE- 7 years	EUR	116,597,500	25,000,000	94,388,452	20,238,095	22,209,048	4,761,905
<b>TOTAL</b>		<b>176,304,474</b>	<b>37,801,941</b>	<b>154,095,426</b>	<b>33,040,036</b>	<b>22,209,048</b>	<b>4,761,905</b>

Banking company name	Currency	Balance as at 31.12.2017					
		Amount due		<u>Maturity over one year</u>		<u>Maturity less than one year</u>	
		<u>lei</u>	<u>Foreign currency</u>	<u>lei</u>	<u>Foreign currency</u>	<u>lei</u>	<u>Foreign currency</u>
Overdraft credit line BCR ERSTE	EUR	37,554,818	8,059,493			37,554,818	8,059,493
Loan investment BCR ERSTE- 7 years	EUR	99,305,999	21,311,672	99,305,999	21,311,672	0	0
<b>TOTAL</b>		<b>136,860,817</b>	<b>29,371,165</b>	<b>99,305,999</b>	<b>21,311,672</b>	<b>37,554,818</b>	<b>8,059,493</b>

Banking company name	Currency	Balance as at 31.12.2016					
		Amount due		<u>Maturity over one year</u>		<u>Maturity less than one year</u>	
		<u>lei</u>	<u>Foreign currency</u>	<u>lei</u>	<u>Foreign currency</u>	<u>lei</u>	<u>Foreign currency</u>
Overdraft credit line BCR ERSTE - 3	EUR	76,875,748	16,928,883			76,875,748	16,928,883



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5CT-0440  
5L-0352

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ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 WO/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

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DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

years							
Loan investment BCR ERSTE- 7 years	EUR	19,256,218	4,240,430	19,256,218	4,240,430	0	0
<b>TOTAL</b>		<b>96,131,966</b>	<b>21,169,313</b>	<b>19,256,218</b>	<b>4,240,430</b>	<b>76,875,748</b>	<b>16,928,883</b>

- ❖ the amount of RON 65,255,395.34 (equivalent of EUR 13,999,999) is related to an uncommitted credit in initial amount of EUR 27,000,000 - contracted with UNICREDIT BANK in 15.10.2013, which following the addendum from 23.06.2015 reach EUR 26 million, and following the addendum from 16.03.2017 was decrease up to EUR 16 mil , with final maturity (validity) till 17.02.2019 for cash utilisation and up to 17.07.2019 for letter and credit and bank guarantee utilisation , which can be used in the maximum amount of EUR 15,000,000 to financing general needs / issue of letters of bank guarantee / letters of credit (revolving credit) with interest rate EURIBOR 1M+2.7%, if NFD/EBITDA of TMK Group ( the Financial Net Liability/ EBITDA) is smaller or equal with 5.00x. During 2016 the company decided anticipated voluntary repayment of EUR 1,000,000.

For this credit, the company provided guarantees, as follows:

- Non-disposable mortgage security on the current account balance of current account / sub-accounts opened at UNICREDIT SA as TMK-ARTROM SA;
- Company Warranty issued by PAO Volzsky Pipe Plant to guarantee the full and irrevocable repayment of any and all amounts that the Borrower and / or Codebtor owes to the Bank under this Agreement.
- ❖ the amount of RON 59,706,974, representing EUR 12,801,941, is related to the operating loan - multiproduct credit facility within a EUR 20,000,000- contracted by TMK-ARTROM as borrower and TMK-RESITA as co-borrower with BCR in 03.10.2011, with a 3-year validity period, with interest EURIBOR 3M plus 1,9%. Final maturity date is 03.10.2020.

For this credit, the company provided guarantees, as follows:

- Pledge without disposal of credit balance accounts / sub-accounts opened at BCR SA, owner TMK ARTROM;
- Pledge without disposal of credit balance accounts / sub-accounts opened at BCR SA, owner TMK Resita SA;
- Corporate warranty issued by PAO TMK, to guarantee full and final repayment of any and all amounts that the Borrower and / or the co-borrower are owing to the Bank under this Contract;

In February 2012 an amendment was concluded through which this loan was converted to a loan contracted by BCR SA, and for this reason at the end of 2012 the loan is considered to be long term, and not short term, as it was deemed at the end of 2011. In September 2013 a new amendment was signed with BCR and overdraft credit facility was transformed into a multi-product that can be used both as overdraft and the ceiling for issuing letters of guarantee and letters of credit and has low fixed interest margin applied near EURIBOR 3M from 3.5% to 1.9%. In 25.09.2014 was signed a new amendment with BCR through which the final validity of the facility was extended until 03.10.2017 with the annual approval of the users. In October 2017, a new amendment was signed which prolonged validity up to 03.10.2018, and November 2018, a new addendum prolonged the validity up to 03.10.2020. As at 31.12.2018 the company issued a bank guarantee for good payment in the amount of EUR 100,000 issued in favour of TMK-RESITA supplier INOTAL ALUMINIUM FELDOLGOZO and two letter of credit for TMK-ARTROM providers, one in amount of EUR 234,660 EUR issued in favour of NIDEC ASI and one in amount of EUR 160,000 EUR in favour of S.F.H.



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5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA

- ❖ the amount of RON 116,597,500 (respectively the equivalent of a EUR 25,000,000) is related to a 7-year investment loan in the amount contracted by EUR 25,000,000- concluded by TMK-ARTROM as borrower and TMK-RESITA as guarantor with BCR in 07.11.2016 with an interest EURIBOR 3M plus 3.35% to finance HEAT TREATMENT PLANT. The final maturity is 07.11.2023.

In April 2018 was concluded an amendment through which the interest was changed in fixed interest of 3.4%.

The reimbursement of the loan start from January 2019 in 21 quarterly equal instalments.

For this loan the company constituted warranties, as follows:

- Pledge without dispossession having as titular TMK-ARTROM;
- Pledge without disposal of credit balance accounts / sub-accounts opened at BCR SA, owner TMK Resita SA;
- Corporate warranty issued by PAO TMK, to guarantee full and final repayment of any and all amounts that the Borrower and / or the co-debtor are owing to the Bank under this Contract.
- The mortgage on the land having the category of use yards of construction in an area of 69,339 sqm (sixtyninethousandthreehundredthirtynine sqm) identified with cadastral number 58253, together with C1 - industrial and urban construction with the surface built on the ground and deployed 66,346 sqm, identified with cadastral no. 58253-C1, located in the Municipality of Slatina, Str.Drăgănești Str.30, Olt county, tabled in the Land Book of Slatina, Olt County with no. 58253

- ❖ the amount of RON 92,501,203 (equivalent of EUR 19,833,445) is related to an uncommitted overdraft in amount of EUR 20,000,000- concluded by TMK-ARTROM S.A. as borrower and TMK-RESITA as fidejutor with BANCA TRANSILVANIA in 29.10.2018, with an interest EURIBOR 3M plus 2.0%. The final maturity is 07.11.2019.

For this loan the company constituted warranties, as follows:

- Pledge without dispossession on credit balance of accounts / sub-accounts opened with BANCA TRANSILVANIA current holder having as TMK-ARTROM;
- Company guarantee issued by PAO TMK in full and irrevocable guarantee repayment of any and all amounts that the Borrower and / or co-debtor owes the Bank under this Contract.
- Personal Guarantee (fideiusiune) TMK-Resita SA.

Given the BANCPOST acquisition by BANCA TRANSILVANIA, the loan granted by BANCPOST to the company in 2016 was refinanced 01.11.2018, under exactly the same conditions by BANCA TRANSILVANIA by the loan presented above.

- ❖ The company has contracted with BCR a ceiling of discount for promissory notes amounting to RON 10,000,000 with an interest of ROBOR 3M +3% which can be transformed into a loan if customers do not settle the promissory notes that reached their due date. In July 2015 the value of this ceiling was reduced to RON 4,000,000 RON, and in August 2016 to RON 2,000,000 RON.

As at 31.12.2018 there were no outstanding promissory notes and discounted un-matured.

At the receiving of loans, TMK-ARTROM paid up-front fees for the entire period of the loans, unamortised cost of these fees at the end of each period is decreasing the value of the loans closing balance.

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 21.11.2018 a new



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5CT-0440  
5L-0352

LRQA:  
ISO 9001  
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OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

amendment which increase the ceiling value up to 70,000,000 lei was signed with the bank. At 31.12.2018 from this limit RON 2,550,000 were allocated for TMK-ARTROM's suppliers and from this the amount of RON 1,228,619 was used

### **Other long-term and short term liabilities to affiliated entities**

The company TMK EUROPE GmbH Germany (former TMK SINARA HANDEL GMBH) is the lender with the amount of USD 70,193,087 lei representing 18,037,540 USD, related to the loan agreement w/n/01.12.2008, respectively the assignment of receivables no. 054/20.02.2002 from AVAS (AVAB) in initial amount of USD 22,837,540 USD and RON 38,425. RON 4,073,600, equivalent of USD 1,000,000, represent short term liabilities and amount of RON 69,404,123 lei equivalent of USD 17,037,540 USD represent long term liabilities.

In 2015 have been reimbursed USD 4,800,000 and RON 38,425 from the loan in accordance with the payment schedule.

The company established guarantees in favour of 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.

In EGSM dated 17.11.2008 it was approved changes in the nature and deferred payment of the debt owed by the company TMK EUROPE GmbH worth USD 22,837,540 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 USD 400.000 and the 57th will be worth USD 437,540. The payment of debt amounting to RON 38,425RON 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 the year 2013. The debt has an interest rate of LIBOR + 0.5% per year starting on 1 January 2009. Interest is calculated and paid on the 15th of each month for the previous month.

In 21.11.2013 was concluded the Addendum no.1 at the Contract dated 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 USD 400,000 and a last instalment of USD 437,540 as a result on 31.12.2016 the full amount of the loan was long-term.

In 08.08.2016 by Addendum no. was expressly renounced to all movable and immovable guarantees aforementioned.

In 18.12.2018 was concluded Addendum no.4 on which parties agree about repayment of USD 1,000,000 in second half of the year 2019, and starting with January 2020, Borrower will continue the



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

reimbursement if remaining outstanding amount of USD 17,037,540.03 as following: 42 instalments in amount of USD 400,000.00 and the last one in amount of USD 237,540.03 on the 25<sup>th</sup> day of each month.

The interest due by TMK-ARTROM S.A. on 31.12.2018 is of USD 46,638.76, respectively RON 189,897.65.

Article 229 lit. g of the Fiscal Code because holding participations TMK EUROPE GmbH in TMK-ARTROM SA is 92.7282% (exceeding 25%) for a period of more than two years uninterrupted.

- ✚ As at 31.12.2018 TMK-ARTROM register a debt in amount of RON 290,514,331 equivalent EUR 62,290,000, to TMK EUROPE GmbH representing payments to be performed for acquisition of a number of 131,010,874 shares, representing 99.99237% of the share capital of TMK-REȘIȚA owned by TMK Europe GmbH.

The price of shares that will be paid by TMK-Artrom for a number of 131,010,874 shares, representing 99.99237% of the share capital of TMK-REȘIȚA, is of EUR 62,290,000, meaning 0.475 EUR / share.

The price shall be paid by TMK-Artrom from its own financial resources as follows:

1. EUR 100,000 is to be paid within thirty (30) days from the execution of the sale-purchase agreement of the shares concluded between TMK-Europe GmbH and TMK-Artrom and the transfer of the ownership over the shares following the signing of TMK Resita's Shareholders (Shares) Registry by TMK Europe GmbH and TMK-Artrom;

2. The remaining price of EUR 62,190,000 shall be paid during a five (5) years period, starting with 2019, in equal instalments of EUR 12,438,000 each, no later than 31 December for every year. TMK-Artrom may pay such instalments in full or partially in advance, as well as to extend the payment term for such instalments (implicitly reducing the value of the instalments) for another period of maximum five (5) years, depending on the available financial resources.

As this agreement provides for interest-free payment, according to IFRS 9, the debt to TMK Europe is presented at fair value. The initial amount was reduced using the interest rate for a similar loan - the last received from BCR - using the interest rate of 1.9% and the value of EUR 3,148,224 (RON 14,683,001).

As for an amount due from the relationship with the shareholder, the difference between the fair value and the nominal value is transferred as an element of equity.

Thus the debt balance for investments in subsidiaries / subsidiaries to TMK EUROPE as at 31.12.2018 is in the amount of RON 275,831,330 equivalent to EUR 59,141,776.

In the consolidated financial statements of the TMK-ARTROM Group, the mutual receivables and payables between the group companies are eliminated as part of the consolidation process.

#### **Liabilities – Leasing contracts:**

As at 31 December 2018 TMK-ARTROM SA Slatina has concluded a number of seven financial leasing contracts for purchasing of technical equipment and a vehicle with the leasing term up to 5 years. The net book value of the assets owned under the financial leasing as at 31 December 2018 is of 5.805 thousand RON (31 December 2017: 2.369 thousand RON).

The Group has concluded financial leasing contracts with equipment and vehicles with lease terms of up to 5 years. The net book value of the Group asset - held financial as at 31 December 2018 is 36.708 thousand RON (31 December 2017: 37.255 thousand RON and as at 31 December 2016: 38.339 thousand RON).

#### **Agreement, contract signed by TMK-RESITA with gas supplier Messer,**

Through which TMK-RESITA purchases from Messer, oxygen, gas, during the supply period of 15 years (2012-2023) with the possibility to extend the term of the agreement was recorded in accordance with IFRS, as analysed



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA



in accordance with IAS 7 and IFRIC 4 as finance leases. The amount of 10.035.613 euro as at 31.12.2018 is recorded in accordance with IFRS liability for financial lease. The industrial equipment is the property of MESSER, as a result of the individual financial statements of TMK RESITA (not applying IFRS) drawn up by ORDIN MFP no. 1802/2014, for consolidation purposes in the consolidated financial statements of TMK ARTROM was applied this financial lease treatment. As a result, if the statutory reporting of gas consumption is an operating expense, in the consolidated reporting of both TMK-ARTROM and PAO-TMK, we have recordings of equipment depreciation expense, lease expense, exchange rate differences related to the liability financial leasing, asset and lease liability.

#### **Other liabilities:**

Regarding the company's obligations to the state budget, as at 31.12.2018 the company has to pay the amount of 10.498 thousand RON compared to 6.304 thousand RON as at 31.12.2017 which represents current liabilities to tax and social obligations for salaries, income tax non-resident legal entities that were required to offset the VAT refunded from the state budget.

The company has calculated deferred tax with a net debt as at 31.12.2018 of 37.184 thousand RON (31.12.2017: 34.540 thousand RON) for temporary differences mainly resulting from non-current assets

The Group calculated a deferred tax with a net debt as at 31.12.2018 of 71.238 thousand RON (31.12.2017: 63.552 thousand RON) as well as a receivable for deferred tax as at 31.12.2018 in amount of 129 thousand RON (31.12.2017: 69 thousand RON).

The obligation of the group to the state budget as at 31.12.2018, are in amount of 11.521 thousand RON compared to 8.197 thousand RON as at 31.12.2017 which represent current liabilities to tax and social obligations for salaries, income tax non-resident legal entities

As at 31 December 2018 the Group TMK - ARTROM SA has consolidated current trade receivables to the companies within the PAO TMK group in amount 79.961 thousand RON of which mainly to PAO TMK 67.324 thousand RON representing mainly metallurgical profiles pipes, billets, blooms for sale compared to 31 December 2017 consolidated trade receivables to the companies within PAO TMK Group were of 129.651 thousand RON.

As at 31 December 2018 TMK - ARTROM SA has current trade liabilities to companies within the PAO TMK group in the amount of 71.630 thousand RON of which mainly to PAO TMK 67.323 thousand RON representing mainly metallurgical profiles pipes, billets, blooms for sale also to the subsidiary TMK Industrial Solutions LLC 2.062 thousand RON representing agent commission

#### **Dividends:**

In 2018, the dividends were not distributed by the company or its subsidiaries for 2017 (as in the last three years).

#### **Reinvested profits:**

In 2018, the company did not use the tax exemption facility for the reinvestment of tax on reinvested earnings. Reserves formed under the regulations for reinvested profits for which the income tax exemption was applied for the period 2014-2018 are in amount of 34.880.107 RON representing a related tax of 5.580.817 RON.

**b) income statement: net sales; gross income; cost and expense items with a weight of at least 20% in net sales or gross incomes; risk provisions and for various expenses; reference**



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA

**to any sale or closure of a segment of activity performed in the last year or to be carried out in the following year; dividends declared and paid;**

The Separate and Consolidated Income Statement of the Group is included in the Statement of Comprehensive Income, under IFRS, is presented as follows:

	2018 separate	2017 separate	2016 separate	2018 consolidated	2017 consolidated	2016 consolidated
	Thousand RON	Thousand RON	Thousand RON	Thousand RON	Thousand RON	Thousand RON
<b>Revenues</b>	<b>1.385.787</b>	<b>1.065.446</b>	<b>761.911</b>	<b>1.396.646</b>	<b>1.185.628</b>	<b>762.827</b>
<i>Revenue from customer contracts</i>	1.385.329	1.064.853	761.308	1.392.913	1.178.434	758.128
<i>Rendering services</i>	458	594	603	3.733	7.194	4.700
Cost of sales	(1.122.693)	(894.405)	(654.216)	(1.077.687)	(994.932)	(639.611)
<b>Gross profit</b>	<b>263.094</b>	<b>171.041</b>	<b>107.696</b>	<b>318.959</b>	<b>190.696</b>	<b>123.217</b>
Expenses on sales	(137.422)	(90.804)	(64.271)	(135.440)	(92.518)	(65.691)
Advertising and publicity expenses	(306)	(266)	(105)	(334)	(342)	(151)
General and administrative expenses	(40.169)	(35.041)	(29.184)	(61.252)	(52.736)	(43.130)
Research and development expenses	(247)	(118)	(140)	(247)	(118)	(140)
Other operating expenses	(2.963)	(4.398)	(3.703)	(5.494)	(5.486)	(4.309)
Other operating revenues	441	1.456	1.072	94	2.090	5.129
<b>Operating profit</b>	<b>82.428</b>	<b>41.871</b>	<b>11.365</b>	<b>116.286</b>	<b>41.586</b>	<b>14.925</b>
Net gains / (net loss) from foreign exchange differences of which:	(2.873)	(2.034)	(4.616)	(3.534)	(2.022)	(4.633)
revenue from exchange rate differences	94.018	46.997	20.149	94.462	47.569	20.214
Expenses from exchange rate differences	(96.891)	(49.031)	(24.765)	(97.996)	(49.591)	(24.847)
Financial income	3	2	4	3	1	1
Financial costs	(11.777)	(6.737)	(5.506)	(15.290)	(10.677)	(8.005)
Gains / (losses) on financial instruments of which:	0	0	0	0	0	0
Revenue from financial instruments	0	0	0	0	0	0
expenses from financial instruments	0	0	0	0	0	0
<b>Profit before tax</b>	<b>67.781</b>	<b>33.102</b>	<b>1.247</b>	<b>97.465</b>	<b>28.888</b>	<b>2.288</b>
current income tax	(8.567)	(1.952)	(1.535)	(10.257)	(4.122)	(1.694)
Deferred income tax - revenue	1.507	2.182	2.439	4.044	10.092	9.933
Deferred income tax - expenses	(4.151)	(277)	(1.274)	(11.676)	(8.238)	(7.600)
<b>PROFIT, LOSS (+/-) NET</b>	<b>56.570</b>	<b>33.055</b>	<b>877</b>	<b>79.576</b>	<b>26.620</b>	<b>2.928</b>
Total operating revenues	1.386.228	1.066.903	762.983	1.396.740	1.187.718	767.956
Total operating costs	(1.303.800)	(1.025.032)	(751.618)	(1.280.454)	(1.146.133)	(753.031)
<b>Operating profit</b>	<b>82.428</b>	<b>41.871</b>	<b>11.365</b>	<b>116.286</b>	<b>41.586</b>	<b>14.925</b>
<b>TOTAL COMPREHENSIVE REVENUES</b>	<b>1.480.249</b>	<b>1.113.901</b>	<b>783.137</b>	<b>1.491.205</b>	<b>1.235.288</b>	<b>788.171</b>
<b>TOTAL COMPREHENSIVE COSTS</b>	<b>(1.412.468)</b>	<b>(1.080.799)</b>	<b>(781.889)</b>	<b>(1.393.740)</b>	<b>(1.206.400)</b>	<b>(785.884)</b>



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

Profit before tax	67.781	33.102	1.247	97.465	28.888	2.288
Dividends calculated	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0

## 1. Analysis of revenues from the customer contracts

### 1.1. Analysis of revenues from the customer contracts of TMK-ARTROM (separate)

Total revenues from customer contracts of TMK-ARTROM increased by 30% in 2018 compared to 2017 due to revenue growth in customer contracts for 41% of sold output and 10% lower sales of merchandise.

Revenues from customer contracts for the production of TMK-ARTROM sold increased in 2018 as compared to 2017 as a result of the increase in the physical volume of pipe sales from 185.614 tons to 200.565 tons (8% increase) but also their average sales price of 31% due to the increasing demand on the steel pipe market and as a result of the increase in the value of the premium pipes with the high added value in the total volume of TMK-ARTROM sales compared to the previous period.

Sale of goods decreased in 2018 by 10%, compared to the previous year mainly due to the quantitatively decrease of metallurgical products (billets, blooms, pipes) purchased from the companies within the PAO TMK Group. The sales on domestic market and export decreased to 78.358 tons in 2018 compared to 85.716 tons in 2017.

Volume of sales revenue from seamless steel pipes production TMK-ARTROM in the total revenues separate TMK-ARTROM in 2018 is of 81,5% (in 2017: 75%).

The increase in the volume of Premium products was due to the investment in the new thermal treatment section which allowed the increase in the physical volume of pipes and the sales of premium value products.

### 1.2. Analysis of revenues from the customer contracts of TMK-ARTROM group

The Group's consolidated revenues increased by 18% in 2018 as compared to 2017 as a result of revenue growth in contracts with customers in the production sold of TMK-ARTROM with 41%, an increase that was to some extent diminished by the decrease in TMK RESITA sales of billets and blooms to third parties (by 66%) and the decrease of sales of metallurgical goods from companies within the TMK Group (by 10%). The increase in revenues is due to the following factors: the increase of the turnover obtained from the sale of pipes for ordinary uses in the total revenues obtained in 2018 compared to the year 2017 by 13.1%, the increase of Premium sales by 15.146 tonnes in 2018 compared to the year 2017 in the Group's product portfolio, which led to a 14.7% increase, and a 33% increase in the average sale price.

Centralized we can say that from the increase of total revenues in 2018 by 18 % compared to the revenues obtained in 2017, an increase of 8% was determined by the market, and an increase by 10% was determined by the sale of PREMIUM products. The volume of total sales of TMK-ARTROM in the total of consolidated turnover is of 96% (in 2016, this being of 88%),

The volume of sales revenue from seamless steel pipes production TMK-ARTROM in the total revenues of TMK-ARTROM Group in 2018 is of 81% (in 2017: 67%).

The consolidated total revenues increased by 55% in 2017 compared to 2016 due to the increase of sale of pipes production TMK-ARTROM by 27% increase of sales TMK RESITA of billets and blooms to third



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

parties by 683% but also to the increase of sales of goods with metallurgical products from the companies within the PAO TMK Group by 122%.

The consolidated turnover regarding the sold production of TMK ARTROM increased in 2017 compared to 2016 due to the increase of physical volume of sales of pipes from 169.806 tons to 185.416 tons (an increase by 9%), but also of the average sale price of those by 16%.

The volume of sales of goods (billets, blooms, pipes) purchased from the companies within the TMK Group increased in 2017 by 122% due to the sale on the domestic market and external of 85.716 tons (compared to the volume registered in 2016 of 69.427 tons).

## 2. Expenses analysis

### 2.1 The analysis of TMK-ARTROM expenses ( separate)

#### 2.1.1.The separate TMK-ARTROM's cost of goods sold ( separate)

In terms of cost of goods sold of TMK-ARTROM, they are as follows:

The company's main cost of production is the cost of raw material, accounting for 72% of total sales costs. No other individual cost shall exceed 10% of the total cost of sales of pipes. Expenses with employees in the productive sector (salaries, compensations and social contribution expenses) represent 9.5% of the cost of selling pipes. Expenses on consumables (auxiliary materials, technological tools, spare parts, etc.) represents 5%; energy expenses (natural gas, electricity, water) represent 6.3%; depreciation costs represent 4.9%. The other individual expenses are less than 1% of the total cost of selling pipes.

	31.12.2018 separate	31.12.2017 separate	31.12.2016 separate	Variation 2018/ 2017	Variation 2017/ 2016
	Thousand RON	Thousand RON	Thousand RON	%	%
Raw materials expenses	661.768	506.499	387.843	31%	31%
Expenses with salaries, salary compensations and social contribution	87.877	73.962	64.893	19%	14%
Consumables	58.945	44.882	40.791	31%	10%
Energy and utilities expenses	58.469	52.795	48.772	11%	8%
Depreciation and impairment	44.878	40.316	40.178	11%	0%
Expenses on other services from third parties	2.796	2.824	1.799	-1%	57%
Transport costs	2.464	1.993	1.670	24%	19%
Fees	2.527	1.298	1.443	95%	-10%
Repairs and maintenance	2.588	2.263	1.885	14%	20%
Insurance	1.571	129	127	1118%	2%
Rental expenses	622	472	299	32%	58%
Travel expenses	680	490	554	39%	-12%
Telecommunication expenses	75	89	77	-16%	16%
Other expenses	14	9	7	56%	29%



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

<b>Total production cost</b>	<b>925.273</b>	<b>728.021</b>	<b>590.339</b>	27%	23%
Changes in inventories	11.652	- 29.396	-18.987	-140%	55%
Expenses on goods	198.615	213.775	103.031	-7%	107%
Income from the production of tangible and intangible assets	- 16.538	-17.189	-20.951	-4%	-18%
Adjustments for inventory impairment	3.690	- 805	784	-558%	-203%
<b>Cost of sales of which</b>	<b>1.122.693</b>	<b>894.405</b>	<b>654.216</b>	<b>26%</b>	<b>37%</b>
<b>Cost of goods</b>	<b>198.615</b>	<b>213.775</b>	<b>103.031</b>	<b>-7%</b>	<b>107%</b>
<b>Cost of sold production</b>	<b>924.078</b>	<b>680.630</b>	<b>551.185</b>	<b>36%</b>	<b>23%</b>

Compared to 2017, the cost of the goods sold increased in 2018 with 26% and in 2017 compared to 2016, the cost of the goods sold increased by 37%.

Compared to 2017, based on the increase of physical volume of production by 4% and of the volume of sale of pipe by 8%, as well as the increase of the volume of premium pipes produced in the total of production of pipes, the cost of sales of pipes production TMK-ARtrom increased in 2018 by 36% (compared to 2016 based on the increase of production by 13% and of the volume of sale of pipes by 9%, the cost of sale of pipe production TMK-ARtrom increased in 2017 by 23%). Between 2016 and 2018, the following variations in the cost of goods sold by TMK Artrom were recorded:

- a. cost on goods sold (trade activity) decreased in 2018 with 7% due to the decrease of sale of goods (billets, blooms, pipes) purchased from the companies within the TMK Group; in 2017 increased by 107 % due to the increase of quantities and chnsge of the structure of goods ( billets, blooms, pipes) purchased from the companies within the TMK Group and soldby TMK ARtrom both both locally and for export, as well as with the products marketed by TMK Industrial Solutions LLC on the North American market (TMK Industrial Solutions LLC was founded by TMK Artrom in 2016).
- b. Expenses with raw material increased in 2018 compared to 2017 by 31% mainly due to the change in structure of raw material used in production but also of the increase of the price in the market of steel and scrap. The average cost of raw material used in 2018 increased compared to the previous year by 25% due to the change of the structure of achieved production – type of billet – as well as increase of price to scrap. Expenses with raw material and consumables increased in 2017 compared to 2016 by 31 % due to the increase of the physical volume of raw material and material generated by the increase of the physical volume. The average cost of the raw material in 2017 increased compared to the previous year with 17% due to the increase of the price of billets purchased from TMK-RESITA increase determined by the increase of the market price of scrap.
- c. Expenses with energy, gas and water increased in 2018 compared to 2017 by 11%, mainly due to the increase of the physical consumption and variation of purchase prices for energy and gas compared to the previous year. The average price to energy increased in 2018 compared to 2017 by 11,5%, and gases increased in 2018 compared to 2017 by 14% compared to the previous period. Expenses with energy, gas and water increased in 2017compared to 2016 by 8% mainly due to the increase of physical consumption and variation of purchasing prices of energy and gas compared to previous year. The average price to energy increased in 2017 compared to 2016 by 9,85 % and the natural gas decreased by 8% in the same period.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



d. Environmental protection costs. In 2018 TMK Atytom made a provision for greenhouse gas emission certificate in the amount of 668 thousand RON for the deficit of certificates required for the production of 2018. TMK Artrom registered in 2018 environmental protection costs in amount of 1.008 thousand RON representing certificates handed over to the European Greenhouse Gas Register (RUEGES) for greenhouse gas emissions related to the production of 2017 and canceled the provisions previously recorded for the 2017 production in the amount of 1.466 thousand RON. At 3.06.2015 TMK-ARTROM obtained exemption from payment of 60% of the mandatory quota of green certificates corresponding exemption under the Agreement No 3 of 03.06.2015 issued by the Ministry of Economy, Trade and Tourism. According to GD 495/2014 in conjunction with the European Commission Decision no. C (2014) 7287 final of 15 October 2014, the State aid scheme, ie the exemption, will remain valid until 2024.

Also, TMK ARTROM benefits from exemption from excise duty for electricity and natural gas consumed for metallurgical activities, provided for in Article 355 (3) and (358) of the Fiscal Code, in accordance with art. 394, Section 13 of the Fiscal Code. Annually, notifications to NAFA are submitted to maintain the exemptions.

e) staff costs. In the cost of sold production the staff costs have increased in relation to the year 2017 with 19% as a result of the increase in the number of staff determined by the commissioning of the new production units "Heat Treatment Plant".

The total staff costs of the company increased in 2018 compared to 2017 by 17% (in 2017 compared to 2016 increased by 13%) mainly due to the increased number of employees and wage growth within TMK Artrom. Total staff costs of the company increased in 2018 compared to 2017 by 17% (in 2017 compared to 2016 increased by 13%) mainly due to the increased number of employees and wage growth within TMK Artrom. The average number of employees of TMK Artrom at 31.12.2018 was 1.457 compared to 1.324 persons on 31.12.2017. The actual number of employees at 31.12.2018 was 1.486 compared to 1.365 at 31.12.2017. The average number of employees of TMK Artrom at 31.12.2017 was 1.324 compared to 1.296 at 31.12.2016. The actual number of staff at 31.12.2017 was 1.365 compared to 1.304 persons on 31.12.2016.

f) Value adjustments for stocks of raw materials, finished products and current production were made taking into account the net realizable value at 31 December 2018. The value of value adjustments for stocks existing at 31.12.2018 are in amount of 9.075 thousand RON (31.12.2017: 5.385 thousand RON).

## 2.1.2 Selling and distribution costs of the TMK-ARTROM ( separate)

Selling and distribution expenses increased by RON 47 million or 51% to RON 137 million for the year ended December 31, 2018 compared to RON 91 million for the year ended December 31, 2017. The increase is mainly due to increases in tax expenses to RON 25 million for the year ended December 31, 2018, compared to RON 0.02 million for the year ended December 31, 2017, and also, an increase in expenses for external services to RON 101 million during the year ended December 31, 2018, compared to an expense of RON 82 million during the year ended December 31, 2017.

- a. taxes and duties increased in 2018 as compared to 2017 due to sales tax in the US for finished TMK Artrom products and goods purchased from TMK group companies following the introduction of the import duty on certain steel products in the US. Starting May 2018, the import duty on some steel products in the US (section 232) was 25%, the duty on the steel products TMK Artrom acquired from the TMK group companies sold in the US. For similar steel



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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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EN 10210-1,2  
EN 10255

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DNV-GL Rules  
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ISO/TS 16949

products of European origin, the 25% duty was introduced as of 1.06.2018. Expenses with these taxes in the year 2018 were of RON 25,172 thousand, which were generally recovered by increasing sales prices to customers.

- b. expenses for external services increased by 23% in 2018 compared to 2017 (in the year 2017 they increased by 46% in 2017), mainly due to the increase in the commercial expenses related to the sales of pipes and goods - expenditures transportation, port charges, agency fees.

### 2.1.3 General and administrative expenses of TMK-ARTROM (separate)

General and administrative expenses increased by RON 5 million or 14.6% to RON 40 million for the year ended December 31, 2018 against RON 35 million for the year ended December 31, 2017, and the increase was mainly due:

- to salary increases and monetary compensations to RON 23 million for the year ended 31 December 2018 versus RON 21 million for the year ended December 31, 2017;
- an increase in general and administrative fees to RON 1.7 million during the year ended December 31, 2018 an expense of RON 0.8 million during the year ended December 31, 2017;

### 2.1.4 Financial costs and exchange rate differences of TMK-ARTROM (separate)

TMK-Artrom registered in 2018 financial loss in amount of 14.647 thousand RON (in 2017 those were of 8.770 thousand RON) due to the increase of interest costs and unfavourable exchange rate differences. Compared to 2017 the financial loss of the year 2018 increased by 67%. Interest costs increased with 75% due to the increase of the volume of loans and interest rates and increase of the net losses from the exchange rate differences with 41%. Compared to 2016 the financial loss of 2017 decreased by 13%. Interest costs increased with 22% due to the increase of the volume of loans and interests rates and decrease of net losses from the exchange rate differences with 56%. In accordance with the provisions of OMFP 2844/2016 with subsequent amendments and completions, the balances of the available accounts, receivables and liabilities in foreign currency (monetary items) were assessed on a monthly basis according to the NBR reference rates.

Currency instability and pronounced depreciation of the exchange rate RON/EUR and RON/USD, which evolved from 4,5245 lei/EUR as at 31.12.2015 to 4,5411 lei/EUR as at 31.12.2016 to 4,6597 lei/EUR as at 31.12.2017 to 4,6639 lei/EUR as at 31.12.2018 namely from 4,1477 lei/USD (31.12.2015) to 4,3033 lei/USD (31.12.2016), to 3,8915 lei/USD (31.12.2017) to 4,0736 lei/ USD led to the recording of foreign exchange losses in the amount of 4.616 thousand RON in 2016, of 2.034 thousand RON in 2017 and of 2.873 thousand RON in 2018.

## 2.2. The analysis of TMK-ARTROM expenses

### 2.2.1. Cost of goods sold by the TMK-ARTROM Group

Regarding the cost of goods sold to the Group, the situation is as follows:

Cost of goods sold by the Group	2018 consolidate d	2017 consolidate d	2016 consolidate d	Variatio n 2018- 2017	Variatio n 2017- 2016
	Thousand RON	Thousand RON	Thousand RON	%	%
Raw materials expenses	392.316	414.397	211.327	-5%	96%



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5CT-0440  
5L-0352

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ISO 14001  
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TRD 100/102  
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Expenses with salaries, salary compensations and social contribution (note 11.5)	129.854	113.664	99.741	14%	14%
Consumables	156.396	120.718	97.128	30%	24%
Energy and utilities expenses	112.289	110.873	92.326	1%	20%
Depreciation and impairment	73.661	69.434	68.529	6%	1%
Expenses on other services from third parties	3.930	3.918	2.185	0%	79%
Transport costs	2.465	1.993	1.670	24%	19%
Fees	4.332	2.754	3.756	57%	-27%
Repairs and maintenance	3.933	3.277	2.980	20%	10%
Insurance	2.500	267	321	836%	-17%
Rental expenses	1.374	796	583	73%	37%
Travel expenses	1.015	646	678	57%	-5%
Telecommunication expenses	103	118	166	-13%	-29%
Other expenses	14	9	9	56%	0%
<b>Total production cost</b>	<b>884.183</b>	<b>842.864</b>	<b>581.398</b>	<b>5%</b>	<b>45%</b>
Changes in inventories	10.844	-45.052	-19.150	-124%	135%
Expenses on goods	198.684	220.466	103.255	-10%	114%
Income from the production of tangible and intangible assets	-20.257	-22.191	-25.816	-9%	-14%
Adjustments for inventory impairment (note 18)	3.803	-1.206	-75	-415%	1508%
Expenses for downgrading materials	429	52	-	725%	
<b>Cost of total sales of which</b>	<b>1.077.687</b>	<b>994.932</b>	<b>639.611</b>	<b>8%</b>	<b>56%</b>
<b>Cost of goods</b>	<b>198.684</b>	<b>220.466</b>	<b>103.255</b>	<b>-10%</b>	<b>114%</b>
<b>Cost of sold production</b>	<b>879.003</b>	<b>774.466</b>	<b>536.356</b>	<b>13%</b>	<b>44%</b>

The main cost of production of the Group in 2018 is represented by the cost of the raw material consisting of scrap, ferro-alloys and casting powders used by TMK RESITA in the production process, representing 45% of the total sales costs of the group production sold (54%, in 2017 and 39% in 2016). Expenses with employees in the productive sector (salaries, compensations, and social contribution expenses) represent 14,8% the cost of sale of production group (14,7%, in 2017 and namely 19% in 2016). Expenses with consumables (auxiliary materials, technological tools, spare parts, etc.) represent 15% (compared to 13% in 2017 and namely 13% in 2016). Energy costs (natural gas, electricity, water) represent 13% (compared to 14% in 2017 and namely 17% in 2016). Expenses related to depreciation represent 8% (compared to 9% in 2017 and namely 13% in 2016). The other separate expenses are less than 1% of the total sale cost of the production of group.

During 2016-2018, the following variations in the cost of goods sold by the Group were registered:

- The expenses with raw material of the group decreased in 2018 compared to 2017 by 5% mainly due to the decrease of liquid steel production of TMK-RESITA by 14 %. However, the decrease of the raw materials expenses was diminished by the increase of the average purchase price of the scrap which increased from 1.130 lei / ton in 2017 to 1.280 lei / ton in 2018 (increase by 13%). Also price increases were in 2018 also to auxiliary materials ferro-alloys and electrodes. The expenses with raw material of the group increased in 2017 compared to 2016 by 96%, as a result of the increase of steel production volume obtained (increase by 43%) and increase of the average acquisition price for scrap from 846 lei/to in 2016 to 1142 lei/to in 2017 (increase by 35%).
- Expenses on energy, gas and water increased in 2018 compared to 2017 only with 1%, mainly due to the increase in actual consumption for pipe production but also to a decrease in the actual consumption as a result of the decrease in TMK Resita's liquid steel production and of the change in electricity and natural gas purchase prices compared to the previous year. Data on TMK Artrom was presented in the previous section of the Report (Section 2.3.1). With regard to TMK Resita, the average electricity



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5L-0352

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price increased by 10% in 2018 (in 2018 the annual average for energy 220=252.39 lei/MWh :the annual average for energy 110 = 268.62 lei/MWh ; compared to 2017 when the annual average for energy 220 =229.26 lei/MWh; the annual average for energy 110 = 246.06 lei /MWh) Expenses on energy, gas and water increased in 2017 compared to 2016 with 20%, mainly due to the increase in physical consumption for the production of pipes and the increase in physical consumption as a result of the increase in the production of liquid steel of TMK RESITA with 43% and the change in electricity and natural gas purchase prices as compared to the previous year. At TMK RESITA the average price to energy increased with 12% (in 2017 energy 220 =235.68 lei/MWh;energy 110 = 252,48 lei/MWh compared to 2016 when energy 220 = 208.23 lei/MWh and energy 110 = 231,96 lei/MWh) and savings from the consumption norm.

- c. Environmental protection expenses. In 2018 TMK Artrom made provisions for greenhouse gas emission allowances in the amount of 668 thousand RON for the deficit of certificates for the production of 2018. TMK Artrom registered in 2018 environmental protection costs in amount of 1.008 thousand RON representing certificates handed over to the European Greenhouse Gas Register (RUEGES) for greenhouse gas emissions related to the production of 2017 and canceled the provisions previously recorded for the 2017 production in the amount of 1.466 thousand RON. At 3.06.2015 TMK-ARTROM obtained exemption from payment of 60% of the mandatory quota of green certificates corresponding exemption under the Agreement No 3 of 03.06.2015 issued by the Ministry of Economy, Trade and Tourism. According to GD 495/2014 in conjunction with the European Commission Decision no. C (2014) 7287 final of 15 October 2014, the State aid scheme, ie the exemption, will remain valid until 2024 for both companies.

On 3 June 2015, TMK Artrom obtained the 60% exemption from payment of green certificates related to TMK Artrom's mandatory quota under the Exemption Agreement no. 3 of 3.06.2015 issued by the Ministry of Economy, Commerce and Tourism. According to GD 495/2014 in conjunction with the European Commission Decision no. C (2014) 7287 final of 15 October 2014, the State aid scheme, ie the exemption, will remain valid until 2024.

TMK Artrom also benefits from the exemption from excise duty for electricity and natural gas consumed for metallurgical activities, provided for in Article 355 (3) and (358) of the Fiscal Code, in accordance with Art. 394, Section 13 of the Fiscal Code. Notifications are submitted to ANAF each year to maintain exemptions.

On 3 June 2015, TMK Resita obtained the 85% exemption from payment of green certificates related to TMK Resita's mandatory quota under the Exemption Agreement no. 4 of 3.06.2015 issued by the Ministry of Economy, Commerce and Tourism. According to GD 495/2014 in conjunction with the European Commission Decision no. C (2014) 7287 final of 15 October 2014, the State aid scheme, ie the exemption, will remain valid until 2024.

- d. Staff expenses. In the cost of sold production of the group staff costs have increased in relation to the year 2017 with 14.2% as a result of the increase in the number of staff determined by the commissioning of the new production units "Heat Treatment Plant".

The total staff expenses of the Group increased in 2018 compared to 2017 by 14.7% ( in 2017 compared to 2016 increased by 15.7%) mainly due to the increase of staff number as well as increase of individual wages. The average number of employees in the Group in 2018 was of 2.249 (201: 2,068; 2016: 2,021). The actual number of employees of the Group as at 31.12.2018 was 2.282 employees with 121 employees compared to the total



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5L-0352

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TRD 100/102  
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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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EN 10255

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number of employees registered at the end of 2017 – 2.161 employees (compared to 2016 when the number of employees was of 2.030). The actual number of employees at TMK Resita as at 31 December 2018 was 783 (2017: 784; 2016: 715 employees) and 2 persons at TMK Assets for the whole period. The average number of employees in TMK Resita in 2018 was 781 employees (compared to 733 in 2017 and 715 in 2016 respectively) respectively 1 person at TMK ASSETS for the whole period. TMK Industrial Solutions LLC had at the end of 2018 a number of 11 employees (compared to 10 employees at the end of 2017 and 8 employees at the end of 2016). The average number of employees of TMK Industrial Solutions LLC in 2018 was 10 employees (the same as the average number of employees in 2017 and 2 higher than the average number of employees in 2016).

- e. **Depreciation and amortization.** The depreciation and amortization increased by RON 5 million to RON 74 million for the year ended December 31, 2018, compared to RON 69 million for the year ended December 31, 2017. Following the instalment of the new section of heat treatment treatments in 2018, the costs for straight line amortization for new machinery and equipment increased during the year of 2018.

### Gross margin related to consolidated sales

**Gross margin** increased by RON 128 million to RON 319 million for the year ended December 31, 2018 compared to RON 191 million for the year ended December 31, 2017.

Gross profit growth was mainly attributed to market conditions that allowed higher pricing of Group's products, on the one hand, and increased sales of Premium products, on the other.

Gross margin% of total group sales was 23% for 2018 and 16% for 2017

Gross margin% of sales of TMK-ARTROM steel production pipes was 35% for 2018 and 21% for 2017

Higher prices for new types of Premium pipes have increased gross profit both because of the quantitative increase and the average sales price of the products in 2018 compared to the same reporting period of 2017.

**Adjusted EBITDA** Adjusted EBITDA increased by RON 82.3 million to RON 203.2 million for the year ended December 31, 2018 versus RON 120.8 million for the year ended December 31, 2017. This increase was mainly due to the increase in volumes sales for Premium products and an increase in the average sale price compared to 2017.

**Adjustable EBITDA margin.** The adjusted EBITDA margin increased by 4.4% to 14.6% for the year ended December 31, 2018 versus 10.2% for the year ended December 31, 2017.

The increase in EBITDA in 2018 compared to 2017 is due mainly to premium product sales that were 31%.

EBITDA margin dynamics is positively influenced by EBITDA growth as a result of higher profits and decreasing as a result of turnover growth ( $EBITDA\% = EBITDA / \text{Total Revenues}$ ).

In 2018, the increase with 68% of total EBITDA compared to 2017 was determined by the increase of the sales volumes, increase of the market prices as well as the PREMIUM products sale.

The EBITDA increase from PREMIUM products sales determined an increase of total EBITDA with 31%.

In total EBITDA of year 2018, EBITDA from PREMIUM products sales represents 39%.

### 2.2.2. Selling and distribution costs of the group

Selling and distribution expenses increased by RON 43 million or 46% to RON 135 million for the year ended December 31, 2018 compared to RON 93 million for the year ended December 31, 2017. The increase is mainly due to increases in tax expenses to RON 26 million for the year ended December 31, 2018, compared to RON 0.02 million for the year ended December 31, 2017, and also, an increase in expenses for external services to RON 91 million during the year ended December 31, 2018, compared to an expense of RON 77 million during the year ended December 31, 2017.



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OHSAS 18001

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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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- a. taxes and duties increased in 2018 as compared to 2017 due to sales tax in the US for finished TMK Artrom products and goods purchased from TMK group companies following the introduction of the import duty on certain steel products in the US. Starting May 2018, the import duty on some steel products in the US (section 232) was 25%, the duty on the steel products TMK Artrom acquired from the TMK group companies sold in the US. For similar steel products of European origin, the 25% duty was introduced as of 1.06.2018. Expenses with these taxes in the year 2018 were of RON 25.764, which were generally recovered by increasing sales prices to customers.
- b. expenses for external services increased by 18.5% in 2018 compared to 2017 (in the year 2017 they increased by 42% in 2017), mainly due to the increase in the commercial expenses related to the sales of pipes and goods - expenditures transportation, port charges, agency fees.

## 2.2.3 General and administrative expenses of the group

General and administrative expenses increased by RON 9 million or 16% to RON 61 million for the year ended December 31, 2018 against RON 53 million for the year ended December 31, 2017, and the increase was mainly due:

- to salary increases and monetary compensations to RON 33.1 million for the year ended 31 December 2018 versus RON 28.5 million for the year ended December 31, 2017;
- an increase in general and administrative fees to RON 1.8 million during the year ended December 31, 2018 an expense of RON 0.9 million during the year ended December 31, 2017;
- and also, an increase in professional services expenses to RON 16 million compared to RON 15 million for the year ended December 31, 2018.

General and administrative expenses as a percentage of total revenue remains unchanged for the year ended 31 December 2018, compared to 4% for the year ended 31 December 2017.

## 2.2.4. Financial costs and exchange rate differences of the group

The TMK-Artrom group registered in 2018 a financial loss in amount of 18.821 thousand RON (2017: 12.698 thousand RON; 2016: 12.637 thousand RON) due to the increase of interest costs and unfavorable exchange rate differences. Compared to 2017 the financial loss of the group in 2018 increased by 48%. Interest costs increased by 43% due to the increase of the volume of loans and interest rates and increases of net losses from exchange rate differences by 75%. Compared to 2016, the financial loss of the group in 2017 increased by 0.5%. Expenses with interests increased by 33% due to the increase of the volume of loans and interest rates and decreases of net losses from exchange rate differences by 56%.

## 3. Other operating income

Other operating income decreased by RON 2 million to RON 0.09 million for the year ended December 31, 2018, compared to RON 2.1 million for the year ended December 31, 2017. The decrease is mainly due to amounts that were registered in 2017 and consist of contractual penalties calculated in contract for delays in the delivery of equipment in the amount of 1.2 million RON (267,500 euro) and revenues from recovered materials RON 0.177 million lei.

## 4. Profit tax / (expense).

Profit tax expense increased by RON 15.6 million to RON 17.9 million for the year ended December 31, 2018 versus a profit tax expense of RON 2.3 million for the year ended December 31, 2017. The effective tax rate has increased from 14% to 11% in 2018. The effective tax rate for the year ended December 31, 2018 was lower than the legal rate due to the change in the net asset value of the deferred tax liability



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5CT-0440  
5L-0352

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ISO 14001  
OHSAS 18001

TUV:  
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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
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EN 10255 RINA

The Parent Company has calculated deferred tax arising from temporary differences resulted from differences between fiscal value and accounting value for fixed assets (derived from revaluations and different useful lives – fiscal versus accounting) and differences between fiscal value and accounting value for other items (inventories / receivables/ provisions, etc.). Following annual depreciation and realization of reserves the deferred tax obligations decrease simultaneous with the increase of income from deferred tax. Thus in 2016 were registered deferred tax income in amount of 2.439 thousand RON and deferred tax expenses in amount of 1.274 thousand RON, in 2017 deferred tax income in amount of 2.182 thousand RON and deferred tax expenses in amount of 277 thousand RON, in 2018 deferred tax income in amount of 1.507 thousand RON and deferred tax expenses in amount of 4.151 thousand RON. In 2016 the Group calculated income from the deferred tax in amount of 9.933 thousand RON and deferred tax expenses in amount of 7.600 thousand RON, in 2017 deferred tax income in amount of 10.092 thousand RON and deferred tax expenses in amount of 8.238 thousand RON and in 2018, deferred tax income in amount of 4.045 thousand RON and deferred tax expenses in amount of 11.676 thousand RON.

The current income tax expense of the parent company in 2018 is 8.567 thousand RON (in 2017: 1.952 thousand RON).

The Group's current income tax expense in the year 2018 is 10.258 thousand RON (in 2017: 4.122 thousand RON).

The effective tax rate (EER) is different from the 16% flat tax rate because in calculating the taxable profit in addition to taking into account non-taxable income / non-deductible expenses, it can benefit from tax incentives for investment activity in new production equipments.

TMK ARTROM benefited for the investment of heat treatment of fiscal facility regarding the exemption from the payment of tax for the reinvested profit (5.296 thousand lei).

As a result, EER per group was in 2017 equal to 14%.

In 2018 for equipment, the fiscal facility was used accelerated depreciation, which implies the deductibility of tax depreciation equal to 50% of the value of the equipment in the first year of operation.

As a result, EER per group was in 2018 equal with 11%.

**c) cash flow: all the changes in the cash in the core business, investments and financial activities, the cash at the beginning and at the end of the period.**

According to IFRS financial statements are presented cash flows using the indirect method as follows:

Indirect method	2018 separate	2017 separate	2016 separate	2018 consolidat ed	2017 consolidate d	2016 consolidat ed
	Thousand RON	Thousand RON	Thousand RON	Thousand RON	Thousand RON	Thousand RON
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Profit / (Loss) before tax	67.781	33.102	1.247	97.465	28.888	2.288
Plus / Minus adjustments from:						
Depreciation	46.975	42.050	41.968	77.757	72.684	71.540
Increase / Cancellation of provisions	1.559	4.040	(850)	3.828	4.674	(4.391)
Increase / cancel current asset value adjustments	3.014	(574)	155	3.979	(559)	(995)
Exchange rate differences	3.822	489	3.608	3.846	1.552	3.737



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5CT-0440  
5L-0352

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OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

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Indirect method	2018 separate	2017 separate	2016 separate	2018 consolidat ed	2017 consolidate d	2016 consolidat ed
	Thousand RON	Thousand RON	Thousand RON	Thousand RON	Thousand RON	Thousand RON
Change in retirement benefits	340	284	305	483	395	428
Result of disposals of fixed assets	877	1.521	1.761	1.128	1.655	2.472
Interest and associated expenses, net	11.026	8.387	4.869	13.752	11.040	7.096
The effect of the exchange rate on cash and cash equivalents				-	(448)	-
<b>Plus / minus adjustments due to changes in working capital related to operating activity:</b>				330	(8)	34
Decreases / (Increases) in inventories	29.377	(82.314)	(29.261)	1.178	(93.770)	(40.891)
Decreases / (Increases) in trade receivables and other receivables and prepayments	(54.756)	10.674	(484)	(55.408)	(50.644)	12.949
(Decreases) / debt increases (excluding banks)	(45.570)	27.449	48.227	(49.787)	132.421	55.867
<b>less:</b>	-	-	-	-	-	-
Interest and similar expenses	(10.902)	(8.027)	(5.029)	(13.628)	(10.679)	(7.252)
Income taxes paid	(1.104)	(3.537)	(421)	(2.797)	(5.636)	(668)
<b>Total inputs / outputs from operating activities (a)</b>	<b>52.439</b>	<b>33.544</b>	<b>66.095</b>	<b>82.126</b>	<b>91.565</b>	<b>102.214</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>				<b>0</b>	<b>0</b>	<b>0</b>
Collections from the disposal of tangible assets	4.028	559	20	5.172	2.514	98
Acquisitions of tangible and intangible assets	(74.624)	(125.984)	(69.829)	(98.110)	(180.791)	(99.651)
Reimbursement of credits granted	-	314	-	-	-	-
Interest received	4	2	4	4	1	1
<b>Total entries / (outflows) from investing activities (b)</b>	<b>(70.592)</b>	<b>(125.109)</b>	<b>(69.805)</b>	<b>(92.934)</b>	<b>(178.276)</b>	<b>(99.552)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				-	-	-
Loans received	49.674	154.196	88.231	49.674	154.196	88.231
Repayment of loans	(24.761)	(68.206)	(71.634)	(24.762)	(68.206)	(71.634)
Reimbursement of financial leases (depreciation)	(660)	(372)	(194)	(6.040)	(5.325)	(4.531)
<b>Total inputs / outputs from financing activities (c)</b>	<b>24.253</b>	<b>85.618</b>	<b>16.403</b>	<b>18.872</b>	<b>80.665</b>	<b>12.066</b>
<b>Net increase / (decrease) in cash and cash equivalents (a) + (b) + ©</b>	<b>6.100</b>	<b>(5.947)</b>	<b>12.693</b>	<b>8.064</b>	<b>(6.046)</b>	<b>14.728</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>10.825</b>	<b>16.772</b>	<b>4.079</b>	<b>12.865</b>	<b>18.911</b>	<b>4.183</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>16.925</b>	<b>10.825</b>	<b>16.772</b>	<b>20.929</b>	<b>12.865</b>	<b>18.911</b>

The net operating treasury increased in 2018 compared to the previous period as a result of the increase in turnover and profit before tax.

The net operating treasury decreased in 2017 compared to previous period as a result of the increase in inventories.

The net operating treasury decreased 2016 compared to the previous period as a result of the decrease in turnover, stock growth and decrease of profit before tax,



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5CT-0440  
5L-0352

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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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EN 10255

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DNV-GL Rules  
RINA

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ISO/TS 16949

The Net Treasury of Investment Activity increased in 2018 as compared to 2017 due to the decrease in the volume of payments for acquisitions of tangible assets mainly as a result of the commissioning of the investment project "Heat Treatment Plant"

Net Treasury from investment activities decreased in 2017 as compared to 2016 as a result of the increase in the volume of payments for acquisitions of tangible assets mainly for the realization of the investment project "Heat treatment plant".

Net cash from investment activities decreased in 2016 compared to 2015 due to the decrease of the volume of payments for acquisitions of due to increased volume of payments for purchases of property and equipment mainly for the investment project " heat treatment plant".

The net treasury from financing activities declined in 2018 as compared to 2017, mainly as a result of the fact that most of the withdrawals of the BCR ERSTE-7 investment loan which took place in 2017.

Net cash from financing activities increased in 2016 compared to 2015 due to the loans from TMK Europe, credit Overdraft unengaged for 3 years Bancpost, investment loan BCR ERSTE seven years and also reimbursements performed to the existing loans.

Regarding the evolution of cash flows from the Group's operating activity during the period 2016-2018, we can say that the main influences are due:

Cash flows from operations pre working capital items increased mainly because of the increase of the sales volumes and prices. In May 2016 it was created TMK Industrial solutions LLC (the US trading company) which led to an increase in Americas from 5% in 2016 to 25% in 2018 in revenues from sales of pipes produced by TMK Artrom. Also the focus on premiumization (the increase of the percentage of the high value added products in the sales structure), possible because of the last few years investments (in February 2018 it was commissioned the Heat Treatment Plant, a 36 mil Euro investment) are reflected in the increase of EBITDA from 81 mil lei in 2016 (10.6% EBITDA margin) to 203 mil Lei in 2018 ( 14.6% EBITDA margin).

In 2017 Accounts receivables (AR) in US market increased with 27 mil lei and in European market with 17 mil lei, also in 2018 the Accounts receivables (AR) from us and European market increased , as a consequence of the quantity and business volume increase and in addition to 2017 the debt for trading were paid.

Cash flows from investing activity was very high in the period 2016-2018 due to the investments form that period. In February 2018 it was commissioned the Heat Treatment Plant, a 36 mil EUR investment. We utilized the loans for investments in 2016 and 2017 when the operational Cash Flow was not enough, that's why we see an increase in 2017 Cash flow from financing activities (increase in BCR credit).

## Financial indicators:

Financial indicators	Calculation method	2018 separate	2017 separate	2016 separate	2018 consolidated	2017 consolidated	2016 consolidated
Current ratio (capital)	Current Assets / Current Liabilities	1,37	1,26	1,29	1,15	1,02	1,01
Quick Ratio (acid test)	(Current Assets - Inventories) / Current Liabilities	0,88	0,72	0,88	0,59	0,47	0,51
Gearing indicator	Borrowed capital / Equity (equity + borrowed capital (long term liabilities)) *100	45,1%	28,7%	22,0%	45,3%	23,9%	19,6%
Interest cover indicator	Profit before interest and income tax payment / Interest	7,40	6,49	1,26	8,32	4,33	1,32



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5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	expense						
Rotation speed stock (inventory turnover)	Cost of sales / The average stock	5,07	4,51	4,50	3,5	3,7	3,2
Number of days of storage (Inventory holding days)	Average stock / Cost of sales * 365	72	81	81	105	98	115
Turnover of debtors, clients (Receivables Collection Period)	Clients average balance / Turnover * 365	66	72	98	69	67	96
Speed of-vendor payables (Payables Period)	Average balance vendors / Acquisitions of goods (without services) * 365	52	69	75	94	94	106
Rotation speed of fixed assets	Turnover / Fixed Assets	2,23	1,76	1,54	1,23	1,05	0,75
Rotation speed of total assets (Assets Turnover)	Turnover / Total Assets	0,93	0,91	0,76	0,79	0,69	0,51
Return on equity (ROCE)	Profit before interest and income tax payment / Equity (equity + borrowed capital (long term liabilities)) *100	0,07	0,05	0,01	0,09	0,03	0,01
Gross margin on sales (Gross Profit Margin)	Gross profit from sales / Turnover *100	19%	16%	14%	23%	16%	16%

## 1. Liquidity indicators

**Current ratio (capital)** and **Quick Ratio (acid test)** express how many times current liabilities are included in current assets, respectively in current assets less inventories.

The recommended values are around 2, reflecting the company's capacity to cover the current liabilities from current assets, and mainly from receivables and cash. The values obtained in 2018 are higher than in the previous period as a result of the increase in current assets to a greater extent than the increase in current debts. Current debts decreased with PAO TMK payment amounts for metallurgical products for sale as well as short-term loans.

Consolidated values of this indicator register an increase in 2018 compared to previous periods as a result of the increase in current assets to a higher extent than the increase in current debts.

## 2. Risk indicators

**Gearing indicator of equity** express whenever they include borrowed capital (long term liabilities) in equity and reflect the financing structure of the company at the end of the financial year. This indicator has grown as a result of the increase in long-term bank loans following the withdrawals for investment credit.

**Interest cover indicator** determine how many times the company may pay interest expense.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



Compared to the previous year, this indicator increased as a result of the increase in gross profits.

### 3. Activity indicators

**Number of days of storage** indicates the number of days in which goods are stored in the unit. This indicator fell insignificantly in 2018 compared to the previous year in line with the increase in the stock turnover rate.

**Turnover of debtors, clients (Receivables Collection Period)** express the number of days until the debtors pay their debts to the company and show the efficacy of the company in collecting its receivables. This indicator declined in 2018 as compared to 2017 as a result of the increase in turnover.

**Speed of vendor payables (Payables Period)** expresses the number of days of credit which the company obtains from its suppliers.

This indicator is lower than the speed of rotation of customers, due to the share of purchases of raw material (billets) from the sole supplier TMK RESITA for which the payments are made in advance. This indicator decreased in 2018 to 59 days compared to 69 days in 2017.

**Rotation speed of fixed assets** evaluates the effectiveness of fixed assets management by examining the value of turnover generated by their operation. This indicator increased in 2018 as compared to 2017 as a result of the increase in turnover.

**Rotation speed of total assets (Assets Turnover)** evaluates the effectiveness of the total assets management by examining the turnover generated by the assets of the company. In 2018 this indicator increased as a result of the increase in turnover.

### 4. Profitability indicators

**Return on equity (ROCE)** represents the profit which the company obtain on a unit of resources invested. This indicator increased compared to 2017 due to increased gross profit.

**The gross margin** is higher in 2018 than in previous years as a result of the increase in sales volumes as well as the increase in the average sales price.

#### Key non-financial performance indicators - relevant for specific activities – separate

Indicators	2018	2017	2016
Production of pipes (to)	199.878	192.685	170.981
Pipe Sales (to)	200.565	185.614	169.917
Production of pipes / Employee (to/employee)	137,18	145,53	131,93
Selling pipes / Employee (to/employee)	137,66	140,19	131,11

#### Key non-financial performance indicators - relevant for specific activities -consolidated

Indicators	2018	2017	2016
Production of pipes (to)	199.878	192.685	170.981
Pipe Sales (to)	200.446	185.416	169.806
Production of pipes / Employee	88,87	93,17	84,60



API:  
5CT-0440  
5L-0352

LRQA:  
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OHSAS 18001

TUV:  
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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

(to/employee)			
Selling pipes / Employee (to/employee)	89,13	89,66	84,02

### Other information

It has been complied the obligations provided by law on the organization and the correct management of the accountancy and accounting principles.

It has been respected the rules for drawing up the balance sheet and in accordance with the inventory results.

Balance sheet, profit and loss account and the accompanying financial statements were prepared by taking proper synthetic and analytical accounts in the trial balance.

The accounting records are organized on double entry by the Master-Chess method by automatic processing of data, quantity and value.

In early 2008, the information system and applications based on FoxPro 2.6 have been fully migrated to SQL Server platform, and the connections between the management and the manufacturing / billing module was performed during 2008.

The Financial-Accounting subsystem, part of the Management Information System of SC TMK-ARTROM, consists of programs and procedures specific to this activity, forming the applications prepared for the current operation. Applications are written in a client-server configuration with database managed by a Microsoft SQL 2000 server. Client applications are written in Microsoft Access or C # and are managed and distributed centrally from a file server.

The Accounting and Finance departments operated these applications based on personal access accounts to each user. Modules have been merged, meaning that many existing programs in FoxPro have been included in a single SQL mode. For this reason, users access information is more quickly, requiring fewer trips from the application to start a new application.

The access rights to databases are set at the server level and are organized into groups (roles) that include individual users. In this way, moving a user from one group to another means automatically the re-allocation of access rights. The maintenance and development of databases and client programs are performed by the company's IT department. The database is archived automatically every 6 hours, thus backing up or creating comparative elements if necessary. Relationships between database entities are set at the server level, applying the concept of referential integrity. In this way there are insured both data consistency, and the impossibility of accidental deletion of information, if any records remained uncorrelated.

The database type is OLAP (online analytical processing), providing real-time data to all departments. The system has an architecture that does not require data transfer or archiving by eliminating records, which provide faster access to historical data.

The IT system supports an unlimited number of users and is accessible to authorized users via the Internet, based on the access way to server via TCP / IP

The security and integrity of the database is done from the convenience of SQL Server (roles, users, triggers).

In 2009 we migrated from SQL Server 2000 to SQL Server 2005 and workstations were integrated into Active Directory, allowing the centralized management of access to accounts. The automatic reporting module of production and delivery was developed.

In 2011 the IT department team developed several new applications in accordance with the requirements of top management:

- The external application Car Ramp was replaced by the software Car Tickets, written by the programmers of IT department. It is integrated into the computer system of TMK and takes the amount directly from the truck scales, thus avoiding typing mistakes.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949

- The automated reporting module was completed with the report of irregularities and the report of orders.
- The labelling of products changed, showing on the label the bar code that identifies each package.
- The application 'package' was upgraded and allows taking amounts automatically from electronic scales from producing departments and allocating these amounts to the bar codes on packages.
- There was installed a SharePoint type collaborative platform for secure sharing of documents and information between authorized users.
- The company intranet was completed with sections containing documentation applications, AQ working procedures, technical standards, practical Excel courses, etc.

In 2013 it was implemented Payables module (payments to suppliers) as a report automatically sent by the date base server to users. Also, it was implemented an application in order to manage the suppliers from the Approved Suppliers List (LFA).

The IT Department was aligned to the dynamic evolution of programming environments and to top network equipment, cutting edge software and hardware.

The existing software has been modified at request in accordance with the requirements of services involved in their use to serve more efficiently their purpose.

Regarding systems, there was continued the acquisition of new computers so as to replace old ones at the moment there being a computer network capable of running without problem existing applications as well as the company ERP.

Starting October 2007, TMK-ARTROM has been using for the calculation of salaries and personnel records the application WIZSALARY contracted from the company WIZSALARY SOFTWARE SRL Bucharest.

Starting January 2011, TMK-ARTROM has been using for general accountancy the application WIZCOUNT contracted from the company WIZROM SOFTWARE SRL Bucharest for the preparation of trial balance, the log register, the chess sheets and account records.

Starting with November 2016 it was implemented with the company CGS Bucharest the IT program "Integrated Microsoft Dynamics AX 2012". For 2016 the general accountancy was closed with WIZCOUNT application. Starting 1st January 2017 will be used for financial accounting and operational activity only Microsoft Dynamics AX 2012.

MS Dynamics AX is a business solution that supports both operational and administrative processes of organizations, this single solution comes with localization for Romania. The Dynamics AX 2012 R3 solution contains: The Microsoft Dynamics AX 2012 R3 and the localization package for Romania developed by CGS Europe. The standard package was completed with additional software developments in order to meet the specific functional requirements of TMK-Artrom SA and TMK Resita SA and to integrate informational technical and production modules. The project management follows the Sure Step methodology specially designed by Microsoft for Dynamics solutions implementations.

The implementation of the software MS Dynamics AX 2012 followed the phases: design, configuration, key user training, Testing and acceptance, deployment, go live and go live support, software development and Integration, Customized user manuals, Migration.

Microsoft Dynamics AX is implemented in TMK-ARTROM and TMK REȘIȚA on 1 November 2016 (Go live) and manages the entire TMK-ARTROM and TMK RESITA activity, except for WizSalary and the quantitative and qualitative tracking of production through the modules of the internally developed system. Data collected by the internal system is transferred to Dynamics AX through an integration module specifically designed for this purpose.



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5CT-0440  
5L-0352

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ISO 14001  
OHSAS 18001

TUV:  
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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
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RINA

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## Corporate Governance Statement

TMK Artrom's management, in the Corporate Governance Code voluntarily applied by the Company, ensures compliance with the principles contained in the **Corporate Governance Code of Bucharest Stock Exchange**.

The corporate governance principles applied by the Company are available to the public and can be accessed on the company's website: [www.tmk-artrom.eu](http://www.tmk-artrom.eu).

TMK Artrom is a company related to the companies of TMK group being controlled by TMK-EUROPE (which has as sole shareholder the Russian company PAO TMK). However, TMK Artrom is managed and operated as an independent company complying with the legislation relating to the local capital markets and with the equally protection of interest to each shareholder.

TMK Artrom constantly strives to ensure that its activities are consistent with global standards of openness and financial transparency. This approach improves the Company's credibility in the eyes of investors, partners and state authorities.

The corporate governance of TMK Artrom evolved positively over time and it is in a continuous process of modernization in compliance with international standards.

TMK Artrom 's policy is to promote professional and moral standards specific to the business. In this regard, a set of internal regulations (procedures, policies and regulations) have been developed within the Company that regulate how the Company's management understands to manage these topics

1. The Code of Conduct - it is published on TMK Artrom website, which sets out ethical and professional conduct (standards) to be respected by employees, regardless of their function (including members of the Board of Directors, managers and Management Board) as well as TMK Artrom collaborators;
2. The Procedure regarding Prevention and Reporting the Corruption Acts and Transparency Policy in Staff Recruitment- through which were established the basic anticorruption principles and the reporting system of possible violations;
3. The Regulation on Conflict of Interests- aiming to limit the influence of private and personal interests of the employees on the positions held by them, on the business decisions taken and guarantee compliance with high standards of corporate management principles of openness, transparency and predictability.

Regarding the **internal control and risk management systems in relation to the financial reporting process**, TMK Artrom ensures that they are always up to the highest standards. Thus, the internal control it is the process conducted by the Board of Directors, management and staff of the entity, intended to ensure the achievement of the Companies' objectives, taking into consideration: (i) effectiveness and efficiency of operations; (ii) reality of financial reports; (iii) compliance with laws and regulations applicable within the Company.

The Company's management is controlled by shareholders and the financial auditor, according to legal regulations valid in Romania.

The internal Audit is performed under the provisions of GEO 75/1999 regarding the financial audit activity, modified and amended by Law no. 162 of 6 July 2017 on statutory audit of annual financial statements and annual consolidated financial statements and amendments to normative acts to provide assurance on the effectiveness of risk management, control and governance systems, contributing to additional value and providing recommendations for improvement.



API:  
5CT-0440  
5L-0352

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ISO 14001  
OHSAS 18001

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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

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The internal audit function is an integral part of the Company's internal control system reports to the General Manager of TMK Artrom. The Internal Audit and Risk Analysis Department assists the management of TMK Artrom achieve the objectives set by it and provide objective and detailed assessments of the legality, regularity, economy, efficiency and effectiveness of the activities and operations carried out.

The objectives of the Internal Audit and Risk Analysis Department agreed with the management of the Company, are as follows:

- (i) providing an independent assessment of the effectiveness and efficiency of the internal control system/framework implemented by the management;
- (ii) assessing the proper fund management and conservation of assets;
- (iii) assessing the reliability of accounting and IT systems;
- (iv) ensuring that the entity's policies and processes are respected in all activities and structures implemented;
- (v) ensuring that the policies, processes and control mechanisms are reviewed so that they remain sufficient and appropriate to the entity's business;
- (vi) making recommendations for the continuous improvement of an internal control system so that they operate with optimal efficiency and cost-effective, reflecting appropriate control practices;
- (vii) providing consultancy and advisory services regarding the development of new programs or procedures or on the operational risk assessment that may result in the event of significant changes;
- (viii) promoting an effective coordination with the work of the external auditor in order to reduce any duplication of activities.

Since 2014, TMK Artrom has implemented a formalized risk management process that identifies, evaluates and controls risks that could affect the achievement of overall goals and sub-goals at each of the company's levels.

Risk management is an element of internal control system, with which significant risks for activities within TMK Artrom are identified, the ultimate goal being to maintain these risks at an acceptable level. The main objectives of risk management are: (i) maintain threats within acceptable limits; (ii) to take appropriate decisions to explore opportunities; (iii) contribute to the improving the performance of TMK Artrom.

The Decision no. 325 dated 8.11.2011 has been updated with the Decision no.226 dated 10.07.2018 in accordance with the Accounting Law no 82/1991, by which the organization and exercise the preventive financial control in the company was regulated.

In the field of Environmental Quality Management there are internal audit procedures that verify compliance at the company level with requirements of reference standards ISO 9001, API Q1 and ISO 14001 and its documents, the way in which they are implemented and effectively maintained.

The control of the assets is also performed annually by conducting an annual inventory based on the decision of the Company's management and by establishing a program of annual inventory.

The financial reports prepared by TMK Artrom and TMK-RESITA are drafted in accordance with the national legislation and are audited by Ernst & Young as well as annual reports prepared to consolidate financial statements at the level of the TMK group.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA



**The General Meeting of Shareholders is the governing body of the Company** that decides on its activity and ensures the economic and trade policy. The General Shareholders' Meetings are ordinary and extraordinary.

The Ordinary General Meeting meets at least once a year within 4 months from the end of the financial year and has the following attributions:

- (i) discusses, approves or modifies the annual financial statements, based on the reports presented by the Board of Directors, the financial auditor and establishes the dividends;
- (ii) elects or dismisses members of the Board of Directors, establishes their remuneration and decides on the discharge of the directors;
- (iii) sets the duties and powers of the Board of Directors;
- (iv) approves the income and expenditure budget and the business program;
- (v) decides to pledge, lease or dissolve one or more units of the Society;
- (vi) appoints or revokes the financial auditor and sets the minimum term of the audit agreement.

The Extraordinary General Meeting meets whenever necessary and decides on:

- (i) changing the legal form of Company;
- (ii) relocation of the Company's registered headquarters;
- (iii) changing the Company's object of activity;
- (iv) prolongation of the duration of the Company;
- (v) increasing the registered capital;
- (vi) diminishing the registered capital or its update by way of issuing shares;
- (vii) merger with another company or the Company's spin off;
- (viii) early dissolution of the Company;
- (ix) issuance of bonds;
- (x) conversion of shares from one category to another;
- (xi) conversion of a class of bonds or shares in another category or in shares;
- (xii) any other change in the Articles of Association or any other resolution for which approval is required from the Extraordinary General Meeting;
- (xiii) the following powers are delegated to the Board of Directors through the Articles of Association:
  - relocation of the company registered headquarters;
  - changing of the Company's objects of activity except for the main object of activity;
  - establishing or dissolving the secondary offices, branches, agencies, offices or other such units without legal personality.

The general meetings shall be convened whenever necessary by the Board of Directors and the extraordinary general meeting may be summoned by a number of shareholders who individually or cumulatively represent at least 5% of the value of the share capital. The convening will be made in accordance with the provisions of the Articles of Incorporation, Law 31/1990 and the regulations applicable to companies whose securities are admitted to trading.

The shareholders' rights and the ways of exercising these rights are those provided by the relevant legislation.

The Company is administrated by a Board of Directors consisting of 7 members elected by the general shareholders' meeting having a renewable 4-year mandate. The current Board of Directors' mandate is between 25 April 2018 and 25 April 2022.

On 31 December 2018 the Board of Directors had the following members:



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

1. Andrey Zimin - Chairman of the Board of Directors;
2. Adrian Popescu – member/Chief Executive Officer;
3. Mikhail Albertovich Surif – member;
4. Andrey Parkhomchuk – member;
5. Olga Nikolaeva – member;
6. Florin-Tudor Tat – independent member;
7. Vlad Nastase – independent member.

The CVs of the members of the TMK Artrom' Board of Directors are available on the Company's website at [http://www.tmk-artrom.eu/tmkartrom\\_bordofdirector](http://www.tmk-artrom.eu/tmkartrom_bordofdirector). Furthermore, additional information can be found under section 4.1 of this report.

The Board of Directors has mandate to perform all the necessary and appropriate actions so as to achieve the object of activity of the Company, except for the powers reserved exclusively to the General Meeting of Shareholders or the powers delegated to the appointed managers of the Company.

The Board of Directors has the following duties that cannot be delegated to managers:

- a) establishing the main directions of activity and development of the Company;
- b) establishing the accounting and financial control system and the approval of financial planning;
- c) appointment and dismissal of the appointed managers and determining their remuneration;
- d) supervising the activity performed by the appointed managers;
- e) preparing the annual report, organizing the General Meeting of Shareholders and implementing its decisions;
- f) requesting the opening of the insolvency proceedings.

The Board of Directors meets at least once every 3 months and also meets upon the justified request of any two members or of the General Manager of the Company. The Board of Directors represents the Company only in relation to the General Manager and to the other managers.

In the implementation of its attributions, the Board of Directors created on 25 April 2018 the audit committee whose duties are to decide on all issues intended for the committee in accordance with the relevant laws and regulations. Without interfering with/ prejudice to the responsibility of the members of the Board of Directors, managers or other members who are appointed by the General Meeting of Shareholders or by the Board of Directors, the committee has the following duties: (i) monitors the financial reporting process and submits recommendations or proposal to ensure its integrity; (ii) informs the Board of Directors of the outcome of the statutory audit and explains how the statutory audit contributed to the integrity of financial reporting and what the role of the committee was in the process; (iii) monitors the effectiveness of the Company's internal quality control, risk management systems and internal audit regarding the financial reporting of the Company, without breaching its independence; (iv) analyzes the internal audit's reports and submits recommendations or proposal regarding the effectiveness and performance of the internal audit; (v) monitors the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions of any controls and/or inspections of the statutory auditor performed under legal provisions by the competent authority; (vi) reviews and monitors the independence of the statutory auditors or the audit firms in accordance with legal provisions, and in particular the appropriateness of the provision of non-audit services to the Company in accordance with article 71 paragraph (1) of Law 162/2017 and article 5 of Regulation 537/2014; (vii) shall immediately notify the Board of Directors and the General-Director/Chief Executive Officer whenever the Committee considers that the independence or objectivity of the statutory auditors or the audit firms might be affected; (viii) is responsible for the selection process of statutory auditors or audit firms and recommends to the Board of Directors the statutory auditors or the audit firm



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA

to be appointed in accordance with article 16 of Regulation 537/2014; (ix) ensures effective cooperation between the internal audit service and external auditors of the Company. In 2018, the audit committee had two sessions having a presence of 100% of its members.

The management of the Company is delegated by the Company's shareholders through the Articles of Association to the General Manager and to six deputy managers:

1. Adrian Popescu – General Manager (CEO) -President of the Management Board
2. Vaduva Cristiana – Deputy Chief Economical and Accountancy Officer
3. Drinciu Cristian – Deputy Chief Operational Officer
4. Mustata Valeru – Deputy Chief Commercial, Logistics and Administrative Officer
5. Chernyy Evgeny – Deputy Chief Financial Officer CFO
6. Pavlov Alexandru – Deputy Chief Procurement Officer
7. Constantin Neacsu - Executive Officer of the Factory.

The CVs of the managers of the TMK Artrom are available on the Company's website at [http://www.tmk-artrom.eu/tmkartrom\\_managementboard](http://www.tmk-artrom.eu/tmkartrom_managementboard). Furthermore, additional information can be found under section 4.2 of this report.

In 2018 there were 11 meetings of the Board of Directors having the following agenda:

Date	Discussed topics
8/02/2018	<ol style="list-style-type: none"> <li>1. Individual and consolidated economic reports of IV quarter 2017.</li> <li>2. Preliminary yearly individual and consolidated financial results upon 31 December 2017, as per Regulation FSA no.1/2006;</li> <li>3. Publication in accordance with the legal provisions of the preliminary individual and consolidated financial results upon 31 December 2017, the preliminary key indicators for 2017.</li> </ol> <p>Attending: Adrian Popescu, Mikhail Surif, Olga Nikolaeva, Zimin Andrey (through Mr. Surif)</p>
21/02/2018	<p>PAO TMK proposal made as a consultant, to participate in the global insurance program of TMK, to ensure the entire patrimony and for the insurance against losses resulting from business interruption 2018.</p> <p>Attending: Zimin Andrey, Adrian Popescu, Olga Nikolaeva</p>
05/03/2018	<p>Convening notice General Meeting of Shareholders.</p> <p>Attending: Zimin Andrey, Adrian Popescu, Mikhail Surif</p>
07/03/2018	<p>Management performance bonus for 2017.</p> <p>Attending: Zimin Andrey, Adrian Popescu, Olga Nikolaeva</p>
26/03/2018	<ol style="list-style-type: none"> <li>1. Management Report of the Board of Directors for the year 2017 and its submission for the General Shareholders Meeting's approval.</li> <li>2. Annual individual financial statements prepared under IFRS for 2017 in order to send them for the discussion and the approval of the General Shareholders Meeting as well as the proposal of Board of Directors to the General Shareholders Meeting regarding the distribution of profit in the reserve fund, other reserves for reinvested profit, for covering the losses of previous years and carrying forward the difference of the undistributed profit.</li> <li>3. Proposal to General Meeting of the Shareholders regarding the discharge of activity for the members of the Board of Directors for the financial year of 2017.</li> <li>4. The incomes and expenses budget and the activity program of the Company for the year 2018 and its submission for the approval of the General Shareholders Meeting.</li> </ol>



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA

Date	Discussed topics
	<p>5. Analysis of the investment program results for 2017.</p> <p>6. Investment schedule for the year of 2018 and his submission for the approval of the General Shareholders Meeting.</p> <p>7. Approving the proposal for the credit limits for 2018, including the extension of the credit agreements expiring in 2017 and the new sources of circulating capital needed in 2018.</p> <p>8. Amendments to the Manual of Accounting Policies in accordance with International Financial Reporting Standards (IFRS);</p> <p>Attending: Zimin Andrey, Adrian Popescu, Olga Nikolaeva, Mikhail Surif</p>
25/04/2018	<p>1. Appointing the Audit Committee and determining the remuneration of the independent members.</p> <p>2. Regulation of the Audit Committee.</p> <p>3. Quarterly Economic Reports - analyzing and approving economic results of Quarter I 2018.</p> <p>4. Separate and consolidated financial results for the first 3 months (up to 31 March 2018), according to FSA Regulation No.1/2006.</p> <p>5. Publication in accordance with the legal provisions of the individual and consolidated financial results for the first three months (until 31 March 2018).</p> <p>Attending: Zimin Andrey, Adrian Popescu, Mikhail Surif, Olga Nikolaeva, Tat Florin-Tudor, Vlad Nastase</p>
07/08/2018	<p>1. Quarterly Economic Reports - analyzing and approving economic results of Quarter II 2018.</p> <p>2. Directors' Report and the individual and consolidated financial results upon 6 months ended on 30 June 2018, according to AFS Regulation No.5 / 2018.</p> <p>3. Publication in accordance with the legal provisions of the individual and consolidated financial results for the 6 months ended on 30.06.2018.</p> <p>Attending: Zimin Andrey, Adrian Popescu, Mikhail Surif, Olga Nikolaeva, Tat Florin-Tudor, Vlad Nastase</p>
09/10/2018	<p>1. The Credit Agreement ("BANCA TRANSILVANIA Facility") which will be concluded with TMK Artrom, as a borrower and guarantor and TMK-RESITA as guarantor, with BANCA TRANSILVANIA SA ("BANCA TRANSILVANIA"), as creditor, according to which BANCA TRANSILVANIA will offer to the borrower a credit limit granting access to the following facilities: 1. credit line; 2. Issuing SGBs; 3. Issuing letter of credit up to the maximum amount of the Facility of 20,000,000 EUR (the "BANCA TRANSILVANIA Facility Amount") for the financing of the circulating capital needs, with due date until 7 November 2019, in terms and conditions agreed by the parties.</p> <p>2. In order to ensure the full reimbursement and the fulfilment by the Company of its obligations (throughout their existence) from BANCA TRANSILVANIA Facility, the following guarantees shall be constituted in favor of BANCA TRANSILVANIA:</p> <ul style="list-style-type: none"> <li>i. Corporate guarantee letter issued by PAO TMK Rusia;</li> <li>ii. Security mortgage on the balances of current and future accounts opened by the TMK Artrom with BANCA TRANSILVANIA („Security mortgage on accounts BANCA TRANSILVANIA”);</li> <li>iii. Personal guarantee (fidejusiune) issued by TMK Resita SA;</li> </ul> <p>3. Empowering, with full powers and authority to represent the Company for (i) the signing of the BANCA TRANSILVANIA Facility and the mortgage contract on the BANCA TRANSILVANIA accounts (together „BANCA TRANSILVANIA Contracts”) as well as any addendums related to the BANCA TRANSILVANIA Contracts, (ii) the negotiation, in the name and on behalf of the Company, with his/her best abilities, any other terms and conditions of the BANCA TRANSILVANIA Contracts not expressly stated in these resolutions (including, but not limited to: the reimbursing terms and conditions and the repayment dates of the BANCA TRANSILVANIA Facility, extension of its duration, credit</p>



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR: LR LRQA:  
EN 10210-1,2 DNV-GL Rules ISO/TS 16949  
EN 10255 RINA

Date	Discussed topics
	<p>conversion in any other currency, the amendment of the guarantee structure, setting the costs related to BANCA TRANSILVANIA Facility (iii) signing and/or sending all documents and notifications (including, if applicable, any request for use) to be signed and/or dispatched by the Company in accordance with and/or in connection with BANCA TRANSILVANIA Contracts, and (iv) signing, writing, depositing to send and receive any other documents relating to the performance of any other formalities and actions necessary for the proper implementation and execution of the BANCA TRANSILVANIA Contracts, including but not limited to the registration of the Banca BANCA TRANSILVANIA Mortgage Account at the Electronic Archive for Securities, to the following people, according to the Articles of Association, the following individuals:</p> <ul style="list-style-type: none"> <li>(i) Mr. Adrian Popescu – General Manager, (... <i>personal dates</i>), acting individually; or</li> <li>(ii) Mr. Cristian Drinciu – Deputy Chief Operational Officer (...<i>personal dates</i>)– (first signature) acting together with Mrs. Cristiana Vaduva- Deputy Chief Economical and Accountancy Officer, (...<i>personal dates</i>) (second signature), or</li> <li>(iii) Mr. Valeru Mustata- Deputy Chief Commercial Officer (... <i>personale dates</i>) (first signature) acting together with Mrs. Cristiana Vaduva- Deputy Chief Economical and Accountancy Officer, (...<i>personal dates</i>) (second signature), or</li> <li>(iv) Mr. Evgeny Chernyy – Deputy Chief Financial Officer TMK Artrom (... <i>personale dates</i>) (first signature) acting together with Mrs. Cristiana Vaduva- Deputy Chief Economical and Accountancy Officer, (...<i>personal dates</i>) (second signature), or</li> <li>(v) Mr. Alexander Pavlov–Deputy Chief Procurement Officer (... <i>personale dates</i>) (first signature) acting together with Mrs. Cristiana Vaduva- Deputy Chief Economical and Accountancy Officer, (...<i>personal dates</i>) (second signature), or</li> <li>(vi) Mr. Constantin Neacsu Executive Officer of the Factory (... <i>personale dates</i>) (first signature) acting together with Mrs. Cristiana Vaduva- Deputy Chief Economical and Accountancy Officer, (...<i>personal dates</i>) (second signature),</li> <li>(vii) Mr. Adrian Popescu may delegate his powers under paragraph (iii) and (iv) above to any third parties of its choice</li> </ul> <p>4. Convening notice of General Meeting of Shareholders.</p> <p>Attending: Zimin Andrey, Adrian Popescu, Mikhail Surif, Olga Nikolaeva, Tat Florin-Tudor, Vlad Nastase</p>
12/11/2018	<ul style="list-style-type: none"> <li>1. Quarterly economic reports - economic analysis and approval of the results of III quarter of 2018;</li> <li>2. Separate and consolidated financial results for 9 months ended 30 September 2018, according to FSA Regulation No.5/2018</li> <li>3. Publication in accordance with the legal provisions of the separate and consolidated financial results for the 9 months ended 30 September 2018.</li> <li>4. Convening notice of General Meeting of Shareholders.</li> </ul> <p>Attending: Zimin Andrey, Adrian Popescu, Mikhail Surif, Olga Nikolaeva, Tat Florin-Tudor, Vlad Nastase</p>



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



Date	Discussed topics
14/11/2018	Convening notice of General Meeting of Shareholders.  Attending: Zimin Andrey, Adrian Popescu, Mikhail Surif, Olga Nikolaeva, Tat Florin-Tudor, Vlad Nastase
28/11/2018	<ol style="list-style-type: none"> <li>1. Acquisition by TMK Artrom of 100% shares of TMK Italia from the current shareholder TMK Global.</li> <li>2. The acquisition price based on the evaluation report made by DARIAN S.A.</li> <li>3. The full powers and authority empowerment of Mr. Adrian Popescu, as a General Manager, in order to perform all legal formalities which were necessary to conclude the acquisition and to sign any other documents, including, but not limited to power of attorney, declarations, contracts with and in front of any third parties, including but not limited to tax/judicial authorities, public notaries, local and governmental authorities.</li> </ol> Attending: Zimin Andrey, Adrian Popescu, Mikhail Surif, Olga Nikolaeva, Tat Florin-Tudor, Vlad Nastase

For 2018, the activity of the Board of Directors was evaluated based on the report issued by the Chairman of Board of Directors. The activity of Board of Directors is annually evaluated based on the economic and financial indicators. The degree of fulfilment of the economic – financial indicators is presented in the Annual Report

Regarding the diversity policy, TMK Artrom together with TMK Group encourage the diversity, not only within the Company but also, within the companies from the Group. Since the diversity policy takes into consideration age, gender, education and professional background, the diversity policy applies both to the management and to the entire Company.

The Company' diversity policy applies also to the Board of Directors. As a consequence, the Board of Directors includes both women and men, with different professional background (legal, economic, technical) and different nationalities.

Relating to the status of the Company's compliance with the provisions of the Corporate Governance Code of BVB, please see the chart attached to the present report.

### Code compliance statement

Status of compliance with the Bucharest Stock Exchange's Corporate Governance Code until 31 December 2018:

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
A1	<b>All companies should have an internal regulation of the Board which includes terms of reference/responsibilities of the Board and key</b>	The Articles of Association of the Company provides detailed rules regarding the organization and			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
	<b>management functions of the company, applying, among others, the General Principles of Section A.</b>	<p>functioning of the Executive management/Board of Directors /General Shareholders Meeting.</p> <p>Moreover, in February 2019, TMK Artrom approved the Board of Directors' Regulation, which includes relevant provisions on the composition, appointment and functioning of the Board of Directors, including the management of the conflict of interests.</p> <p>The Company also has a Code of Conduct and Corporate Governance which contains the terms of reference, the responsibilities of the executive management, the Board of Directors and the General Shareholders Meeting, and key management functions.</p> <p>These terms of reference / responsibilities are made public through the Annual Report published on the Company's Investor Relations Section. These reports, the Board of Directors' Regulation, the Articles of Association, the Code of Conduct</p>			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
		and the Corporate Governance Code, are published on the Company's website under Section: <i>INVESTORS RELATIONS - CORPORATE GOVERNANCE</i>			
A2	<b>Provisions for the management of conflict of interests should be included in Board regulation. In any event, the members of the Board should notify the Board of any conflicts of interests which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interests.</b>	<p>With regard to the management of conflicts of interest, each member of the Board of Directors shall ensure that a conflict of interests directly or indirectly with the Company is avoided and, in the event of such a conflict, shall immediately notify the Board and shall not take part in any Board deliberations or vote relating to the operations in connection to which such conflict of interests exists, in accordance with the legal provisions in force.</p> <p>The provisions for the management of conflicts of interest are published on the Company's website in the Board of Directors' Regulation, the Code of Conduct, under <i>INVESTORS RELATIONS - CORPORATE GOVERNANCE</i> Section.</p>			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

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		Moreover, in February 2019, TMK Artrom approved the Board of Directors' Regulation, which includes relevant provisions on the management of the conflict of interests.			
A3	<b>The Board of Directors or the Supervisory Board should have at least five members.</b>	The Board of Directors of TMK Artrom consists of 7 members (of which 2 independent members) with a current mandate until 25 April 2022. More information can be found in the Annual Report and on the Company's website under the: <i>INVESTORS RELATIONS - CORPORATE GOVERNANCE</i> Section.			
A4	<b>The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is</b>	The Board of Directors of TMK Artrom consists of 7 members. The information on this provision is published in the Annual Report under the <i>INVESTORS RELATIONS - REPORTS</i> Section and on the Company's website in the Section: <i>INVESTORS RELATIONS - CORPORATE GOVERNANCE</i> .  The Chairman of the Management			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

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	<b>independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgement in practice</b>	Board is the General Manager and member of the Board of Directors. The other members of the Board of Directors do not have executive positions. TMK Artrom has 2 independent Board members.			
A5	<b>Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.</b>	This information is available in the Annual Report as well as in the CVs presented for each member of the Board of Directors on the company's website under <i>INVESTORS RELATIONS</i> - <i>CORPORATE GOVERNMENT</i> - <i>Board of Directors</i> Section.			
A6	<b>Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board</b>	The information is presented in the Annual Report.			
A7	<b>The company should appoint a Board secretary responsible for supporting the work of the Board.</b>	TMK Artrom appointed a Secretary for the Board of Directors through a Board of Directors' Decision.			
A8	<b>The corporate</b>	The activity of the			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
	<b>governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.</b>	<p>Board of Directors for 2018 was evaluated based on the report issued by the Chairman of Board of Directors. The activity of Board of Directors is annually evaluated based on the economic and financial indicators. The degree of fulfilment of the economic – financial indicators is presented in the Annual Report.</p> <p>After approval of the Annual Report, the General Shareholders Meeting approve the discharge of the directors.</p> <p>The General Shareholders Meeting decision is published on the Company's website under „INVESTORS RELATIONS” Section.</p>			
A9	<b>The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.</b>	The Annual Report contains information regarding the activity of Board of Directors and the Audit Committee (number of meetings, activities carried out).			
A10	<b>The corporate governance statement should contain information on the</b>	The corporate governance statement and the Annual Report			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
	precise number of the independent members of the Board of Directors or of the Supervisory Board.	contain information regarding the number of members of the Board of Directors that are independent (2) and not independent (5) and their distribution based on the criteria executive/ non-executives.			
A11	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the Nomination Committee should be independent	Not applicable.			
B1	The Board should set up an audit committee, and at least one member should be an independent nonexecutive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience.  In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be	In the Extraordinary General Meeting of Shareholders of 25 April 2018 it was approved the modification of the number and structure of the Board of Directors from 5 members to 7 members by electing 2 new independent members. It was approved that the two independent members be part of an Audit Committee consisting of three members: two independent members and one non-independent. Through this, the			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
	<b>independent.</b>	Company has also complied with the provisions of Law 162/2017. The Chairman of the Audit Committee is an independent member of the Board of Directors. One of the members of the Audit Committee, Mr. Surif Mikhail, has the appropriate relevant experience. The Regulation of the Audit Committee was also approved by the Board of Directors upon the establishment of the Audit Committee.			
<b>B2</b>	<b>The audit committee should be chaired by an independent nonexecutive member.</b>	Yes, starting with 25 April 2018.			
<b>B3</b>	<b>Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.</b>	Yes, yearly and on a quarterly basis. The Audit Committee made the annual assessment of the system of internal control.			
<b>B4</b>	<b>The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.</b>	The Annual Report contains information about the audit activity, risk control and management.			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
B5	The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.		<p>This activity is carried out on the basis of the Company's obligation to monitor the compliance with the provisions of the Article of Association/Code of Conduct and the applicable normative documents regarding transactions with affiliated parties. Taking into consideration that the Audit Committee was established on 25 April 2018, it shall perform the relevant reviews.</p> <p>Also the financial auditor, ERNST &amp; YOUNG, prepares quarterly audit reports regarding the reports of the Company with respect to the transactions over 50.000 EUR with related parties, according to article 82 of Law no. 24/2017 and ASF Regulation no. 5/2018. All these materials are published on the Company's website under: <i>INVESTORS RELATIONS – REPORTS</i> Section.</p>	The Audit Committee was established on 25 April 2018 and shall perform the relevant reviews during the following period.	Until the end of 2019, the Audit Committee shall perform such review.
	Information regarding the number and the value of transactions with affiliated parties	The Annual Report, current reports and quarterly reports of financial auditors regarding the agreements with affiliated parties with values			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

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		over 50.000 EUR contain information of the transactions with affiliated parties from the relevant year. Those are published on the website under „INVESTORS RELATIONS - REPORTS” Section.			
B6	<b>The audit committee should evaluate the efficiency of the internal control system and risk management system.</b>	The Company, has an Audit Committee which performed the evaluations. The outcome of the assessment of the effectiveness of the internal control system and of the risk management system is contained in the Annual Report.			
B7	<b>The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.</b>	The Company, has an Audit Committee which monitors the application of the legal standards and internal audit standard as such are generally accepted. The Audit Committee receives and evaluates the reports of internal audit team.			
B8	<b>Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.</b>	Yes, on a quarterly basis or ad-hoc.			
B9	<b>No shareholder may be given undue preference over other shareholders</b>	All shareholders are treated in accordance with			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
	with regard to transactions and agreements made by the company with shareholders and their related parties.	the provisions of the law.			
B10	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	The specific procedure SYSTEM ISO related to transfer price in relation with affiliated parties and procedures regarding preparing, tracking income expense budget, financial statements, economic financial indicators – that are approved quarterly / half yearly by Board of Directors have been adopted. During the quarterly meetings for revising the public quarterly budget results, quarterly/half yearly reports, the Audit Committee analyses, the Company's transactions with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the Company and it presents its opinion to the Board of Directors.			
B11	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third	TMK Artrom has an Internal Audit Department and own Risk Analysis.			



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5L-0352

LRQA:  
ISO 9001  
ISO 14001  
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TUV:  
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ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
	party entity.				
	<b>Descriptive Report of the Chairman of the Audit Committee (on the assessment of internal audit reports and the reporting of the Chairman of the Internal Audit Department)</b>	For 2018, the Descriptive Report of the Chairman of the Audit Committee regarding the assessment of internal audit reports and the reporting of the Chairman of the Internal Audit has been prepared.  The Annual Report contains a section dedicated to the evaluation of the audit activity in which provides information regarding the internal audit activity and the risk management.			
<b>B12</b>	<b>To ensure the fulfilment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer</b>	The reporting lines are strictly observed. The Audit Department reports to the Audit Committee, the General Manager and the Board of Directors.			
<b>C1</b>	<b>The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. The remuneration policy should be formulated in such a way that allows stakeholders to understand the</b>		The Company does not have a formal remuneration policy. The directors' remuneration is done in accordance with the law. For more information, please see „INVESTORS RELATIONS – CORPORATIVE GOVERNANCE” Section.	In 2018, the Company has started revising and, where applicable, updating its documents /policies. As a result, certain documents	Until the end of 2019, the Company will finalize the revision and, where applicable, the updating of the remaining documents.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
	<p>principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stocklinked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. The remuneration report should present the implementation of the remuneration policy vis-à-vis the persons identified in the remuneration policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.</p>			have been enacted. The process is still in progress with respect to other documents.	



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
D1	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	<p>TMK Artrom has a structure specifically designed for investor relations.</p> <p>All materials published on the TMK Artrom website under the <i>INVESTORS RELATIONS</i> Section, are also translated into English.</p>			
D.1.1	Principal corporate regulations: the articles of association, general shareholders' meeting procedures;	The main corporate documents are published bilingually on the Company's website <i>INVESTORS RELATIONS</i> Section.			
	<i>Terms of reference of the Council and the Committees of the Council</i>	The Terms of Reference of the Board of Directors and the Management Board are contained in the Articles of Association and, starting with February 2019, in the Board of Directors Regulation, Audit Committee regulation and the relevant documents which can be found on the Company's website under <i>INVESTORS RELATIONS, - CORPORATE</i>			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
		<i>GOVERNANCE</i> Section.			
	<b>GSM rules and procedures</b>	In accordance with the Articles of Association. All materials are published on the Company's website both under <i>Investors Relations</i> – <i>Shareholders Information</i> Section and in CORPORATE GOVERNANCE information about General Shareholders Meeting Calling Notices, Current Reports GSM ( <i>INVESTORS RELATIONS, REPORTS</i> ).			
<b>D.1. 2</b>	<b>Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and nonexecutive Board positions in companies and not-for-profit institutions</b>	The CVs of the members of the governing bodies / the Board of Directors are published in the Annual Report on the company's website in <i>Section INVESTORS RELATIONS, CORPORATE GOVERNANCE</i> Board of Directors.			
<b>D.1. 3</b>	<b>Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code;</b>	Current reports including periodic ones (quarterly, semiannual and annual) are published on TMK Artrom website, under <i>Investor Relations</i> (in <i>REPORTS</i> and in <i>Corporate Governance</i> – documents) Section. These contain information			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



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		related to this provision.			
D.1.4	Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken;	All these information are published on the webpage under <i>INVESTORS RELATIONS</i> -Section.			
D.1.5	Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	All these information are published on company's website under <i>INVESTORS RELATIONS</i> Section.			
D.1.6	The name and contact data of a person who should be able to provide knowledgeable information on request;	The information is available on website under <i>INVESTORS RELATIONS-Contact Details for the Investors</i> -Section.			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
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ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
D.1.7	Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	Presentations made upon the publication of quarterly and half yearly financial results and / or upon meetings with investors / analysts are published on website, under <i>INVESTOR RELATIONS</i> Section.  The annual financial statements are accompanied by the audit report.			
D.2	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.		The annual dividend or other benefits distribution policy towards the shareholders is on the agenda of the Board of Directors meeting called for 1 March 2019 and it is submitted for the approval of the shareholders meeting convened for 5 April 2019.		5 April 2019
D.3	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature, such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The		The policy with respect to forecasts is on the agenda of the Board of Directors meeting called for 1 March 2019 and it is submitted for the approval of the shareholders meeting convened for 5 April 2019.		5 April 2019



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949

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	policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semiannual or quarterly reports. The forecast policy should be published on the corporate website.				
D.4	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	The rules for the organization and conduct of the General Shareholders Meeting of TMK Artrom guarantee the shareholders' rights under the law and ensure equal treatment of shareholders. Those are provided by the Article of Association on website under <i>INVESTORS RELATIONS - Corporate Governance Documents</i> Section and also in current reports/ annual reports under <i>Section INVESTORS RELATIONS REPORTS</i> Section.			
D.5	The external auditors should attend the shareholders' meetings when their reports are presented there.	The external auditors are notified of the date of the Shareholders General Meeting in order for them to be present at the general shareholders' meeting when their reports are presented at these meetings.			
D.6	The Board should present to the annual	During the General Meeting, the Board			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

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	<b>general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.</b>	of Directors, starting with 2018, presents a report regarding the performance of internal controls and risk management systems. This information is contained in the chapters referring to the activity regarding the risk management, internal control and risk management in the Annual Report of the Board of Directors to be submitted for the approval of the General Shareholders Meeting.			
D.7	<b>Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.</b>	The President of the Board of Directors shall be informed of any request for participation in the General Meeting of the Shareholders.			
D.8	<b>The quarterly and semiannual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter</b>	The quarterly and half yearly annual financial reports include both Romanian and English information on key factors that affect changes in sales, operating profit, net profit and other relevant			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

	Code provisions	Compliance	Non-compliance or partial compliance	Reason of non-compliance	Deadline
	and year-on-year terms.	financial indicators, from quarter to quarter, as well as from one year to another.			
D.9	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.		<p>During 2018, the investors has been offered the occasion to participate, upon their request, to meetings/conferences with the Company.</p> <p>For 2019, according to the Financial calendar presented on the site under the <i>INVESTOR RELATIONS - SHAREHOLDERS</i> Section, the meetings/conferences are planned to take place in 8 April 2019 and 12 August 2019.</p>	No investors requested any meetings.	For 2019, according to the Financial calendar presented on the site under the <i>INVESTOR RELATIONS - SHAREHOLDERS</i> Section, the meetings/conferences are planned to take place in 8 April 2019 and 12 August 2019.
D.10	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	According to the CODE OF CONDUCT the provisions for donations and sponsorships are presented on the site under <i>INVESTORS RELATIONS - CORPORATE GOVERNANCE</i> Section.			



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



## Consolidated non-financial statement - Sustainability report according to GRI

In 2014, the European Parliament and the European Council adopted the 95th Directive by which public-interest entities with over 500 employees are required, in addition to the administrators' report, to submit a non-financial statement that includes information on the economic, social, and the environment. The Directive was transposed into Romanian legislation by the Order of the Minister of Public Finance 1938/2016 and the Order of the Minister of Public Finance 3456/2018, by Law 111/2016 for the approval of GEO 109/2011, but also by a series of norms adopted by the National Bank of Romania, respectively by the Financial Supervisory Authority.

In accordance with Order no. 470/2018 of 11 January 2018 on the main aspects related to the preparation and submission of the annual financial statements and annual accounting reports of the economic operators to the territorial units of the Ministry of Public Finance, as well as for the modification and completion of some accounting regulations and Order no. 2844/2016 of 12 December 2016 approving the Accounting regulations International Financial Reporting issued by the Finance Ministry, TMK ARTROM prepared consolidated non-financial statement as a separate report Sustainability Report, prepared in accordance with standards Global Reporting Initiative (GRI).

The consolidated non-financial statement - SUSTAINABILITY REPORT for the year 2018 - is part of this consolidated report of administration and will be published together under the general disclosure obligation.

According to the Order of the Minister of Public Finance 3456/2018 regarding the modification and completion of some accounting regulations regarding the individual annual financial statements and the consolidated annual financial statements approved by the Order of the Minister of Public Finance no. 1.802 / 2014, published in the Official Gazette of Romania, Part I, no. 963 of 30 December 2014, as amended and completed, TMK-RESITA has prepared the first individual non-financial statement as a separate report SUSTAINABILITY REPORT, prepared in accordance with the Global Reporting Initiatives (GRI) standards.

## Important events occurring after the end of the financial year

On 5 February 2019, TM-Artrom SA as completed the purchase of all the shares held by the sole shareholder TMK Global SA in TMK Italia SRL at the price approved by the Board of Directors of TMK-Artrom S.A legally gathered on 28 November 2018.

As part of its plans to fully integrate the entire business flow in its structure, TMK-Artrom is planning to open a new subsidiary in Germany to operate as its Sales Agent in Northern Europe following the successful model developed in North America through TMK Industrial Solutions LLC and in South-Western Europe through TMK Italia s.r.l.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

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EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949

## Statement of responsible persons

In accordance with the legal provisions in force of Law no. 24/2017 on Issuers of Financial Instruments and Market Operations and of Regulation no. 5/2018 issued by the Financial Supervision Authority (ASF) - Financial Instruments and Investments Sector regarding issuers and transactions with securities, the management of the company declares the following:

1. To our knowledge, we confirm that the consolidated financial statements of TMK-ARTROM SA and separate TMK-ARTROM SA, prepared in accordance with the applicable accounting standards, provide a true and fair view of the assets, liabilities, financial position, income statement for the year ended 31 December 2018 and the group for the years 2016, 2017 and 2018.

2. To our knowledge the consolidated report of the administrators provides a correct and consistent picture of the reality regarding the development and performance of the group and of the company as well as a description of the main risks and uncertainties specific to the ongoing activity related to the expected development of the group and the Company.

The consolidated financial statements of TMK-ARTROM SA together with its subsidiary for 2018 and restated for 2016 and 2017, as well as separate financial statement of TMK-ARTROM SA for the financial year ended as at 31 December 2018 are audited.

Members of the administrative and management bodies ensure that the annual separate financial statements and consolidated and the administrators report have been prepared and published in accordance with national legislation.

### **Legal basis:**

1. Company Law no. 31/1990, republished, as subsequently amended and supplemented;
2. Accounting Law no. 82/1991, republished, as subsequently amended and supplemented;
3. Ministry of Finance Order no. 881/2012 on the application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards, published in the Official Gazette, Part I, no. 424 of 26/06/2012;
4. Ministry of Finance Order no. 907/2005 regarding the approval of the categories of legal entities that apply accounting regulations in line with the International Financial Reporting Standards, respectively accounting regulations compliant with the European directives, published in the Official Gazette, Part I no. 597 of 11/07/2005;
5. Ministry of Finance Order no 2844 / 12.12.2016, as amended and supplemented, on Accounting Regulations in Accordance with International Financial Reporting Standards;
6. Council Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards
7. Order no. 3456/2018 regarding the modification and completion of some accounting regulations
8. Law no. 24/2017 on issuers of financial instruments and market operations
9. Regulation FSA. no. 5/2018 on issuers of financial instruments and market operations

Date 1 March 2019

**Chief Executive Officer,**

**Eng. Popescu Adrian**

**Chief Economical and Accountancy Officer,**

**Ec. Vaduva Cristiana**



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

No 102/73 from 05.04.2019

## ERATA to SEPARATE AND CONSOLIDATED REPORT OF ADMINISTRATION ("Report")

Prepared in accordance with ORDER MFP 881 and 2844/12.12.2016 as amended and supplemented, regarding the Accounting Regulations in compliance with the International Financial Reporting Standards, Law no. 24/2017 on Issuers of Financial Instruments and Market Operations and F.S.A. Regulation no. 5/2018 on Issuers of Financial Instruments and Market Operations regarding the consolidated activity of the TMK-ARTROM SA parent company for the financial year 2018 and the consolidated activity of the TMK-ARTROM Group for the financial years 2016, 2017 and 2018

### 1. The introductory phrase from page 1, both in Romanian and English version is amended:

*„The Company and its significant Romanian subsidiary, TMK-REȘIȚA S.A. ("TMK-Resita"), together with TMK Industrial Solutions LLC ("TMK-USA"), and TMK Assets S.R.L. ("TMK-Assets") are a group within the meaning of this Report, the "Group" or "TMK Artrom Group", as follows:*

is removed from the above paragraph, TMK Italia as part of the Group as at 31.12.2018:

*"The Company and its significant Romanian subsidiary, TMK-REȘIȚA S.A. ("TMK-Resita"), together with TMK-Italia s.r.l. ("TMK-Italy") and Industrial Solutions LLC ("TMK-USA"), and TMK Assets S.R.L. ("TMK-Assets") are a group within the meaning of this Report, the "Group" or "TMK Artrom Group"*

### 2. In the English version of the Report at page 18 is corrected in the table **Consolidated Sales Volume and turnover**, the english translation for „pipes for common use” with “commodities pipes”.

The modified version is shown below:

Product Type / Sales Destination	2018	2017	2016
	Quantity (tons)		
<b>Total seamless steel pipes</b>	<b>200,446</b>	<b>185,416</b>	<b>169,806</b>
1.1. Commodities pipes Europe *	133,044	137,649	137,853
1.2. Commodities pipes Americas**	12,965	8,477	4,073
1.3. Premium Pipes Europe	30,185	25,454	24,900
1.4. Premium Pipes Americas	24,251	13,836	2,981
Total billets and blooms TMK Reșița sold to third parties outside the Group TMK-Artrom	17,848	63,403	9,677
Total billets sold to TMK Artrom produced by TMK Reșița	239,842	236,682	200,227
Total sales of goods, of which :	78,358	85,716	69,427
2.1 Sale of goods Europa	75,452	67,077	68,979
2.2 Sale of goods America	2,906	18,640	449

**3. Casting powders are eliminated from the Group's total production cost from the Romanian version of the Report –page 57, namely page 56 from English version of the Report, from the paragraph below:**

*„The main cost of production of the Group in 2018 is represented by the cost of the raw material consisting of scrap, ferro-alloys and casting powders used by TMK RESITA in the production process, representing 45% of the total sales costs of the group production sold (54%, in 2017 and 39% in 2016)”,*

the final form being reproduced below:

*“The main cost of production of the Group in 2018 is represented by the cost of the raw material consisting of scrap and ferro-alloys used by TMK RESITA in the production process, representing 45% of the total sales costs of the group production sold (54%, in 2017 and 39% in 2016).”*

**4. The average purchase price of scrap is corrected for year 2017 in the Romanian version of the Report on page 57, namely page 56 of the English version, and also, are eliminated electrodes from expenses with raw material expenses, in the following paragraph:**

*a. The expenses with raw material of the group decreased in 2018 compared to 2017 by 5% mainly due to the decrease of liquid steel production of TMK-RESITA by 14 %. However, the decrease of the raw materials expenses was diminished by the increase of the average purchase price of the scrap which increased from 1.130 lei / ton in 2017 to 1.280 lei / ton in 2018 (increase by 13%). Also price increases were in 2018 also to auxiliary materials ferro-alloys and electrodes. The expenses with raw material of the group increased in 2017 compared to 2016 by 96%, as a result of the increase of steel production volume obtained (increase by 43%) and increase of the average acquisition price for scrap from 846 lei/to in 2016 to 1142 lei/to in 2017 (increase by 35%).*

the final form being reproduced below:

*a. The expenses with raw material of the group decreased in 2018 compared to 2017 by 5% mainly due to the decrease of liquid steel production of TMK-RESITA by 14 %. However, the decrease of the raw materials expenses was diminished by the increase of the average purchase price of the scrap which increased from 1,142 lei / ton in 2017 to 1,280 lei / ton in 2018 (increase by 13%). The expenses with raw material of the group increased in 2017 compared to 2016 by 96%, as a result of the increase of steel production volume obtained (increase by 43%) and increase of the average acquisition price for scrap from 846 lei/to in 2016 to 1,142 lei/to in 2017 (increase by 35%).*

**5. In the case of writing and formatting amounts denominated in absolute sizes (RON), small mistakes have been made in the formatting and writing of the text, which is why the following specifications are necessary:**

- it should be read the Romanian version of the Report with point "(.)" in the case of the separators of thousands and comma "(",)"; in the case of decimal separators;
- it should be read the English version of the Report with comma " (,) " in the case of thousands separators and point "(.)" in the case of decimal separators.

**6. It is replaced the point "(.)" with comma "(,)" in the case of the Romanian version of the Report for decimal separators for each of the operational indicators illustrated on page 16 for both TMK Artrom separate and for TMK Artrom Group indicating market share for seamless steel industrial pipes in Europe and North America respectively.**

the final form being reproduced below:

**TMK-ARTROM Group**

	thousand RON		
Market share for seamless steel industrial pipes in Europe	16.1%%	17.5%	17.1%
Market share for seamless steel industrial	4.9%	3.9%	1.5%

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 3/2019**



API:  
5CT-0440  
5L-0352

LR:  
ISO 9001  
ISO 14001  
ISO 45001

TUV:  
PED/AD-2000 W0/W4  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LR:  
IATF 16949

pipes in North America

**TMK-ARTROM SA separate**

	Thousand RON		
	2018	2017	2016
Market share for seamless steel industrial pipes in Europe	16.1%	17.5%	17.1%
Market share for seamless steel industrial pipes in North America	4.9%	3.9%	1.5%

All other provisions of the Report remain unchanged.

**Chief Executive Officer,**

**Eng. Popescu Adrian**

**Chief Economical and Accountancy Officer,**

**Ec. Vaduva Cristiana**



API:  
5CT-0440  
5L-0352

LR:  
ISO 9001  
ISO 14001  
ISO 45001

TUV:  
PED/AD-2000 W0/W4  
TRD 100/102  
Vd TUV

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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

Consolidated and separate financial statements  
prepared in accordance with regulations of  
OMFP no. 2.844/2016, with subsequent  
changes and amendments

**31 DECEMBER 2018**

and restated consolidated financial statements for 2016 and 2017

# CONTENTS

CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME.....	3
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION.....	5
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY.....	7
CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT.....	9
1. ORGANISATION AND NATURE OF BUSINESS.....	11
1.1. CORPORATE AND GROUP INFORMATION .....	11
1.2. PRESENTATION OF THE GROUP.....	12
2. BASIS OF PREPARATION AND ACCOUNTING POLICIES .....	14
2.1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS .....	14
2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	14
2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES.....	31
3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS.....	33
4. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED .....	36
5. SEGMENT INFORMATION .....	38
6. REVENUE FROM CONTRACTS WITH CUSTOMERS .....	41
7. COST OF SALES.....	43
8. SELLING AND DISTRIBUTION EXPENSES .....	44
9. PROMOTION AND ADVERTISING EXPENSES .....	45
10. GENERAL AND ADMINISTRATIVE EXPENSES.....	45
11. RESEARCH AND DEVELOPMENT EXPENSES.....	46
12. OTHER INCOME/EXPENSES AND ADJUSTMENTS .....	47
13. INCOME TAX.....	50
14. EARNINGS PER SHARE.....	53
15. PROPERTY, PLANT AND EQUIPMENT.....	54
16. INTANGIBLE ASSETS .....	60
17. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES.....	61
18. OTHER NON-CURRENT ASSETS .....	74
19. INVENTORIES.....	75
20. TRADE AND OTHER RECEIVABLES (CURRENT) .....	76
21. PREPAYMENTS .....	79
22. CASH AND SHORT-TERM DEPOSITS .....	80
23. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS .....	82
24. PENSIONS PLANS AND OTHER POST-EMPLOYMENT BENEFITS .....	86
25. TRADE AND OTHER PAYABLES (CURRENT).....	89
26. TRANSACTIONS WITH RELATED PARTIES.....	91
27. PROVISIONS.....	96
28. MANAGEMENT OF FINANCIAL RISK – OBJECTIVES AND POLICIES .....	100
29. AUDIT COMPANIES FEES .....	107
30.COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS .....	107
31. EVENTS AFTER THE REPORTING PERIOD .....	111

**TMK-ARTROM S.A.**  
**CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**as of 31 December 2018**

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

	Note	2018 RON	Consolidated 2017 RON	2016 RON
	2.2.d		<b>Restated</b>	<b>Restated</b>
<b>Revenue from contracts with customers</b>	6	<b>1,396,645,640</b>	<b>1,185,628,179</b>	<b>762,827,318</b>
Sales of goods	6	1,392,912,690	1,178,434,195	758,127,662
Rendering of services	6	3,732,950	7,193,984	4,699,656
Cost of sales	7	(1,077,686,759)	(994,932,010)	(639,610,759)
<b>Gross profit</b>		<b>318,958,881</b>	<b>190,696,169</b>	<b>123,216,559</b>
Selling and distribution expenses	8	(135,440,660)	(92,517,799)	(65,690,803)
Advertising and promotion expenses	9	(333,646)	(342,078)	(150,615)
General and administrative expenses	10	(61,251,827)	(52,736,318)	(43,129,892)
Research and development expenses	11	(247,178)	(117,956)	(139,866)
Other operating expenses	12.2	(5,493,798)	(5,486,448)	(4,309,011)
Other operating income	12.1	94,238	2,090,233	5,128,704
<b>Income from operations</b>		<b>116,286,010</b>	<b>41,585,803</b>	<b>14,925,076</b>
Foreign exchange (loss) / gain, net		(3,534,315)	(2,021,813)	(4,633,157)
Finance income	12.4	3,554	1,049	1,229
Finance costs	12.3	(15,290,361)	(10,676,878)	(8,005,398)
<b>Profit before tax</b>		<b>97,464,888</b>	<b>28,888,161</b>	<b>2,287,750</b>
Income tax expense/credit	13	(17,888,692)	(2,268,466)	639,903
<b>Profit for the year</b>		<b>79,576,196</b>	<b>26,619,695</b>	<b>2,927,653</b>
<b>Profit / (loss) attributable to:</b>		<b>79,576,196</b>	<b>26,619,695</b>	<b>2,927,653</b>
Owners of the Company		79,570,124	26,617,664	2,927,430
Non-controlling interests		6,072	2,031	223
<b>Other comprehensive income - that may be reclassified in profit or loss</b>				
Foreign currency translation		331,579	(7,865)	31,987
<b>Other comprehensive income - that may not be reclassified in profit or loss</b>				
Actuarial gains / (losses)		216,543	(46,172)	175,829
Income tax effect		-	-	-
<b>Other comprehensive income (loss) for the year, net of tax</b>		<b>548,122</b>	<b>(54,037)</b>	<b>207,816</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>80,124,318</b>	<b>26,565,658</b>	<b>3,135,469</b>
<b>Total comprehensive income / (loss) attributable to:</b>		<b>80,124,318</b>	<b>26,565,658</b>	<b>3,135,469</b>
Owners of the Company		80,118,205	26,563,631	3,135,230
Non-controlling interests		6,113	2,027	239
Average number of shares		116,170,334	116,170,334	116,170,334
<b>Earnings per share</b>		<b>0.68</b>	<b>0.23</b>	<b>0.03</b>

**TMK-ARTROM S.A.**  
**CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**as of 31 December 2018**

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

	Nota	2018 RON	Separate 2017 RON	2016 RON
<b>Revenue from contracts with customers</b>	6	<b>1,385,787,328</b>	<b>1,065,446,401</b>	<b>761,911,220</b>
Sales of goods	6	1,385,329,402	1,064,852,707	761,308,139
Rendering of services	6	457,926	593,694	603,081
Cost of sales	7	(1,122,693,101)	(894,405,234)	(654,215,534)
<b>Gross profit</b>		<b>263,094,227</b>	<b>171,041,167</b>	<b>107,695,686</b>
Selling and distribution expenses	8	(137,421,427)	(90,803,563)	(64,271,091)
Advertising and promotion expenses	9	(306,285)	(265,529)	(104,798)
General and administrative expenses	10	(40,168,772)	(35,041,214)	(29,183,676)
Research and development expenses	11	(247,178)	(117,956)	(139,866)
Other operating expenses	12.2	(2,963,275)	(4,398,071)	(3,703,262)
Other operating income	12.1	440,751	1,456,496	1,071,877
<b>Income from operations</b>		<b>82,428,041</b>	<b>41,871,330</b>	<b>11,364,870</b>
Foreign exchange (loss) / gain, net		(2,873,347)	(2,034,053)	(4,615,854)
Finance income	12.4	3,494	1,714	4,426
Finance costs	12.3	(11,777,468)	(6,736,790)	(5,506,374)
<b>Profit before tax</b>		<b>67,780,720</b>	<b>33,102,201</b>	<b>1,247,068</b>
Income tax expense/credit	13	(11,210,734)	(46,835)	(369,878)
<b>Profit for the year</b>		<b>56,569,986</b>	<b>33,055,366</b>	<b>877,190</b>
<b>Other comprehensive income - that may not be reclassified in profit or loss</b>				
Actuarial gains / (losses)		316,208	36,040	262,158
Income tax effect		-	-	-
<b>Other comprehensive income (loss) for the year, net of tax</b>		<b>316,208</b>	<b>36,040</b>	<b>262,158</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>56,886,194</b>	<b>33,091,406</b>	<b>1,139,348</b>
Average number of shares		116,170,334	116,170,334	116,170,334
<b>Earnings per share</b>		<b>0.49</b>	<b>0.28</b>	<b>0.01</b>

**TMK-ARTROM S.A.**  
**CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION**  
**as of 31 December 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Note	2018 RON	Consolidated 2017 RON	2016 RON	2015 RON
	2.2.d		<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	22	20,928,927	12,864,527	18,911,393	4,183,260
Trade and other receivables	20	297,222,416	255,374,534	204,728,115	221,343,730
Inventories	19	308,095,295	313,076,260	221,574,323	182,973,789
Prepayments	21	6,810,454	3,768,116	4,002,107	1,600,134
Other current assets	22	1,046,698	1,067,612	-	-
		<b>634,103,790</b>	<b>586,151,049</b>	<b>449,215,938</b>	<b>410,100,913</b>
<b>Non-current assets</b>					
Intangible assets	16	2,755,268	3,360,398	3,771,250	2,406,297
Property, plant and equipment	15	1,134,522,183	1,127,166,493	1,023,752,103	1,003,893,498
Financial assets	17.1.	4,857,610	1,274,265	1,243,449	84,697
Deferred tax asset	13	128,534	68,780	-	-
Other non-current assets	18	1,888,895	1,082,660	11,006,984	10,136,217
		<b>1,144,152,490</b>	<b>1,132,952,596</b>	<b>1,039,773,786</b>	<b>1,016,520,709</b>
<b>Total assets</b>		<b>1,778,256,280</b>	<b>1,719,103,645</b>	<b>1,488,989,724</b>	<b>1,426,621,622</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	25	288,774,410	347,224,733	235,190,482	185,061,338
Advances from customers	25	997,116	4,526,587	2,213,635	2,449,003
Liabilities for investments in subsidiaries	17.5	57,474,348	-	-	-
Provisions and accruals	27	11,331,296	7,898,510	3,224,855	7,615,765
Interest-bearing loans and borrowings	17.2.	185,019,444	210,483,727	196,239,070	120,873,604
Finance lease liability	17.2.	7,842,368	6,645,164	5,884,818	5,655,618
Income tax payable	25	684,388	-	-	-
<b>Total current liabilities</b>		<b>552,123,370</b>	<b>576,778,721</b>	<b>442,752,860</b>	<b>321,655,328</b>
<b>Non-current liabilities</b>					
Liabilities for investments in subsidiaries	17.5	218,356,982	-	-	-
Interest-bearing loans and borrowings	17.2.	223,499,549	169,444,772	96,877,164	152,192,229
Finance lease liability	17.2.	35,468,590	37,986,109	39,333,458	43,964,644
Deferred tax liability	13	71,237,855	63,552,001	65,336,645	67,667,813
Provisions and accruals	27	622,184	227,281	227,281	227,281
Employee benefits liability	24	3,935,330	4,077,382	4,110,501	4,170,363
Other long-term liabilities	17.2.	2,224,298	797,634	677,729	205,347
<b>Total Non-current liabilities</b>		<b>555,344,788</b>	<b>276,085,179</b>	<b>206,562,778</b>	<b>268,427,677</b>
<b>Total liabilities</b>		<b>1,107,468,158</b>	<b>852,863,900</b>	<b>649,315,638</b>	<b>590,083,005</b>
<b>EQUITY</b>					
<b>Capital and reserves</b>					
<b>Share capital, from which:</b>		<b>291,587,538</b>	<b>291,587,538</b>	<b>291,587,538</b>	<b>291,587,538</b>
- Subscribed and paid share capital	23	291,587,538	291,587,538	291,587,538	291,587,538
Other items of equity		1,203,575	987,033	1,033,205	857,376
Legal and other reserves	23	68,902,883	50,830,846	17,775,480	17,603,476
Retained earnings	23	229,162,228	496,190,510	526,318,223	518,474,508
Foreign currency translation reserve	23	355,702	24,123	31,987	-
Profit of the year		79,576,196	26,619,695	2,927,653	8,015,719
<b>Total equity</b>		<b>670,788,122</b>	<b>866,239,745</b>	<b>839,674,086</b>	<b>836,538,617</b>
Equity attributable to owners of the Company		670,736,941	866,173,651	839,610,019	836,474,789
Non-controlling interests		51,181	66,094	64,067	63,828
<b>Total liabilities and equity</b>		<b>1,778,256,280</b>	<b>1,719,103,645</b>	<b>1,488,989,724</b>	<b>1,426,621,622</b>



**TMK-ARTROM S.A.**  
**CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION**  
**as of 31 December 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

	Nota	2018 RON	Separate 2017 RON	2016 RON
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	22	16,925,079	10,825,193	16,771,796
Trade and other receivables	20	304,919,488	238,496,231	213,734,145
Inventories	19	205,016,788	238,083,714	158,437,553
Prepayments	21	45,914,200	66,350,475	101,740,816
Other current assets	22	1,046,698	1,067,612	-
		<b>573,822,253</b>	<b>554,823,225</b>	<b>490,684,310</b>
<b>Non-current assets</b>				
Intangible assets	16	1,693,962	1,965,398	2,199,489
Property, plant and equipment	15	621,465,695	606,665,435	495,204,358
Investments in subsidiaries	17.1.	290,262,969	4,027	4,027
Financial assets	17.1.	4,819,724	1,130,659	1,203,688
Other non-current assets	18	3,639,099	4,225,686	14,145,049
		<b>921,881,449</b>	<b>613,991,205</b>	<b>512,756,611</b>
<b>Total assets</b>		<b>1,495,703,702</b>	<b>1,168,814,430</b>	<b>1,003,440,921</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	25	163,574,097	217,413,772	177,652,799
Advances from customers	25	679,297	4,211,020	2,096,244
Liabilities for investments in subsidiaries	17.5	57,474,348	-	-
Provisions and accruals	27	8,169,816	6,939,141	2,899,042
Interest-bearing loans and borrowings	17.2.	185,019,444	210,483,727	196,239,070
Finance lease liability	17.2.	1,156,675	360,797	168,979
Income tax payable	25	1,686,487	-	-
<b>Total current liabilities</b>		<b>417,760,164</b>	<b>439,408,457</b>	<b>379,056,134</b>
<b>Non-current liabilities</b>				
Liabilities for investments in subsidiaries	17.5	218,356,982	-	-
Interest-bearing loans and borrowings	17.2.	223,499,549	169,444,772	96,877,164
Finance lease liability	17.2.	3,303,317	1,012,594	31,096
Deferred tax liability	13	37,184,083	34,540,322	36,445,082
Provisions and accruals	27	555,549	227,281	227,281
Employee benefits liability	24	2,900,934	3,034,324	2,909,557
Other long-term liabilities	17.2.	156,329	729,080	568,414
<b>Total Non-current liabilities</b>		<b>485,956,743</b>	<b>208,988,373</b>	<b>137,058,594</b>
<b>Total liabilities</b>		<b>903,716,907</b>	<b>648,396,830</b>	<b>516,114,728</b>
<b>EQUITY</b>				
<b>Capital and reserves</b>				
<b>Share capital, from which:</b>		<b>291,587,538</b>	<b>291,587,538</b>	<b>291,587,538</b>
- Subscribed and paid share capital	23	291,587,538	291,587,538	291,587,538
Other items of equity		(487,866)	(804,074)	(840,114)
Legal and other reserves	23	68,902,883	50,830,846	17,775,480
Retained earnings	23	175,414,254	145,747,924	177,926,099
Profit of the year		56,569,986	33,055,366	877,190
<b>Total equity</b>		<b>591,986,795</b>	<b>520,417,600</b>	<b>487,326,193</b>
<b>Total liabilities and equity</b>		<b>1,495,703,702</b>	<b>1,168,814,430</b>	<b>1,003,440,921</b>

**TMK-ARTROM S.A.**  
**CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY**  
**as of 31 December 2018**  
*(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	Atributable to owners of the Company	Non-controlling interests	Total equity
	RON	RON	RON	RON	RON	RON			RON
<b>For year ended as at 31 December 2018</b>									
<b>As at 1 January 2018</b>	<b>291,587,538</b>	<b>16,839,532</b>	<b>24,123</b>	<b>33,991,314</b>	<b>522,810,205</b>	<b>987,033</b>	<b>866,173,651</b>	<b>66,094</b>	<b>866,239,745</b>
Profit of the period	-	-	-	-	79,576,196	-	79,570,124	6,072	<b>79,576,196</b>
Other comprehensive income / (loss) for the period, net of tax	-	-	331,579	-	-	216,543	548,080	42	<b>548,122</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>331,579</b>	<b>-</b>	<b>79,576,196</b>	<b>216,543</b>	<b>80,118,205</b>	<b>6,113</b>	<b>80,124,318</b>
Set-up of legal reserves from profit of the year	-	3,389,036	-	-	(3,389,036)	-	-	-	-
Capital contribution reserve	-	-	-	14,683,001	-	-	-	-	<b>14,683,001</b>
TMK-Reșița's shares bought according to "pooling of interests" method	-	-	-	-	(290,258,942)	-	(290,236,795)	(22,147)	<b>(290,258,942)</b>
<b>At 31 December 2018</b>	<b>291,587,538</b>	<b>20,228,568</b>	<b>355,702</b>	<b>48,674,315</b>	<b>308,738,423</b>	<b>1,203,576</b>	<b>670,736,941</b>	<b>51,181</b>	<b>670,788,122</b>
<b>For year ended as at 31 December 2017 - Restated</b>									
<b>As at 1 January 2017</b>	<b>291,587,538</b>	<b>15,184,422</b>	<b>31,987</b>	<b>2,591,058</b>	<b>529,245,876</b>	<b>1,033,205</b>	<b>839,610,019</b>	<b>64,067</b>	<b>839,674,086</b>
Profit of the period	-	-	-	-	26,619,695	-	26,617,664	2,031	<b>26,619,695</b>
Other comprehensive income / (loss) for the period, net of tax	-	-	(7,864)	-	-	(46,172)	(54,032)	(4)	<b>(54,036)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(7,864)</b>	<b>-</b>	<b>26,619,695</b>	<b>(46,172)</b>	<b>26,563,632</b>	<b>2,027</b>	<b>26,565,659</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>24,123</b>	<b>33,991,314</b>	<b>522,810,205</b>	<b>987,033</b>	<b>866,173,651</b>	<b>66,094</b>	<b>866,239,745</b>
<b>For year ended as at 31 December 2016 - Restated</b>									
<b>As at 1 January 2016 – pre acquisition</b>	<b>291,587,538</b>	<b>15,122,069</b>	<b>-</b>	<b>2,481,407</b>	<b>173,621,283</b>	<b>857,376</b>	<b>483,605,845</b>	<b>63,828</b>	<b>483,669,673</b>
<b>Net assets of TMK-Reșița (note 17.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>352,868,944</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>352,868,944</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>526,490,227</b>	<b>857,376</b>	<b>836,474,789</b>	<b>63,828</b>	<b>836,538,617</b>
Profit of the period	-	-	-	-	2,927,653	-	2,927,430	223	<b>2,927,653</b>
Other comprehensive income / (loss) for the period, net of tax	-	-	31,987	-	-	175,829	207,800	16	<b>207,816</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>31,987</b>	<b>-</b>	<b>2,927,653</b>	<b>175,829</b>	<b>3,135,230</b>	<b>239</b>	<b>3,135,469</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>31,987</b>	<b>2,591,058</b>	<b>529,245,876</b>	<b>1,033,205</b>	<b>839,610,019</b>	<b>64,067</b>	<b>839,674,086</b>

**TMK-ARTROM S.A.**  
**CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY**  
**as of 31 December 2018**  
*(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 2018</b>						
<b>As at 1 January 2018</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>
Profit of the period	-	-	-	56,569,986	-	<b>56,569,986</b>
Other comprehensive income / (loss) for the period, net of tax	-	-	-	-	316,208	<b>316,208</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56,569,986</b>	<b>316,208</b>	<b>56,886,194</b>
Set-up of legal reserves from profit of the year	-	3,389,036	-	(3,389,036)	-	-
Capital contribution reserve	-	-	14,683,001	-	-	<b>14,683,001</b>
<b>At 31 December 2018</b>	<b>291,587,538</b>	<b>20,228,568</b>	<b>48,674,315</b>	<b>231,984,239</b>	<b>(487,865)</b>	<b>591,986,795</b>
<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 year	-	-	-	877,190	-	<b>877,190</b>
Other comprehensive income / (loss) for the year, 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.**  
**CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT**  
**as of 31 December 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

Indirect method	Note	1 January - 31 December 2018 RON	Consolidated 1 January - 31 December 2017 RON	1 January - 31 December 2016 RON
	2.2.d		<i>Restated</i>	<i>Restated</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Profit / (Loss) before tax</b>		<b>97,464,888</b>	<b>28,888,161</b>	<b>2,287,750</b>
<b>Plus / minus adjustments for:</b>				
Depreciation and amortisation	15, 16	77,756,665	72,683,418	71,540,202
Increase / (reversal) of provisions	27	3,827,689	4,673,655	(4,390,910)
Increase / (reversal) of allowances for current assets	19, 20	3,979,141	(558,741)	(995,002)
Exchange rate differences for financing activities		3,845,710	1,551,873	3,736,960
Variation of retirement benefits	24	483,239	394,887	428,201
Result from disposal of non-current assets	12	1,128,497	1,655,385	2,471,677
Interest and related expenses	12	13,751,576	11,040,283	7,095,694
Other income		-	(448,060)	-
Exchange rate differences for cash and cash equivalents		330,187	(7,541)	34,445
<b>Plus / minus adjustments for changes in working capital related to operating activities:</b>				
Decrease / (increase) in inventories	19	1,177,710	(93,769,501)	(40,891,164)
Decrease / (increase) in trade and other receivables and prepayments	20,21, 22,17.1	(55,408,644)	(50,644,452)	12,949,208
(Decrease) / increase in payables (except banks)	25, 17.2.	(49,786,777)	132,421,115	55,867,096
<b>less:</b>				
Interest paid		(13,627,602)	(10,679,299)	(7,252,620)
Income tax paid		(2,796,705)	(5,636,023)	(668,290)
<b>Total inflows / (outflows) from operating activities (a)</b>		<b>82,125,574</b>	<b>91,565,160</b>	<b>102,213,247</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Amount received from disposal of non-current assets		5,172,542	2,513,710	97,886
Purchase of tangible and intangible assets	15,16	(98,110,340)	(180,791,141)	(99,651,383)
Interest received	12	3,554	1,049	1,229
<b>Total inflows / (outflows) from investing activities (b)</b>		<b>(92,934,244)</b>	<b>(178,276,382)</b>	<b>(99,552,268)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Loans received		49,674,334	154,195,539	88,231,423
Repayment of loans		(24,761,603)	(68,205,687)	(71,633,751)
Repayment of finance leases		(6,039,661)	(5,325,496)	(4,530,518)
<b>Total inflows / (outflows) from financing activities (c)</b>		<b>18,873,070</b>	<b>80,664,356</b>	<b>12,067,154</b>
<b>Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c)</b>		<b>8,064,400</b>	<b>(6,046,866)</b>	<b>14,728,133</b>
<b>Cash and cash equivalents at beginning of period</b>	22	<b>12,864,527</b>	<b>18,911,393</b>	<b>4,183,260</b>
<b>Cash and cash equivalents at end of period</b>	22	<b>20,928,927</b>	<b>12,864,527</b>	<b>18,911,393</b>

**TMK-ARTROM S.A.**  
**CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT**  
**as of 31 December 2018**  
*(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

Indirect method	Note	1 January - 31 December 2018 RON	Separate 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>67,780,720</b>	<b>33,102,201</b>	<b>1,247,068</b>
<b>Plus / minus adjustments for:</b>				
Depreciation and amortisation	15, 16	46,974,937	42,050,091	41,968,148
Increase / (reversal) of provisions	27	1,558,943	4,040,099	(850,233)
Increase / (reversal) of allowances for current assets	19, 20	3,014,121	(573,741)	155,636
Exchange rate differences for financing activities		3,822,264	488,993	3,607,752
Variation of retirement benefits	24	339,887	284,375	304,925
Result from disposal of non-current assets	12	877,352	1,521,355	1,760,592
Interest and related expenses	12	11,026,360	8,386,955	4,869,366
<b>Plus / minus adjustments for changes in working capital related to operating activities:</b>				
Decrease / (increase) in inventories	19	29,376,750	(82,314,460)	(29,260,969)
Decrease / (increase) in trade and other receivables and prepayments	20,21, 22,17.1	(54,756,043)	10,673,818	(484,113)
(Decrease) / increase in payables (except banks)	25,17.2	(45,570,116)	27,448,618	48,226,734
<b>less:</b>				
Interest paid		(10,902,326)	(8,026,636)	(5,029,489)
Income tax paid		(1,103,521)	(3,537,083)	(421,064)
<b>Total inflows / (outflows) from operating activities (a)</b>		<b>52,439,328</b>	<b>33,544,585</b>	<b>66,094,353</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Amount received from disposal of non-current assets		4,028,169	559,256	19,671
Purchase of tangible and intangible assets	15,16	(74,624,141)	(125,984,154)	(69,828,632)
Repayment of given loans		-	313,671	-
Interest received	12	3,494	1,714	4,425
<b>Total inflows / (outflows) from investing activities (b)</b>		<b>(70,592,478)</b>	<b>(125,109,513)</b>	<b>(69,804,536)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Loans received		49,674,334	154,195,539	88,231,423
Repayment of loans		(24,761,603)	(68,205,687)	(71,633,751)
Repayment of finance leases		(659,695)	(371,527)	(194,235)
<b>Total inflows / (outflows) from financing activities (c)</b>		<b>24,253,036</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>6,099,886</b>	<b>(5,946,603)</b>	<b>12,693,254</b>
<b>Cash and cash equivalents at beginning of period</b>	22	<b>10,825,193</b>	<b>16,771,796</b>	<b>4,078,542</b>
<b>Cash and cash equivalents at end of period</b>	22	<b>16,925,079</b>	<b>10,825,193</b>	<b>16,771,796</b>



## 1. ORGANISATION AND NATURE OF BUSINESS

### 1.1. CORPORATE AND GROUP INFORMATION

TMK-ARTROM SA (the "Company" or the "consolidating 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 , NACE code 2420.

TMK-Artrom has today an important share of the European market for industrial seamless pipes representing mechanical pipes, hydraulic cylinders, automotive and energetically pipes. More than 85% of the plant's pipes production from total turnover of sales of pipes is intended for sales outside of Romania, mainly within other EU countries, USA, and Canada.

TMK-Artrom and its subsidiaries constitute 'TMK-Artrom Group' or 'the Group' and comprise the following companies:

- **TMK-Artrom** – status at 31 December 2018: Active;
- **TMK Industrial Solutions LLC** – status at 31 December 2018: Active;
- **TMK-Reșița** – status at 31 December 2018: Active;
  - ✓ **TMK Assets SRL** – status at 31 December 2018: Active;
  - ✓ **Land Properties Investments S.R.L** – status at 31 December 2018: liquidated and dissolved in 2017;
  - ✓ **TMK Real Estate S.R.L** – status at 31 December 2018: liquidated and dissolved in 2016).

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. TMK Industrial Solutions LLC operates as trade agent for promotion and sale of industrial pipes made by TMK companies for american market.

On 21 December 2018, the Extraordinary General Meeting of the Shareholders of TMK-Artrom, approved the purchase of the shares owned by TMK Europe GmbH in TMK-Resita SA (decision no 1 of the EGSM ). TMK-Reșița is a specialized company in the production of billets for seamless pipes, continuously cast from carbon steel, low alloy and alloy. The main activity of the company is "Production of ferrous metals in primary forms and ferrous alloys" NACE code 2710. TMK Assets SRL is the subsidiary of TMK-Reșița. TMK-Reșița had also as subsidiaries Land Properties Investments S.R.L. - liquidated in 2017 and TMK Real Estate - liquidated in 2016. TMK-Reșița and TMK-Artrom were, at acquisition date under the control of the same parent.

TMK-Artrom, TMK Industrial Solutions and TMK-Reșița 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).

Separate financial statements of TMK-Artrom and consolidated financial statements for year ended at 31 December 2018 have been prepared in accordance with Ministry of Public Finance Order no. 2.844/2016 for approving the Accounting Regulations in accordance with International Financial Reporting Standards, except IAS 21 *The Effects of Changes in Foreign Exchange Rates*, with subsequent amendments and additions and authorised for issue in accordance with the resolution of the Administrators dated 1 March 2019.

## **1.1. CORPORATE AND GROUP INFORMATION (continued)**

The Group reorganisation by acquisition of TMK-Reșița by TMK-Artrom from the common parent TMK Europe GmbH was deemed to be a business combination under common control, by precise a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination. Both TMK-Artrom and TMK-Reșița were under control of TMK Europe GmbH.

Since such transaction are outside the scope of any IFRS, management of the Group has considered the requirements of IAS 8 Accounting Policies, Change in accounting estimates and Errors and elected to apply the pooling of interest method in the preparation of these consolidated financial statement as being the most relevant and reliable under the circumstances.

The application of the pooling of interests method generally involves the following:

- The assets and liabilities of the combining entities were reflected at their carrying amounts; the only adjustments that are made are made to align the accounting policies;
- No adjustments were made to reflect fair values, or recognize any new assets and liabilities;
- No "new" result from acquisition was recognized as a result of the consolidation; the only result from acquisition that was recognized was the existing related to the acquisition of TMK-Reșița by TMK Europe in 2004;
- The income statement reflects the results of the combining entities for the full year, irrespective of when the date of the legal merger was;
- Comparatives are presented as if the entities have always been combined, since the date of the acquisition of TMK-Reșița by the PAO TMK Group.

## **1.2. PRESENTATION OF THE GROUP**

<b>Company name</b>	<b>Parent company</b>	<b>Shareholding (%)</b>
TMK-Artrom SA	TMK Europe GmbH	92,7282
TMK Industrial Solutions LLC	TMK-Artrom SA	100
TMK-Reșița SA	TMK-Artrom SA	99,99237
TMK Assets SRL	TMK-Reșița SA	100

**TMK-Artrom** ("the parent company"), founded in 1982, is a privately owned company whose major shareholder TMK Europe GmbH gained control in 2002.

TMK-Artrom is an open company. The regulated market on which the issued securities are traded is the Bucharest Stock Exchange - Regulated Market - STANDARD category - ART market symbol.

### **Subsidiaries of TMK-Artrom:**

**TMK Industrial Solutions LLC**, is a limited liability company, seated in Houston, 10940 West Sam Houston Pkwy North, Suite 325, Texas, USA. It was registered on 26 April 2016 and operates according to US laws, Delaware. The subsidiary has TMK-ARTROM as sole partner.

## 1.2. PRESENTATION OF THE GROUP (continued)

The financial investment of TMK-Artrom in the subsidiary is of USD 1,000 (exchange rate 4.0271 RON/USD). The Company presents the investment in TMK Industrial Solutions LLC at acquisition cost.

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-REȘIȚA SA** (TMK-Reșița) is a "closed" joint stock company which operates according to Romanian laws, specialized in the production of billets for seamless pipes, continuously cast from carbon steel, low alloy and alloy. The main activity of the company is "Production of ferrous metals in primary forms and ferrous alloys" NACE code 2710. The registered and administrative office of TMK-Resita is in Romania, Caras-Severin county, Resita city, Traian Lalescu street, no.36. TMK-Reșița was acquired by TMK-Artrom on 21 December 2018.

TMK-RESITA's subsidiaries:

- **TMK ASSETS SRL** is a limited liability company which has as main activity "Rental and sublease of own or rented real estate", NACE code 6820. It was founded in year 2006 and has the headquarters in Bucharest, District 1, Daniel Danielopolu street, no. 2, room 2. The subsidiary is a company which operates according to Romanian laws. As at 31 December 2018 TMK-Resita owns 100% of TMK Assets's share capital (2017 and 2016: 99.9995% and 0.0005% Land Properties Investments). TMK Assets was acquired by the TMK Group in 2012.
- **LAND PROPERTIES INVESTMENTS SRL** had as main activity the development (promotion) of real estate, NACE code 4110. It was founded in year 2006 and has the headquarters in Bucharest, District 1, Daniel Danielopolu street, no. 2, floor 1, room 1. The subsidiary was a company which operated according to Romanian laws. According to GSM decision no. 7 from 10 August 2017 the management decided to liquidate and dissolve LAND PROPERTIES INVESTMENTS SRL. Until the de-registration TMK-Resita owned 98.997% and TMK Assets 1,003% of Land Properties Investments's share capital (2016: 98.997%).
- **TMK REAL ESTATE SRL** had as main activity "Rental and sublease of own or rented real estate", NACE code 6820. It was founded in year 2006 and has the headquarters in Bucharest, District 1, Daniel Danielopolu street, no. 2, room 1. The subsidiary was a company which operated according to Romanian laws. As result of the sale in 2016 of the apartments held, the company no longer had assets to support the object of activity and the management decided to liquidate and dissolve the company. On 14 September 2016 the company was cancelled at the Trade Register Bucharest, under the request filled no. 366806 and resolution no. 149141. Until the de-registration TMK-Resita owned 100% of TMK Real Estate's share capital.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 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

Consolidated and separate 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 Group and the Company are prepared on a going concern basis.

As at 31 December 2018, the Group's net current assets are RON 81,980,420 (2017: RON 9,372,328; 2016: RON 6,463,078) and has recorded a net profit of RON 79,576,196. The Group has generated positive cash flows from operations (before changes in working capital) in 2018 and 2017.

The Group has complied with the covenants set at 31 December 2018.

As at 31 December 2018, the Company's net current assets are RON 156,062,089 (2017: RON 115,414,768; 2016: RON 111,628,176) and has recorded a separate net profit of RON 56,569,986. The Company has generated positive cash flows from operations (before changes in working capital) in 2018 and 2017 and has budgeted a further increase in its operating cash flow for entire year 2019.

The Company has complied with the covenants set at 31 December 2018.

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). Functional currency of TMK Industrial Solutions is American Dollar (USD).

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

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

### **Group companies**

On consolidation, the assets and liabilities of foreign operations are translated into RON at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Exchange rate for 1 unit of foreign currency:

	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
1 EUR	4.6639	4.6597	4.5411
1 USD	4.0736	3.8915	4.3033

Average exchange rate for 1 unit of foreign currency:

	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
1 EUR	4.6535	4.5681	4.4908
1 USD	3.9416	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.

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

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

The preparation of Group's and Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of the assets or liabilities affected in the future periods.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

### d) Basis for Consolidation and assumptions employed by the Group

TMK-Artrom employed for drafting the Consolidated Financial Statements the "pooling of interests" method as the newly purchased (direct and indirect) subsidiaries have been acquired from entities under the common control of the TMK group (the acquisition of the shares from TMK Europe GmbH which is owned 100% by PAO TMK) and, therefore, no change in control occurred with respect to the party controlling the TMK group. According to the pooling of interests' method, the assets and liabilities of the subsidiaries transferred under common control are presented at the carrying value reflected by the predecessor's books. Consequently, since the TMK group's financial statements are not consolidated at the level of TMK Europe GmbH but directly at the level of PAO TMK, the value reflected by the consolidated financial statements of the TMK group for TMK-Reșița and the other indirect subsidiaries transferred on 21 December 2018, has been reflected as such in the restated Consolidated Financial Statements of the Group for 2017 and 2016.

The Group has chosen to elect an accounting policy whereby it restates the financial information in the consolidated financial statements for periods prior to the combination under common control, to reflect the combination as if it had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the combination.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee



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

- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The assets and liabilities of subsidiaries included in the Consolidated Financial Statements for 2018, 2017 and 2016 of TMK-Artrom are, therefore, based on the same value reflected at the moment of the acquisition by the financial consolidated statements of TMK group in accordance with IFRS which are based on the fair value at the date of the initial acquisition by the TMK group (through TMK Europe GmbH).

The carrying amounts of TMK-Artrom remain the same as provided by the separate financial statements of TMK-Artrom prior to the acquisition of TMK-Reșița by TMK-Artrom.

The acquisition of the shares issued by TMK-Reșița occurred on 21 December 2018 but, by applying the pooling of interests' method, the Group's Consolidated Financial Statements, including the comparatives for 2015, 2016 and 2017, reflect the acquisition of the subsidiaries by TMK-Artrom as though such acquisition had acquired them at the same date as they had been acquired by its predecessor – the TMK group (at the level of the consolidated financial statements of PAO TMK). Thus, the Group restates the periods prior to the combination in order to reflect that no change occurred with respect to the ultimate control.

The information provided by the Consolidated Financial Statements have been restated for the periods prior to the business combination of the entities under common control, in order to reflect the combination as if it had occurred from the beginning of the earliest period presented, irrespective of the actual combination date. It was decided that the earliest period presented is 2016 but, comparatives have been also provided for 2015.

The pooling of interests method for business combinations under common control, requires the financial statements of the combining entities to be combined as if they had been always combined. The Consolidated Financial Statements were prepared according to usual consolidation procedures to reflect the combined results of the Group corresponding to all items of assets, liabilities, income, expenses. All intragroup balances, transactions and unrealized gains on transactions between Group companies are eliminated.

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

By applying the "pooling of interests" method, TMK-Artrom's Consolidated Financial Statements, including the comparatives of 2016 and 2017, are presented as if TMK-Artrom had acquired the TMK-Reșița and TMK Assets at the same date as they were initially acquired by the predecessor (TMK-Reșița in 2004 and TMK Assets in 2012)

### e) Fair value measurement

The Group measures financial instruments at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable IFRS 13.95

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Notes 15
- Quantitative disclosures of fair value measurement hierarchy Note 15, Note 17
- Financial instruments (including those carried at amortised cost) Note 17

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

### f) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

• Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

• There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current.

### g) Financial assets

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient, the Group and the Company initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group and the Company have applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

### Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

### Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group and the Company. The Group and the Company measure financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. Groups's and Company's financial assets at amortised cost include trade receivables.

### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Groups's and Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired
- The Group and the Company have transferred their 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 Group and the Company have transferred substantially all the risks and rewards of the asset, or (b) The Group and the Company have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

### h) Impairment of financial assets

The Group and the Company recognise an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company and the Group expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Group and the Company apply a simplified approach in calculating ECLs. Therefore, the Group and the Company do not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Group and the Company have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment in the financial statements of the Group and the Company.

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

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 profit or loss 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

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

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.

### j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### k) 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

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

### 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.

### l) 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.



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

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

### m) Impairment of non-financial assets

At each reporting date the Group and the Company review the carrying amounts of their 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 Group and the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

When an impairment loss subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

### n) Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

- Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

### - Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged 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 an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

### **o) Provisions**

Provisions are recognized when the Group and the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group and the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

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

Provisions are not recognized for future operating losses.

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

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

### p) 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 Group and the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

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

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

### q) Subsidies / government grants

The subsidies are recognized when there is a reasonable assurance that the amount will be received 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.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

### r) 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.

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

### s) 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.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above. The overdrafts are assimilated to short term loans and working capital financing facilities.

### t) Revenue recognition

#### *Revenue Recognition*

Revenue is income arising in the course of ordinary activities of the Group. Revenue is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. In determining the revenue amount, the Group considers the effects of variable consideration, the existence of significant financing components and consideration payable to the customer, if any. Revenue is recognised net of discounts, sales rebates, value-added taxes, other similar items.

#### *Sales of Goods*

The Group's performance obligation generally consists of the promise to sell pipe to the customers.

Revenue is recognised at a point in time when control of the products has transferred, being when the products are delivered, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. The delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer. 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.

For product sales where the customer requests a bill-and-hold arrangement, revenue is recognized when the product is ready for the physical transfer to the customer. Products are specific to each customer's order, are separately identified and the Group does not have the ability to use or direct the product to another customer. The Group's sales terms generally do not allow for a right of return except for matters related to any manufacturing defects on its part.

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

### *Transportation Services*

When the contract with a customer contains a promise to deliver the goods to the customer the Group usually engages a third party contractor to provide transportation services. These services are rendered to the customers before or after they obtain control over the goods. The accounting for these services depends on when control over the goods is passed to the customer. Transportation services rendered by the Group before control over the goods is transferred to the customers do not represent a separate performance obligation. The Group acts as a principal in such arrangements and revenue is recognised when the goods are delivered. Thus, the Group allocates the transaction price to respective performance obligations and recognise revenue from these services and the associated costs on a net basis.

### *Contract Costs*

Incremental costs of obtaining a contract, such as sales commissions, are capitalised if they are expected to be recovered. Incremental costs include only those costs that would not have been incurred if the contract had not been obtained. Costs to fulfill a contract that are not covered by another standard are capitalised if they relate directly to a contract and to future performance, and they are expected to be recovered.

Under legacy IFRS, revenues were 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.

Revenue was 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.

Under legacy IFRS, revenues arising from rendering of services were recognized in the same period when the services are provided.

### *Variable consideration*

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of products provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration. During the period, no such sales were incurred.

### *Rights of return*

The contracts provide a customer with the right to return the goods within a specified period. For goods that are expected to be returned the Group and the Company recognises a decrease of revenue representing the difference between the initial sale price and the realisable value of the goods. During the period, no such sales were incurred.

### *Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. No contract assets were recognized during the period.

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

### *Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. No contract assets were recognized during the period.

### *Trade receivables*

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets section.

The normal credit term is 30 to 90 days upon delivery.

The Group recognises revenue from services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

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

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

Short-term employee benefits paid by the Group and the Company include wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits (such as medical care). Such employee benefits are accrued in the year in which the associated services are rendered by employees of the Group and the Company.

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

The Group and the Company provides post-employment and other long-term benefits to their employees (lump-sum post-employment payments and payments in case of death). All post-employment benefit plans are unfunded. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements. The liability recognized in respect of post-employment and other long-term employee benefits is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognized past-service costs. Defined benefit obligation is calculated by external consultants using the projected unit credit method.

All actuarial gains and losses are recognized in other comprehensive income in the period in which they occur. The interest cost is recognized in finance costs.

### **v) 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 and United States.



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

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

### ► **Deferred tax**

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

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

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

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

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

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

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

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.

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

### ► 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.

### w) Dividends payable

Dividends are recorded in the year in which they are approved by the shareholders.

### x) 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.

### y) Reportable segments

An operating segment is a component of the Group and Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Group's and Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which distinctive financial information is available.

Segment information is presented in respect of the Group's and Company's business and geographical segments and is determined based on the Group's management and internal reporting structure. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Group's and Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Company 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.

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

### z) Gas emission certificates with greenhouse effect

The Company recognizes emission CO<sub>2</sub> 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.

## 2.3. 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 Group and the Company as of 1 January 2018:

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

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Group and the Company reviewed their financial assets and liabilities and they concluded that the adoption of the new standard on 1 January 2018 has no impact on the Group's and Company's financial statements, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group and the Company 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 Group and the Company has no significant impact on the bad debt allowance as a result of the adoption of the new standard.

## 2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

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 Group and the Company consider that the new standard did not have a significant impact on the financial statements.

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

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 Group and the Company consider that the new standard did not have a significant impact on the financial statements.

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

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. The Management of the Group and the Company consider that the amendments of the standard did not have a significant impact on the financial statements.

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

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. The Management of the Group and the Company consider that the amendments of the standard did not have a significant impact on the financial statements.

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

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. The Management of the Group and the Company consider that the interpretation did not have a significant impact on the financial statements.

## 2.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle** which is a collection of amendments to IFRSs. The Management of the Group and the Company consider that the amendments did not have a significant impact 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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's and the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### ➤ Taxes

All amounts due to State authorities for taxes have been paid or accrued at the balance sheet date. The Romanian tax system undergoes a consolidation process and is being harmonized with the European legislation. Different interpretations may exist at the level of the tax authorities in relation to the tax legislation that may result in additional taxes and penalties payable. Where the State authorities have findings from reviews relating to breaches of Romania's tax laws, and related regulations these may result in: confiscation of the amounts in case; additional tax liabilities being payable; fines and penalties(those are applied on the total outstanding amount). As a result the fiscal penalties resulting from breaches of the legal provisions may result in a significant amount payable to the State.

#### ➤ Pension benefits

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed annually.

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

Sensitivity analysis of the Company for each significant actuarial assumption:

	2018	PBO 31.12.2018 Retirement	2017	PBO 31.12.2017 Retirement	2016	PBO 31.12.2016 Retirement
Turnover	1%	2,146,419	1%	2,264,866	1%	2,100,800
	-1%	2,564,821	-1%	2,769,899	-1%	2,622,852
Discount rate	1%	2,166,383	1%	2,285,371	1%	2,118,601
	-1%	2,543,608	-1%	2,748,445	-1%	2,604,880
Mortality	10%	2,310,113	10%	2,462,585	10%	2,305,376
	-10%	2,375,821	-10%	2,539,128	-10%	2,381,698
Salary increase / inflation	1%	2,546,074	1%	2,722,820	1%	2,606,080
	-1%	2,161,282	-1%	2,303,247	-1%	2,113,553

	2018	PBO 31.12.2018 Death	2017	PBO 31.12.2017 Death	2016	PBO 31.12.2016 Death
Turnover	1%	522,605	1%	494,853	1%	522,748
	-1%	597,960	-1%	577,726	-1%	615,944
Discount rate	1%	526,138	1%	497,484	1%	525,812
	-1%	594,365	-1%	575,480	-1%	613,000
Mortality	10%	609,263	10%	582,145	10%	617,542
	-10%	506,440	-10%	484,653	-10%	514,316
Salary increase / inflation	1%	589,674	1%	569,426	1%	608,111
	-1%	529,734	-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.

#### ➤ Impairment for trade receivable

For trade receivables and contract assets, the Group and the Company apply a simplified approach in calculating ECLs. Therefore, the Group and the Company do not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Group and the Company have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.



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

For details regarding how the adjustments for impairment related to customers are set within the Company, please refer to Note 28.

#### ➤ Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from budgets prepared by the Group and Company and do not include restructuring activities that the Group and Company are not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. For further details please see Note 15.

#### ➤ Deferred tax for tax losses carried forward

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

As at 31 December 2018 the Group did not recognise deferred tax assets for tax losses.

#### ➤ Useful life of non-current assets

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

#### ➤ Non current assets held for sale

The management has used professional judgements for assessing whether certain assets (disclosed in Note 15) should be classified as assets held for sale under IFRS 5 or property plant and equipment. Management concluded that the criteria for classifying the asset as held for sale were not met, in particular in relation to the asset not being available for immediate sale in its present condition (due to the fact that the Group has to perform demolition workings, as well as modifying the urban indicators, etc.). In addition, Management concluded that terms of the sale are not usual or customary for sales of such assets, given the conditions imposed by the buyer on the Group for the sale to happen.

#### ➤ Reverse factoring – classification of liability as trade payable vs debt

The Group has entered into supply chain finance agreements as disclosed in Note 17, under which the bank will accept for financing invoices issued by the suppliers for Group Companies. The Group management has concluded that the liability for the financed supplier invoices are of trade payable nature and not finance debt. To support this conclusion, the management has made significant judgements related to elements of purchaser release of its original obligation or any substantial modification of the terms of the obligations.

#### 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

- **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. The Management of the Group and the Company assessed the impact of the new standard on the financial statements.

The Group calculated an impact on the increase of the rights of use and the increase of the lease liabilities as of 1 January 2019 amounting to EUR 252,117, representing thousand RON 1,176.

The Company calculated an impact on the increase of the rights of use and the increase of the lease liabilities as of 1 January 2019 amounting to EUR 221,347, representing thousand RON 1,032.

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

- **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.

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

- **IFRIC INTERPRETATION 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. The Management is in the process of assessing the impact of the interpretation on the financial statements.

- **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.

- **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. It's objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. 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. 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.

#### 5. SEGMENT INFORMATION

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.

The pipes segment is located in Slatina. The billets segment is located in Resita. The pipes segment uses billets to produce seamless steel pipes, hot rolled and cold drawn.

Segment revenues and expenses are directly attributable to the segments; common expenses are allocated to the segments on a reasonable basis. The income, expenses and results per segments include the transfers between operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Segment assets include all operating assets used by a segment and consist principally of property, plant and equipment, operating cash, receivables, inventories and intangible assets, net of allowances for impairment. The carrying amount of the assets is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of trade payables, wages and taxes payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes, borrowings, financial liabilities and other un-allocatable items.

## 5. SEGMENT INFORMATION (continued)

Group's revenues and results for the year ended 31 December by segment were as follows:

	Pipes	Billets	Other	Inter-segment operations	Total
	RON	RON	RON	RON	RON
<b>2018</b>					
Sales to external customers	1,129,957,026	45,812,478	220,876,136	-	<b>1,396,645,640</b>
Inter-segment sales	673,447	650,193,608	372,201	(651,239,256)	-
Total sales	1,130,630,473	696,006,086	221,248,337	(651,239,256)	<b>1,396,645,640</b>
Segments result (gross profit)	295,500,319	4,627,158	18,831,404	-	<b>318,958,881</b>
Other operating expenses, net					(202,672,871)
Interest and other finance costs, net					(15,286,807)
Net foreign exchange gains / (losses)					(3,534,315)
<b>Result before income tax</b>					<b>97,464,888</b>
<b>2017</b>					
Sales to external customers	798,971,480	133,976,151	252,680,548	-	<b>1,185,628,179</b>
Inter-segment sales	860,942	512,851,689	9,061	(513,721,692)	-
Total sales	799,832,422	646,827,840	252,689,609	(513,721,692)	<b>1,185,628,179</b>
Segments result (gross profit)	165,503,822	2,005,422	23,186,925	-	<b>190,696,169</b>
Other operating expenses, net					(149,110,366)
Interest and other finance costs, net					(10,675,829)
Net foreign exchange gains / (losses)					(2,021,813)
<b>Result before income tax</b>					<b>28,888,161</b>
<b>2016</b>					
Sales to external customers	629,258,431	17,101,579	116,467,308	-	<b>762,827,318</b>
Inter-segment sales	430,074	367,747,439	643,764	(368,821,278)	-
Total sales	629,688,505	384,849,018	117,111,072	(368,821,278)	<b>762,827,318</b>
Segments result (gross profit)	111,528,112	1,303,886	10,384,561	-	<b>123,216,559</b>
Other operating expenses, net					(108,291,483)
Interest and other finance costs, net					(8,004,169)
Net foreign exchange gains / (losses)					(4,633,157)
<b>Result before income tax</b>					<b>2,287,750</b>

## 5. SEGMENT INFORMATION (continued)

Group's segment assets and liabilities at 31 December were as follows:

	Pipes	Billets	Other	Inter-segment operations	Total
	RON	RON	RON	RON	RON
<b>31 December 2018</b>					
Total assets	1,128,301,744	586,908,727	63,045,809	-	<b>1,778,256,280</b>
Total liabilities	370,833,184	168,579,694	568,055,280	-	<b>1,107,468,158</b>
Capital expenditure	66,447,255	24,192,341	35,568	-	<b>90,675,164</b>
Impairment of property, plant and equipment	-	-	-	-	-
Depreciation expenses	(47,048,510)	(30,335,938)	(372,217)	-	<b>(77,756,665)</b>
<b>31 December 2017</b>					
Total assets	1,026,200,736	597,619,337	95,283,572	-	<b>1,719,103,645</b>
Total liabilities	100,473,662	176,587,568	575,802,670	-	<b>852,863,900</b>
Capital expenditure	151,911,353	22,856,485	27,262	-	<b>174,795,100</b>
Impairment of property, plant and equipment	-	-	-	-	-
Depreciation expenses	(42,118,528)	(30,201,676)	(363,215)	-	<b>(72,683,419)</b>
<b>31 December 2016</b>					
Total assets	831,190,960	562,504,823	95,293,941	-	<b>1,488,989,724</b>
Total liabilities	71,224,671	103,860,245	474,230,722	-	<b>649,315,638</b>
Capital expenditure	78,019,038	14,628,005	336,992	-	<b>92,984,035</b>
Impairment of property, plant and equipment	-	-	-	-	-
Depreciation expenses	(41,999,605)	(29,164,554)	(376,043)	-	<b>(71,540,202)</b>

## Geographical information

### Consolidated

Revenue	Romania	Europe	North and South America	Other countries	Total
	RON	RON	RON	RON	RON
<b>2018</b>	380,034,762	714,672,768	299,306,101	2,632,009	<b>1,396,645,640</b>
<b>2017 Restated</b>	369,645,684	567,282,982	222,672,352	26,027,161	<b>1,185,628,179</b>
<b>2016 Restated</b>	228,997,079	478,010,638	34,732,629	21,086,972	<b>762,827,318</b>

### Separate

Revenue	Romania	Europe	North and South America	Other countries	Total
	RON	RON	RON	RON	RON
<b>2018</b>	373,835,470	712,939,465	296,380,384	2,632,009	<b>1,385,787,328</b>
<b>2017</b>	264,547,222	563,200,389	211,671,629	26,027,161	<b>1,065,446,401</b>
<b>2016</b>	229,612,821	478,010,638	33,200,789	21,086,972	<b>761,911,220</b>



## 6. REVENUE FROM CONTRACTS WITH CUSTOMERS

	2018 RON	%	Consolidated 2017 Restated RON	%	2016 Restated RON	%
Domestic sales	380,034,763	27.21	369,646,135	31.19	228,997,080	30.02
Sales abroad	1,016,610,877	72.79	815,982,044	68.81	533,830,238	69.98
<b>Total</b>	<b>1,396,645,640</b>	<b>100</b>	<b>1,185,628,179</b>	<b>100</b>	<b>762,827,318</b>	<b>100</b>

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
<b>Sales of pipes produced by TMK-Artrom from which:</b>			
Domestic	160,505,333	115,657,758	107,570,048
Europe	687,935,396	529,791,805	469,131,713
North and South America	278,884,288	127,495,207	31,469,698
Other areas	2,632,009	26,026,710	21,086,972
<b>Total sales of TMK-Artrom pipes</b>	<b>1,129,957,026</b>	<b>798,971,480</b>	<b>629,258,431</b>
<b>Sales of other goods and services from which:</b>			
Sales of other goods on domestic market	217,753,604	250,664,627	118,394,506
Sales of other goods on external market	45,132,115	128,798,088	10,474,727
Rendering of services on domestic market	1,775,825	3,323,299	3,032,525
Rendering of services on external market	2,027,070	3,870,685	1,667,129
<b>Total sales of other goods and services</b>	<b>266,688,614</b>	<b>386,656,699</b>	<b>133,568,887</b>
<b>Total turnover</b>	<b>1,396,645,640</b>	<b>1,185,628,179</b>	<b>762,827,318</b>

Total consolidated turnover increased by 18% in 2018 compared to 2017 due to the increase in the turnover from TMK-Artrom's pipes production sold by 41%, the decrease of TMK-RESITA's billets and blooms sold to third parties by 66% and the decrease in sales of merchandise representing methalurgical products from PAO TMK Group's companies by 10%.

Total consolidated turnover increased by 55% in 2017 compared to 2016 due to the increase in the turnover from TMK-Artrom's pipes production sold by 27%, the increase of TMK-RESITA's billets and blooms sold to third parties by 685% and the increase in sales of merchandise representing methalurgical products from PAO TMK Group's companies by 122%.

	2018 RON	%	Separate 2017 RON	%	2016 RON	%
Domestic sales	373,835,470	26.98	264,547,673	24.83	229,612,821	30.14
Sales abroad	1,011,951,858	73.02	800,898,728	75.17	532,298,399	69.86
<b>Total</b>	<b>1,385,787,328</b>	<b>100</b>	<b>1,065,446,401</b>	<b>100</b>	<b>761,911,220</b>	<b>100</b>

## 6. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

	2018 RON	Separate 2017 RON	2016 RON
<b>Sales of pipes produced by TMK-Artrom from which:</b>			
Domestic	161,178,780	116,518,700	108,000,122
Europe	687,935,396	529,791,805	469,131,713
North and South America	277,713,837	127,194,418	31,425,138
Other areas	2,632,009	26,026,710	21,086,972
<b>Total sales of TMK-Artrom pipes</b>	<b>1,129,460,022</b>	<b>799,531,633</b>	<b>629,643,945</b>
<b>Sales of other goods and services from which:</b>			
Sales of other goods on domestic market	212,281,122	147,498,929	121,189,467
Sales of other goods on external market	43,588,258	117,822,145	10,474,727
Rendering of services on domestic market	375,568	529,593	423,232
Rendering of services on external market	82,358	64,101	179,849
<b>Total sales of other goods and services</b>	<b>256,327,306</b>	<b>265,914,768</b>	<b>132,267,275</b>
<b>Total turnover</b>	<b>1,385,787,328</b>	<b>1,065,446,401</b>	<b>761,911,220</b>

Total turnover of TMK-Artrom increased by 30% in 2018 compared to 2017 as a result of the increase in the turnover from production sold by 41% and the decrease in sales of merchandise by 10%.

The turnover from TMK-Artrom's sold production increased as a result of the increase in the physical volume of pipes sold from 185,614 tons to 200,565 tons (an 8% increase), but also the increase in their average sales price by 31% due to the steel market growth and due to the increase in the percentage of the premium pipes with high value added in total volume of TMK-Artrom's sales compared to the previous period.

TMK-Artrom sells on European market and on American market metallurgical products (billets, blooms, pipes) purchased from PAO TMK Group companies. Resold products are outside the dimensional range sau type of the products made by TMK-Artrom and TMK-Resita.

## 7. COST OF SALES

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
Raw materials	392,316,308	414,396,564	211,326,956
Staff cost (note 12.5)	109,622,857	81,164,924	72,915,948
Consumables	156,395,702	120,717,758	97,127,517
Energy and utilities	112,288,624	110,872,853	92,326,014
Depreciation and amortisation	73,661,221	69,434,320	68,529,067
Other compensations for employees	13,530,301	10,013,475	6,674,802
Social security expenses (note 12.5)	6,701,050	22,485,257	20,150,055
Professional fees and services	3,930,300	3,918,079	2,185,339
Freight	2,465,439	1,993,392	1,669,510
Taxes	4,331,526	2,754,223	3,755,996
Repairs and maintenance	3,933,417	3,276,870	2,979,826
Insurance	2,500,310	266,828	320,993
Rent	1,374,152	796,073	583,321
Travel	1,015,066	646,241	677,911
Communications	102,540	117,855	165,684
Other expenses	14,133	9,464	8,629
<b>Total production cost</b>	<b>884,182,946</b>	<b>842,864,176</b>	<b>581,397,568</b>
Change in own finished goods and work in progress	10,844,420	(45,052,296)	(19,149,784)
Cost of sales of externally purchased goods	198,684,150	220,465,641	103,254,534
Capitalized production costs	(20,257,155)	(22,190,872)	(25,816,307)
Obsolete stock, write-offs / (reversal of write-offs) (note 19)	3,803,255	(1,206,146)	(75,252)
Write-off materials	429,143	51,507	-
<b>Cost of sales</b>	<b>1,077,686,759</b>	<b>994,932,010</b>	<b>639,610,759</b>

	2018 RON	Separate 2017 RON	2016 RON
Raw materials	661,767,929	506,499,063	387,843,195
Staff cost (note 12.5)	74,955,072	53,562,998	47,889,925
Consumables	58,944,520	44,882,449	40,790,848
Energy and utilities	58,468,529	52,794,563	48,771,751
Depreciation and amortisation	44,877,682	40,315,615	40,178,353
Other compensations for employees	10,021,030	7,076,568	5,063,586
Social security expenses (note 12.5)	2,901,082	13,322,733	11,939,382
Professional fees and services	2,795,662	2,824,004	1,799,192
Freight	2,464,389	1,993,392	1,669,510
Taxes	2,527,041	1,297,965	1,443,056
Repairs and maintenance	2,587,817	2,262,703	1,885,497
Insurance	1,571,261	128,821	127,487
Rent	621,753	471,745	299,156
Travel	680,390	490,202	553,658
Communications	75,019	89,457	77,307
Other expenses	14,131	9,216	6,855
<b>Total production cost</b>	<b>925,273,307</b>	<b>728,021,494</b>	<b>590,338,758</b>
Change in own finished goods and work in progress	11,651,874	(29,396,439)	(18,987,232)
Cost of sales of externally purchased goods	198,615,331	213,775,052	103,031,250
Capitalized production costs	(16,537,587)	(17,189,461)	(20,951,301)
Obsolete stock, write-offs / (reversal of write-offs) (note 19)	3,690,176	(805,412)	784,059
<b>Cost of sales</b>	<b>1,122,693,101</b>	<b>894,405,234</b>	<b>654,215,534</b>

## 8. SELLING AND DISTRIBUTION EXPENSES

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
Freight	66,662,308	59,285,157	38,809,280
Professional fees and services	24,241,103	17,403,925	15,273,822
Taxes	25,860,279	21,719	132,677
Staff cost (note 12.5)	7,991,565	6,424,199	4,844,675
Consumables	3,920,961	3,180,553	2,103,639
Insurance	1,795,245	1,324,244	1,177,339
Utilities and maintenance	421,468	261,842	149,856
Other compensations for employees	943,458	563,829	555,481
Travel	505,687	272,548	266,420
Depreciation and amortisation	342,527	373,304	411,259
Social security expenses (note 12.5)	1,009,251	1,754,887	1,270,443
Communications	159,920	179,721	148,102
Other expenses	340,733	321,449	165,751
Rent	364,768	394,546	211,352
Bad debt expense (note 20)	881,387	755,876	170,707
<b>Selling and distribution expenses</b>	<b>135,440,660</b>	<b>92,517,799</b>	<b>65,690,803</b>

	2018 RON	Separate 2017 RON	2016 RON
Freight	65,412,747	56,500,007	38,491,090
Professional fees and services	35,882,540	25,598,688	17,594,539
Taxes	25,269,669	21,719	132,677
Staff cost (note 12.5)	4,831,041	3,555,414	3,409,505
Consumables	2,109,802	1,385,683	919,711
Insurance	1,590,642	1,228,587	1,173,479
Utilities and maintenance	421,306	260,351	148,771
Other compensations for employees	856,743	524,808	411,311
Travel	306,706	87,878	151,700
Depreciation and amortisation	287,974	302,346	377,645
Social security expenses (note 12.5)	178,944	898,295	845,276
Communications	114,117	122,656	111,781
Other expenses	63,002	49,502	48,952
Rent	67,939	30,398	360
Bad debt expense (note 20)	28,255	237,231	454,294
<b>Selling and distribution expenses</b>	<b>137,421,427</b>	<b>90,803,563</b>	<b>64,271,091</b>

The increase in the taxes is due to the introduction of US import duties. These have been applied since May 2018 for Russian products and June 2018 for EU countries. Tax increases have been recovered from the rise of the prices to US customers.

## 9. PROMOTION AND ADVERTISING EXPENSES

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
Marketing expenses	274,820	338,717	129,689
Media expenses	58,826	3,361	20,926
<b>Promotion and advertising expenses</b>	<b>333,646</b>	<b>342,078</b>	<b>150,615</b>

	2018 RON	Separate 2017 RON	2016 RON
Marketing expenses	247,459	262,168	83,872
Media expenses	58,826	3,361	20,926
<b>Promotion and advertising expenses</b>	<b>306,285</b>	<b>265,529</b>	<b>104,798</b>

## 10. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
Staff cost (note 12.5)	25,993,021	20,118,952	17,370,949
Professional fees and services	15,633,181	14,772,931	10,273,790
Other compensations for employees	5,728,555	3,360,052	2,306,817
Rent	1,345,549	1,260,123	785,858
Taxes	1,803,950	875,870	753,417
Depreciation and amortisation	3,380,699	2,875,794	2,599,786
Communications	1,040,658	983,161	902,516
Consumables	1,850,013	1,463,095	1,204,966
Utilities and maintenance	1,321,927	811,873	1,206,364
Travel	1,092,217	751,862	1,001,360
Social security expenses (note 12.5)	1,336,730	4,990,573	4,284,108
Other expenses	432,607	321,460	335,755
Freight	252	-	-
Insurance	292,468	150,572	104,206
<b>General and administrative expenses</b>	<b>61,251,827</b>	<b>52,736,318</b>	<b>43,129,892</b>

## 10. GENERAL AND ADMINISTRATIVE EXPENSES (continued)

	2018 RON	Separate 2017 RON	2016 RON
Staff cost (note 12.5)	18,056,713	14,423,340	13,105,508
Professional fees and services	7,356,370	7,375,664	4,071,793
Other compensations for employees	4,782,632	2,925,589	1,893,182
Rent	1,591,646	1,391,966	1,234,371
Taxes	1,679,408	768,882	490,426
Depreciation and amortisation	1,809,281	1,432,131	1,412,150
Communications	869,565	814,104	730,514
Consumables	1,095,125	830,822	782,599
Utilities and maintenance	1,116,483	699,203	1,024,909
Travel	824,209	624,619	893,840
Social security expenses (note 12.5)	479,476	3,468,858	3,186,611
Other expenses	333,558	214,155	297,039
Freight	252	-	-
Insurance	174,054	71,881	60,734
<b>General and administrative expenses</b>	<b>40,168,772</b>	<b>35,041,214</b>	<b>29,183,676</b>

## 11. RESEARCH AND DEVELOPMENT EXPENSES

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

	2018 RON	Consolidated 2017 RON	2016 RON
Professional fees and services	144,442	16,515	45,229
Staff cost (note 12.5)	95,933	78,046	72,725
Other compensations for employees	3,677	4,267	3,317
Social security expenses (note 12.5)	3,126	18,908	17,562
Travel	-	220	1,029
Consumables	-	-	4
<b>Research and development expenses</b>	<b>247,178</b>	<b>117,956</b>	<b>139,866</b>

	2018 RON	Separate 2017 RON	2016 RON
Professional fees and services	144,442	16,515	45,229
Staff cost (note 12.5)	95,933	78,047	72,725
Other compensations for employees	3,677	4,266	3,317
Social security expenses (note 12.5)	3,126	18,908	17,562
Travel	-	220	1,029
Consumables	-	-	4
<b>Research and development expenses</b>	<b>247,178</b>	<b>117,956</b>	<b>139,866</b>



## 12. OTHER INCOME/EXPENSES AND ADJUSTMENTS

### 12.1 Other operating income

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
Investment subsidies	28,667	6,820	20,076
Damages, trial expenses	10,448	1,277,344	167,303
Income from recovered materials	-	177,783	-
Materials free of charge	6,284	32,760	71,740
Other income	48,839	595,526	255,149
Reversal of provisions for risks and expenses (note 27)	-	-	3,034,304
Reversal of provisions for taxes (note 27)	-	-	1,580,132
<b>Total</b>	<b>94,238</b>	<b>2,090,233</b>	<b>5,128,704</b>

	2018 RON	Separate 2017 RON	2016 RON
Income from sale of emission certificates	384,885	-	-
Investment subsidies	28,667	6,820	127
Rent income	16,751	-	-
Damages, trial expenses	10,448	1,271,323	104,025
Income from recovered materials	-	177,783	-
Other income	-	570	13,260
Reversal of provisions for risks and expenses (note 27)	-	-	843,546
Reversal of provisions for taxes (note 27)	-	-	110,919
<b>Total</b>	<b>440,751</b>	<b>1,456,496</b>	<b>1,071,877</b>

### 12.2 Other operating expenses

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
Social actions expenses	1,497,150	1,251,750	989,000
Loss on disposal of property, plant and equipment	1,128,497	1,655,385	2,471,677
Sponsorship and charitable donations	397,517	222,400	102,110
Staff costs - medical dispensary	428,029	234,377	200,708
Professional fees and services	100,864	70,139	137,810
Rent expense	115,838	-	-
Other expenses	227,238	569,606	180,537
Social security costs - medical dispensary	14,310	58,519	50,804
Penalties - legal entities	399	74,884	6,138
Fines and penalties	20,040	175,970	(349,365)
Other compensations for employees - medical dispensary	24,776	14,543	13,965
Allowance for sundry debtors (note 20)	-	-	504,642
Taxes	-	123	985
Expenses with provisions for taxes (note 27)	-	1,158,752	-
Expenses with provisions for risks and expenses (note 27)	1,539,140	-	-
<b>Total</b>	<b>5,493,798</b>	<b>5,486,448</b>	<b>4,309,011</b>

## 12. OTHER INCOME/EXPENSES AND ADJUSTMENTS (continued)

	2018 RON	Separate 2017 RON	2016 RON
Social actions expenses	1,497,150	1,251,750	989,000
Loss on disposal of property, plant and equipment	877,353	1,521,355	1,760,592
Sponsorship and charitable donations	344,178	175,390	82,283
Staff costs - medical dispensary	123,594	100,969	103,259
Professional fees and services	100,864	70,139	137,810
Rent expense	-	-	-
Other expenses	15,763	14,342	49,729
Social security costs - medical dispensary	3,349	25,342	25,738
Penalties - legal entities	399	74,884	6,138
Fines and penalties	625	5,148	44,071
Allowance for sundry debtors (note 20)	-	-	504,642
Expenses with provisions for taxes (note 27)	-	1,158,752	-
<b>Total</b>	<b>2,963,275</b>	<b>4,398,071</b>	<b>3,703,262</b>

### 12.3 Financial costs

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
Interest on short-term loans and borrowings (note 17.2)	5,356,476	4,790,919	2,333,645
Interest on long-term loans and borrowings (note 17.2)	5,165,226	1,204,639	2,530,755
Amortisation of issuance fee	716,706	433,443	421,950
Other financial expenses	1,247,935	1,563,351	484,329
Interest on financial leasing	2,804,018	2,684,526	2,232,523
Discounts granted	-	-	2,196
<b>Total</b>	<b>15,290,361</b>	<b>10,676,878</b>	<b>8,005,398</b>

	2018 RON	Separate 2017 RON	2016 RON
Interest on short-term loans and borrowings (note 17.2)	5,356,476	4,790,919	2,333,645
Interest on long-term loans and borrowings (note 17.2)	5,165,226	1,204,639	2,530,755
Amortisation of issuance fee	716,706	433,443	421,950
Other financial expenses	460,318	275,925	208,436
Interest on financial leasing	78,742	31,864	9,392
Discounts granted	-	-	2,196
<b>Total</b>	<b>11,777,468</b>	<b>6,736,790</b>	<b>5,506,374</b>

## 12. OTHER INCOME/EXPENSES AND ADJUSTMENTS (continued)

### 12.4 Financial income

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
Interest on deposits	3,390	730	579
Interest from granted borrowing	43	50	25
Other financial income	121	269	625
<b>Total</b>	<b>3,554</b>	<b>1,049</b>	<b>1,229</b>

	2018 RON	Separate 2017 RON	2016 RON
Interest on deposits	3,390	731	579
Interest from granted borrowing	-	757	3,238
Other financial income	104	226	609
<b>Total</b>	<b>3,494</b>	<b>1,714</b>	<b>4,426</b>

### 12.5 Employee benefits expenses

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
Wages and salaries (Notes 7,8,10,11,12.2)	144,175,479	108,020,498	95,405,005
Social security costs (Notes 7,8,10,11,12.2), out of which:	9,065,458	29,308,144	25,772,972
- Company's contributions to social security (pensions)	3,289,213	20,289,459	17,643,600
Other compensations for employees - meal tickets	7,071,846	6,354,396	4,017,543
Other compensations for employees - holiday vouchers	1,656,029	872,698	691,517
Other compensations for employees - other	11,509,395	6,729,072	4,845,322
<b>Total employee benefits expense</b>	<b>173,478,207</b>	<b>151,284,808</b>	<b>130,732,359</b>

	2018	Consolidated 2017 Restated	2016 Restated
Average number of employees	2,249	2,068	2,021
Actual number of employees at the end of financial year	2,282	2,161	2,030

	2018 RON	Separate 2017 RON	2016 RON
Wages and salaries (Notes 7,8,10,11,12.2)	98,062,353	71,720,768	64,580,922
Social security costs (Notes 7,8,10,11,12.2), out of which:	3,565,977	17,734,135	16,014,569
- Company's contributions to social security (pensions)	-	12,028,765	10,845,975
Other compensations for employees - meal tickets	4,688,101	4,027,801	2,681,448
Other compensations for employees - holiday vouchers	734,707	162,000	132,480
Other compensations for employees - other	10,241,274	6,341,431	4,557,468
<b>Total employee benefits expense</b>	<b>117,292,412</b>	<b>99,986,135</b>	<b>87,966,887</b>

	2018	Separate 2017	2016
Average number of employees	1,457	1,324	1,296
Actual number of employees at the end of financial year	1,486	1,365	1,304

### 13. INCOME TAX

For financial year ended as at 31 December, the Company and the Group calculated income tax as follows:

	2018	Consolidated 2017 Restated	2016 Restated
Current income tax	(10,241,926)	(4,079,331)	(1,624,119)
Current income tax computed according to the Fiscal Inspection Report F-MC15/08.02.2016	-	-	(68,974)
Small companies income tax	(15,616)	(42,881)	(630)
Deferred income tax:	(7,631,150)	1,853,746	2,333,626
- Deferred income tax credit	4,044,584	10,092,132	9,933,207
- Deferred income tax charge	(11,675,734)	(8,238,386)	(7,599,581)
<b>Income tax</b>	<b>(17,888,692)</b>	<b>(2,268,466)</b>	<b>639,903</b>

	2018	Separate 2017	2016
Current income tax	(8,566,974)	(1,951,595)	(1,466,429)
Current income tax computed according to the Fiscal Inspection Report F-MC15/08.02.2016	-	-	(68,974)
Deferred income tax:	(2,643,760)	1,904,760	1,165,525
- Deferred income tax credit	1,506,695	2,181,589	2,439,178
- Deferred income tax charge	(4,150,455)	(276,829)	(1,273,653)
<b>Income tax</b>	<b>(11,210,734)</b>	<b>(46,835)</b>	<b>(369,878)</b>

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

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

	2018	Consolidated 2017 Restated	2016 Restated
<b>Profit before income tax</b>	<b>97,464,888</b>	<b>28,888,161</b>	<b>2,287,750</b>
Income taxes calculated at the nominal applicable tax rate (16%)	15,594,382	4,622,106	366,040
Adjustments in respect of current income tax of previous years			68,974
Tax effect of deductible / non-taxable elements, out of which:	(22,976,895)	(19,813,303)	(21,999,110)
- Fiscal depreciation	(19,517,069)	(17,043,169)	(17,748,240)
- Legal reserve	(668,045)	-	(13,081)
- Income from reversal of allowances	(2,791,781)	(2,770,134)	(4,237,789)
Tax effect of taxable / non-deductible elements, out of which:	21,280,110	20,920,602	21,379,361
- Realization of revaluation reserve	4,874,437	6,049,880	6,627,932
- Accounting depreciation	12,369,740	11,579,227	11,441,507
- Allowances expenses	4,647,966	4,163,611	3,378,103
- Other items	(612,033)	(872,116)	(68,181)
Tax loss to be recovered	(3,774,310)	2,730,535	1,960,540
Deferred tax expenses arising from deferred tax assets	4,762,784	(1,128,202)	576,291
Deferred tax expenses arising from deferred tax liabilities	2,868,366	(725,544)	(2,909,917)
Tax credit, out of which:	(344,178)	(5,472,153)	(100,750)
- sponsoring expense	(344,178)	(175,390)	(82,283)
- reinvested profit in equipment	-	(5,296,352)	(18,467)
- 10% withholding tax in USA	-	(411)	-
Effect of other tax rates	478,433	1,134,425	18,668
<b>Computed income tax / (tax loss)</b>	<b>17,888,692</b>	<b>2,268,466</b>	<b>(639,903)</b>
<b>Income tax reported in the statement of income</b>	<b>17,888,692</b>	<b>2,268,466</b>	<b>(639,903)</b>

### 13. INCOME TAX (continued)

	2018	Separate 2017	2016
<b>Profit before income tax</b>	<b>67,780,720</b>	<b>33,102,201</b>	<b>1,247,068</b>
Income taxes calculated at the nominal applicable tax rate (16%)	10,844,915	5,296,352	199,531
Adjustments in respect of current income tax of previous years	-	-	68,974
Tax effect of deductible / non-taxable elements, out of which:	(16,163,688)	(9,521,106)	(10,445,823)
- Fiscal depreciation	(13,038,593)	(8,028,833)	(8,168,553)
- Legal reserve	(542,246)	-	(9,977)
- Income from reversal of allowances	(2,582,849)	(1,492,273)	(2,267,293)
Tax effect of taxable / non-deductible elements, out of which:	14,229,925	11,648,502	11,813,471
- Realization of revaluation reserve	2,705,013	2,721,247	2,799,534
- Accounting depreciation	7,515,990	6,728,015	6,714,904
- Allowances expenses	3,416,510	2,071,679	2,180,782
- Other items	592,412	127,561	118,251
Deferred tax expenses arising from deferred tax assets	(797,254)	(409,063)	182,612
Deferred tax expenses arising from deferred tax liabilities	3,441,014	(1,495,697)	(1,348,137)
Tax credit, out of which:	(344,178)	(5,472,153)	(100,750)
- sponsoring expense	(344,178)	(175,390)	(82,283)
- reinvested profit in equipment	-	(5,296,352)	(18,467)
- 10% withholding tax in USA	-	(411)	-
<b>Computed income tax / (tax loss)</b>	<b>11,210,734</b>	<b>46,835</b>	<b>369,878</b>
<b>Income tax reported in the statement of income</b>	<b>11,210,734</b>	<b>46,835</b>	<b>369,878</b>

In 15 February 2016 the comprehensive fiscal control in TMK-Artrom 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	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
<b>Deferred income tax assets</b>			
Allowance for doubtful accounts receivable	267,125	327,834	598,898
Employee benefits	889,196	875,677	888,364
Provisions for management bonuses	1,191,854	683,494	361,380
Provisions for quality complaints	46,692	54,734	48,833
Adjustments of inventories	2,757,813	2,136,912	2,813,596
Provisions for unused vacations	8,923	10,008	5,200
Provisions for emission certificates	106,895	234,697	-
Tax losses carried forward	-	5,486,923	2,756,390
Provisions for risks and charges	523,217	-	1,153
Provisions for decommissioning property, plant and equipment	35,096	35,096	35,096
Other (liabilities - deferred income)	(342,882)	(372,457)	294,677
Leasing liabilities	5,862,265	6,629,174	7,177,591
<b>Total (a)</b>	<b>11,346,194</b>	<b>16,102,092</b>	<b>14,981,178</b>
<b>Deferred income tax liabilities</b>			
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	82,455,515	79,585,313	80,317,823
<b>Total (b)</b>	<b>82,455,515</b>	<b>79,585,313</b>	<b>80,317,823</b>
<b>Net deferred tax income (a) - (b)</b>	<b>(71,109,321)</b>	<b>(63,483,221)</b>	<b>(65,336,645)</b>

### 13. INCOME TAX (continued)

Statement of profit or loss	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
<b>Deferred income tax assets</b>			
Allowance for doubtful accounts receivable	(60,710)	(271,063)	(2,596,158)
Employee benefits	13,519	(12,687)	(92,437)
Provisions for management bonuses	501,665	328,034	51,610
Provisions for quality complaints	(8,042)	5,901	765
Adjustments of inventories	620,902	(676,685)	19,557
Provisions for unused vacations	(1,275)	5,021	4,298
Provisions for emission certificates	(127,802)	234,697	-
Tax losses carried forward and utilised	(5,486,924)	2,730,535	1,983,095
Provisions for risks and charges	523,217	-	(133,879)
Other (liabilities - deferred income)	29,575	(667,134)	755,233
Leasing liabilities	(766,909)	(548,417)	(568,375)
<b>Total (a)</b>	<b>(4,762,784)</b>	<b>1,128,202</b>	<b>(576,291)</b>
<b>Deferred income tax liabilities</b>			
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	2,868,366	(725,544)	(2,909,917)
<b>Total (b)</b>	<b>2,868,366</b>	<b>(725,544)</b>	<b>(2,909,917)</b>
<b>Net deferred tax income (a) - (b)</b>	<b>(7,631,150)</b>	<b>1,853,746</b>	<b>2,333,626</b>

Statement of financial position	2018 RON	Separate 2017 RON	2016 RON
<b>Deferred income tax assets</b>			
Allowance for doubtful accounts receivable	179,721	251,577	200,393
Employee benefits	451,462	422,211	396,482
Provisions for management bonuses	891,608	514,361	285,831
Provisions for quality complaints	46,692	46,982	48,833
Adjustments of inventories	1,451,991	861,563	990,429
Provisions for unused vacations	5,114	4,839	5,200
Provisions for emission certificates	106,895	234,697	-
Provisions for decommissioning property, plant and equipment	35,096	35,096	35,096
<b>Total (a)</b>	<b>3,168,579</b>	<b>2,371,326</b>	<b>1,962,264</b>
<b>Deferred income tax liabilities</b>			
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	40,352,662	36,911,648	38,407,346
<b>Total (b)</b>	<b>40,352,662</b>	<b>36,911,648</b>	<b>38,407,346</b>
<b>Net deferred tax income (a) - (b)</b>	<b>(37,184,083)</b>	<b>(34,540,322)</b>	<b>(36,445,082)</b>



### 13. INCOME TAX (continued)

Statement of profit or loss	2018	Separate	2016
	RON	2017	RON
		RON	RON
<b>Deferred income tax assets</b>			
Allowance for doubtful accounts receivable	(71,857)	51,185	(117,790)
Employee benefits	29,251	25,729	(71,981)
Provisions for management bonuses	377,248	228,530	10,739
Provisions for quality complaints	(290)	(1,851)	1,640
Adjustments of inventories	590,428	(128,866)	125,449
Provisions for unused vacations	276	(361)	4,298
Provisions for emission certificates	(127,802)	234,697	-
Provisions for risks and charges	-	-	(134,967)
<b>Total (a)</b>	<b>797,254</b>	<b>409,063</b>	<b>(182,612)</b>
<b>Deferred income tax liabilities</b>			
Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets	3,441,014	(1,495,697)	(1,348,137)
<b>Total (b)</b>	<b>3,441,014</b>	<b>(1,495,697)</b>	<b>(1,348,137)</b>
<b>Net deferred tax income (a) - (b)</b>	<b>(2,643,760)</b>	<b>1,904,760</b>	<b>1,165,525</b>

The Group has RON 10,780,792 (2017: RON 34,293,271; 2016: RON 17,227,431) of tax losses carried forward. The losses were generated in the period 2014 to 2017 and having an expiry profile of 7 years since the date they have been incurred. These losses relate to subsidiaries that have a history of losses, and cannot support the recognition of these losses as deferred tax assets, due to certain uncertainties.

### 14. 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	2018	Consolidated 2017 Restated	2016 Restated
<b>Earnings</b>			
Net profit	79,576,196	26,619,695	2,927,653
Average number of shares	116,170,334	116,170,334	116,170,334
<b>Earnings per average number of shares</b>	<b>0.68</b>	<b>0.23</b>	<b>0.03</b>

During 2018 there were no transactions involving ordinary shares or potential ordinary shares.

Earnings per share amounts in RON	2018	Separate 2017	2016
<b>Earnings</b>			
Net profit	56,569,986	33,055,366	877,190
Average number of shares	116,170,334	116,170,334	116,170,334
<b>Earnings per average number of shares</b>	<b>0.49</b>	<b>0.28</b>	<b>0.01</b>

## 15. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment for the financial year ended as at December 31<sup>st</sup>, were as follows:

### 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>374,407,053</b>	<b>856,268,721</b>	<b>64,731,050</b>	<b>3,508,570</b>	<b>31,319,295</b>	<b>1,330,234,689</b>
Additions	141,952	-	-	-	90,984,553	91,126,505
Disposals	(1,731,520)	(4,279,934)	(2,304,543)	(58,529)	-	(8,374,526)
Transfers	8,790,118	46,712,351	7,687,901	221,905	(63,412,275)	-
Transfers from inventories	-	-	-	-	2,365,881	2,365,881
<b>At 31 December 2016</b>	<b>381,607,603</b>	<b>898,701,138</b>	<b>70,114,408</b>	<b>3,671,946</b>	<b>61,257,454</b>	<b>1,415,352,549</b>
Additions	1,612	18,537	-	8,840	174,040,254	174,069,243
Disposals	(378,339)	(5,222,117)	(3,169,407)	(123,701)	-	(8,893,564)
Transfers	3,364,927	78,834,010	16,521,669	302,524	(98,917,981)	105,149
Transfers from inventories	-	-	-	-	3,473,711	3,473,711
Translation differences	(6,685)	(16,254)	-	(3,961)	-	(26,900)
<b>At 31 December 2017</b>	<b>384,589,118</b>	<b>972,315,314</b>	<b>83,466,670</b>	<b>3,855,648</b>	<b>139,853,438</b>	<b>1,584,080,188</b>
Additions	-	24,077	-	5,071	90,079,049	90,108,197
Disposals	(1,783,814)	(10,438,414)	(527,342)	(130,864)	-	(12,880,434)
Transfers	57,440,959	132,703,117	4,696,970	1,317,042	(196,148,820)	9,268
Translation differences	2,956	8,055	-	2,165	-	13,176
<b>At 31 December 2018</b>	<b>440,249,219</b>	<b>1,094,612,149</b>	<b>87,636,298</b>	<b>5,049,062</b>	<b>33,783,667</b>	<b>1,661,330,395</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2016</b>	<b>(87,842,573)</b>	<b>(207,981,559)</b>	<b>(29,095,300)</b>	<b>(1,421,759)</b>	<b>-</b>	<b>(326,341,191)</b>
Depreciation charge for the year	(11,215,614)	(56,071,607)	(3,352,274)	(408,211)	-	(71,047,706)
Disposals	1,027,557	2,457,038	2,261,842	43,829	-	5,790,266
Translation differences	(681)	(1,041)	-	(93)	-	(1,815)
<b>At 31 December 2016</b>	<b>(98,031,311)</b>	<b>(261,597,169)</b>	<b>(30,185,732)</b>	<b>(1,786,234)</b>	<b>-</b>	<b>(391,600,446)</b>
Depreciation charge for the period	(11,157,847)	(56,536,380)	(3,516,756)	(397,118)	-	(71,608,101)
Disposals	127,500	3,386,440	2,651,604	123,633	-	6,289,177
Translation differences	2,042	3,150	-	483	-	5,675
Transfers	-	-	-	-	-	-
<b>At 31 December 2017</b>	<b>(109,059,616)</b>	<b>(314,743,959)</b>	<b>(31,050,884)</b>	<b>(2,059,236)</b>	<b>-</b>	<b>(456,913,695)</b>
Depreciation charge for the period	(12,188,973)	(59,813,153)	(4,162,645)	(417,102)	-	(76,581,873)

**TMK-ARTROM S.A.**  
**CONSOLIDATED AND SEPARATE NOTES TO THE FINANCIAL STATEMENTS**  
**as of 31 December 2018**

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

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	Total
	RON	RON	RON	RON	RON	RON
Disposals	1,055,347	5,115,938	404,483	129,945	-	6,705,713
Transfers	-	997	-	(12,796)	-	(11,799)
Translation differences	(2,255)	(3,535)	-	(768)	-	(6,558)
<b>At 31 December 2018</b>	<b>(120,195,497)</b>	<b>(369,443,712)</b>	<b>(34,809,046)</b>	<b>(2,359,957)</b>	<b>-</b>	<b>(526,808,212)</b>

**Net book value**

At 31 December 2018	320,053,722	725,168,437	52,827,252	2,689,105	33,783,667	<b>1,134,522,183</b>
At 31 December 2017	275,529,502	657,571,355	52,415,786	1,796,412	139,853,438	<b>1,127,166,493</b>
At 31 December 2016	283,576,292	637,103,969	39,928,676	1,885,712	61,257,454	<b>1,023,752,103</b>

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

Property, plant and equipment increases were made in years 2018, 2017 and 2016 by purchases of independent fixed assets and by putting into operation the contracting or self-made investments.

During years 2018, 2017 and 2016 the Group 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 18,260,606 (2017: RON 19,845,738; 2016: RON 21,731,806).

The consolidated disposal of property, plant and equipment in 2018 in amount of RON 12,880,434 (2017: RON 8,893,564; 2016: RON 8,374,526) are represented by:

- undepreciated value of parts replaced during capital repairs made during the year in amount of RON 1,857,647 (2017: RON 1,904,950; 2016: RON 1,991,513) and their depreciated value of RON 2,455,736 (2017: RON 1,356,018; 2016: RON 2,361,229);
- sales of property, plant and equipment of RON 323,208 (2017: RON 3,281,965; 2016: RON 128,419);
- disposals of property, plant and equipment in amount of RON 8,243,843 (2017: RON 2,350,631; 2016: RON 3,893,365);

The corresponding revenues are in amount of RON 5,172,542 (2017: RON 2,513,710; 2016: RON 97,886).

The gross value of fully depreciated items of property, plant and equipment in use as at 31<sup>st</sup> December 2018 is of RON 73,151,656 (2017: RON 56,007,699; 2016: RON 31,440,814).

TMK-RESITA owns a land worth RON 6,661,149 in Bucharest and is subject of a pre-sale contract. As the execution of this contract depends on obtaining a zonal town planning with indicator limits, the land was not presented in assets held for sale under IFRS 5, as explained in note 3.

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

The carrying amount of property, plant and equipment held under finance lease represented by equipment and vehicles at 31 December 2018 was of RON 36,707,839 (2017: RON 37,254,993; 2016: RON 38,339,496).

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

### 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>
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>
Additions	-	-	-	-	66,085,248	66,085,248
Disposals	(83,518)	(8,359,111)	(352,143)	(42,670)	-	(8,837,442)
Transfers	44,380,724	123,410,046	2,598,796	1,066,016	(171,455,582)	-
<b>At 31 December 2018</b>	<b>167,445,340</b>	<b>665,908,716</b>	<b>14,322,019</b>	<b>3,075,885</b>	<b>27,391,205</b>	<b>878,143,165</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>
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>
Depreciation charge for the period	(4,920,098)	(39,860,783)	(1,407,743)	(212,011)	-	(46,400,635)
Disposals	28,571	3,619,892	262,875	41,751	-	3,953,089
<b>At 31 December 2018</b>	<b>(29,991,339)</b>	<b>(218,514,068)</b>	<b>(6,922,915)</b>	<b>(1,249,148)</b>	-	<b>(256,677,470)</b>
<b>Net book value</b>						
At 31 December 2018	137,454,001	447,394,648	7,399,104	1,826,737	27,391,205	621,465,695
At 31 December 2017	98,048,322	368,584,604	6,297,319	973,651	132,761,539	606,665,435
At 31 December 2016	100,895,806	341,077,442	6,610,436	1,018,559	45,602,115	495,204,358

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

Property, plant and equipment increases were made in year 2018 by purchases of independent fixed assets and by putting into operation the contracting or self-made investments.

During year 2018 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 14,541,039 (31 December 2017: RON 14,844,328; 2016: RON 16,866,801).

The disposal of property, plant and equipment in year 2018 in amount of RON 8,837,442 (2017: RON 5,558,635; 2016: RON 3,943,044) are represented by:

- un-depreciated value of parts replaced during capital repairs made in half year 2018 in amount of RON 657,169 (2017: RON 1,651,805; 2016 RON 1,777,972) and their depreciated value of RON 1,080,462 (2017: RON 1,141,499; 2016: RON 2,160,841),
- sales of property, plant and equipment of RON 262,802 ( 2017: RON 2,188,137; 2016: RON 0) and
- disposals of property, plant and equipment in amount of RON 6,837,009 (2017: RON 577,194; 2016: RON 4,231).

The corresponding revenues are in amount of RON 3,986,152 as at 31 December 2018 (2017: RON 559,256; 2016 RON 19,671).

The gross value of fully depreciated items of property, plant and equipment in use as at 31 December 2018 is of RON 39,406,981 (2017: RON 25,894,194; 2016: RON 12,027,449).

Out of total property, plant and equipment as of 31 December 2018, properties with a net book value of RON 27,990,244 were pledged in favor of BCR (2017: RON 25,751,666; 2016: RON 0).

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

The company has started an investment program for increasing the added value of its production, with the commissioning of the "Heat Treatment Complex" project, which was officially opened in the first quarter of 2018, followed by a production and optimization period. The project of this production line and most of the equipment were delivered by the SMS Group. In 2018 the commissioning of equipment and constructions carried out within the project "Heat Treatment Complex" was continued.

In the net carrying amount of „Construction in progress” the Group and the Company included the amount of RON 429,410 which represents borrowing costs capitalized in year 2018 according to IAS 23 Borrowing costs, revised (2017: RON 2,692,055; 2016: RON 1,300,713 for Company and Group). Interest expense capitalized in year 2018 by the Group and the Company was in amount of RON 429,410 (2017: 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 as of 31 December 2018 was of RON 5,804,795 (2017: RON 2,368,998; 2016: RON 476,351). Assets held under lease are pledged as guarantees for finance lease.

### Impairment of non-current assets

Other than for billets cash generating unit (CGU), there were no impairment indications identified for the companies in the Group. The management has carried out an impairment assessment of triggers for potential impairment and an assessment of the impairment of property, plant and equipment. The carrying value of non-current assets of TMK-Reșița as of 31 December 2018 is of RON 484,469 thousand.

The management has carried out an impairment assessment of TMK-Reșița non-current assets taking into account the recurring losses incurred in previous years and the cyclical nature of the industry, which resulted in no impairment adjustment to be recorded as at 31 December 2018. The assessment was performed by comparing the value in use for the cash generating unit (CGU) TMK-Reșița based on future cashflow extracted from the business plan for the next 7 years estimated by the management of the company. The cash flows in perpetuity beyond this period were extrapolated by using a growth rate of 2.5% per annum, in line with forecast inflation. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used.

The key assumptions used are:

- |                            |       |
|----------------------------|-------|
| • Discount rate, after-tax | 10.4% |
| • Growth rate              | 2.5%  |
| • EBITDA margin            | 10.7% |

The value in use of the CGU TMK-Reșița exceeded its carrying amount by approximately RON 114.170 thousand. The following table shows the amount up to which the key assumptions used would need to change individually for the estimated recoverable amount to be equal to the carrying amount at 31 December 2018:

- |                           |        |
|---------------------------|--------|
| • Discount rate after-tax | 10.86% |
| • Growth rate             | 1.6%   |
| • EBITDA margin           | 8.5%   |



## 16. 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 the years 2018, ended at 31 December, were as follows:

### Consolidated

	Licenses and trademarks	Other intangible assets	Intangible assets in progress	Total
	RON	RON	RON	RON
<b>Cost</b>				
<b>At 1 January 2016</b>	<b>644,367</b>	<b>932,827</b>	<b>1,340,501</b>	<b>2,917,695</b>
Additions	554,781	538,152	764,597	1,857,530
Disposals	(26,294)	(7,331)	-	(33,625)
Transfers	-	2,105,098	(2,105,098)	-
<b>At 31 December 2016</b>	<b>1,172,854</b>	<b>3,568,746</b>	<b>-</b>	<b>4,741,600</b>
Additions	112,793	373,577	239,487	725,857
Disposals	-	(60,369)	-	(60,369)
Transfers	-	239,487	(239,487)	-
Translation differences	-	(1,257)	-	(1,257)
<b>At 31 December 2017</b>	<b>1,285,647</b>	<b>4,120,184</b>	<b>-</b>	<b>5,405,831</b>
Additions	297,686	173,486	95,795	566,967
Disposals	(47,550)	-	-	(47,550)
Transfers	-	99,323	(95,795)	3,528
Translation differences	-	556	-	556
<b>At 31 December 2018</b>	<b>1,535,783</b>	<b>4,393,549</b>	<b>-</b>	<b>5,929,332</b>
<b>Amortisation and impairment</b>				
<b>At 1 January 2016</b>	<b>(387,440)</b>	<b>(123,958)</b>	<b>-</b>	<b>(511,398)</b>
Amortisation	(166,972)	(325,524)	-	(492,496)
Disposals	26,294	7,331	-	33,625
Translation differences	-	(81)	-	(81)
<b>At 31 December 2016</b>	<b>(528,118)</b>	<b>(442,232)</b>	<b>-</b>	<b>(970,350)</b>
Amortisation	(204,895)	(870,423)	-	(1,075,318)
Translation differences	-	235	-	235
<b>At 31 December 2017</b>	<b>(733,013)</b>	<b>(1,312,420)</b>	<b>-</b>	<b>(2,045,433)</b>
Amortisation	(233,330)	(941,462)	-	(1,174,792)
Disposals	47,550	-	-	47,550
Transfers	-	(997)	-	(997)
Translation differences	-	(392)	-	(392)
<b>At 31 December 2018</b>	<b>(918,793)</b>	<b>(2,255,271)</b>	<b>-</b>	<b>(3,174,064)</b>
<b>Net book value</b>				
At 31 December 2018	616,990	2,138,278	-	2,755,268
At 31 December 2017	552,634	2,807,764	-	3,360,398
At 31 December 2016	644,736	3,126,514	-	3,771,250

## 16. INTANGIBLE ASSETS (continued)

### Separate

	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	-	764,597	810,343
Transfers	-	2,105,098	(2,105,098)	-
At 31 December 2016	552,651	2,155,620	-	2,708,271
Additions	53,841	7,759	239,487	301,087
Transfers	-	239,487	(239,487)	-
At 31 December 2017	606,492	2,402,866	-	3,009,358
Additions	205,905	1,166	95,795	302,866
Transfers	-	95,795	(95,795)	-
At 31 December 2018	812,397	2,499,827	-	3,312,224
<b>Amortisation and impairment</b>				
At 1 January 2016	(331,889)	(46,878)	-	(378,767)
Amortisation	(93,519)	(36,496)	-	(130,015)
At 31 December 2016	(425,408)	(83,374)	-	(508,782)
Amortisation	(87,244)	(447,934)	-	(535,178)
At 31 December 2017	(512,652)	(531,308)	-	(1,043,960)
Amortisation	(79,681)	(494,621)	-	(574,302)
At 31 December 2018	(592,333)	(1,025,929)	-	(1,618,262)
<b>Net book value</b>				
At 31 December 2018	220,064	1,473,898	-	1,693,962
At 31 December 2017	93,840	1,871,558	-	1,965,398
At 31 December 2016	127,243	2,072,246	-	2,199,489

In 2015 the Company signed a contract for the purchase of a new IT software „Microsoft Dynamics AX 2012 Integrated System”. The implementation of the software MS Dynamics AX 2012 followed the phases: design, configuration, Testing and acceptance, deployment, go live and go live support, software development and Integration, Customized user manuals, Migration. As at 31 December 2018, AX software had an carrying amount of RON 2,440,379.

## 17. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 17.1. Financial assets

	2018 RON	2017 Restated RON	2016 Restated RON	2015 Restated RON
<b>Other financial receivables</b>				
Deposits for letters of guarantee	1,382,180	963,146	1,040,439	-
Granted guarantees	3,475,430	311,119	203,010	84,697
<b>Total other financial receivables</b>	<b>4,857,610</b>	<b>1,274,265</b>	<b>1,243,449</b>	<b>84,697</b>
<b>Total other financial assets</b>	<b>4,857,610</b>	<b>1,274,265</b>	<b>1,243,449</b>	<b>84,697</b>

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.

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

Granted guarantees consist mainly of the collateral deposit in amount of USD 800,000 made to AVALON RISK MANAGEMENT INSURANCE AG for guarantee in custom the import custom fees in USA due to the introduction starting with June 2018 (May 2018 for origin Russia) of the custom tariff section 232 for steel goods of 25%.

	2018 RON	Separate 2017 RON	2016 RON
<b>Other financial receivables</b>			
Investments in subsidiaries	290,262,969	4,027	4,027
Deposits for letters of guarantee	1,382,180	963,146	1,040,438
Granted guarantees, from which:	3,437,544	167,513	163,250
- Guarantees granted to related parties (note 26)	46,151	46,109	44,936
<b>Total other financial receivables</b>	<b>295,082,693</b>	<b>1,134,686</b>	<b>1,207,715</b>
<b>Total other financial assets</b>	<b>295,082,693</b>	<b>1,134,686</b>	<b>1,207,715</b>

TMK-Artrom holds the following investments in subsidiaries:

Subsidiaries	Headquarters	Shareholding
TMK Industrial Solutions LLC	10940 W.Sam Houston PKWY N., apartment 325 Houston, TX 77 064	100%
TMK-RESITA SA	36 Traian Lalescu Street, Resita, Caras-Severin, Romania	99.99237%

The financial investment of TMK-Artrom in the subsidiary TMK Industrial Solutions LLC is of 1,000 USD (exchange rate 4.0271 RON/USD). The Company presents the investment in TMK Industrial Solutions LLC at acquisition cost.

In 21 December 2018 TMK-Artrom purchased a number of 131,010,874 shares of TMK-Resita's share capital, representing 99.99237%, held by TMK Europe GmbH.

The price to be paid by TMK-Artrom for the number of 131,010,874 shares is EUR 62,290,000, representing RON 290,258,942 (exchange rate 4.6598 RON/EUR), that is EUR 0.475/share.

The price shall be paid by TMK-Artrom from its own financial resources as follows (see note 17.5):

1. EUR 100,000 (RON 466,390) is to be paid within thirty (30) days from the execution of the sale-purchase agreement of the shares concluded between TMK-Europe GmbH and TMK-Artrom and the transfer of the ownership over the shares following the signing of TMK-Reșița's Shareholders (Shares) Registry by TMK Europe GmbH and TMK-Artrom;
2. The remaining price of EUR 62,190,000 (RON 290,047,941) shall be paid during a five (5) year period, starting with 2019, in equal installments of EUR 12,438,000 (RON 58,009,588) each, no later than 31 December for every year. TMK-Artrom may pay such installments in full or partially in advance, as well as to extend the payment term for such installments (implicitly reducing the value of the installments) for another period of maximum five (5) years, depending on the available financial resources.

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

### Assets acquired and liabilities assumed

The carrying value of assets and liabilities of TMK-Reșița as at 1 January 2016, that have adjusted the opening balance of the earliest period presented under pooling of interest accounting, are summarized below:

	Carrying value of TMK-Reșița in TMK Europe – 1 January 2016
Property, plant and equipment	544,351,074
Other non-current assets	1,880,872
Cash and cash equivalents	104,718
Trade receivables	12,214,709
Inventories	53,164,435
<b>TOTAL ASSETS</b>	<b>611,715,808</b>
Trade payables	174,244,533
Provision for risk and charges	5,319,849
Loans and lease	49,225,276
Deferred tax liability	30,057,206
<b>TOTAL LIABILITIES</b>	<b>258,846,864</b>
<b>Net assets transferred</b>	<b>352,868,944</b>

### 17.2. Other financial liabilities

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

	2018 RON	Consolidated 2017 RON	2016 RON	2015 RON
Long-term interest-bearing bank loans	154,095,426	99,305,999	19,256,218	77,490,251
Long-term interest-bearing borrowing-related parties (note 26)	69,404,123	70,193,087	77,620,946	74,814,305
Un-amortized cost of debt origination fees	-	(54,314)	-	(112,327)
<b>Balance of long-term loans</b>	<b>223,499,549</b>	<b>169,444,772</b>	<b>96,877,164</b>	<b>152,192,229</b>

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

	2018 RON	Separate 2017 RON	2016 RON
Long-term interest-bearing bank loans	154,095,426	99,305,999	19,256,218
Long-term interest-bearing borrowing-related parties (note 26)	69,404,123	70,193,087	77,620,946
Un-amortized cost of debt origination fees	-	(54,314)	-
<b>Balance of long-term loans</b>	<b>223,499,549</b>	<b>169,444,772</b>	<b>96,877,164</b>

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

Future repayments	Consolidated			
	2018 RON	2017 RON	2016 RON	2015 RON
Long- and short-term loans and borrowings, net of future interests	407,577,995	379,123,100	292,589,290	272,712,812
Interest payable at reporting date	1,166,818	1,039,291	677,257	832,954
Un-amortized cost of debt origination fees	(225,820)	(233,892)	(150,313)	(479,933)
<b>Total long- and short-term loans and related interest and un-amortized cost</b>	<b>408,518,993</b>	<b>379,928,499</b>	<b>293,116,234</b>	<b>273,065,833</b>
Future interests	20,547,869	16,758,044	7,842,331	8,546,968
<b>Total future repayments for loans and related interest</b>	<b>429,066,862</b>	<b>396,686,543</b>	<b>300,958,565</b>	<b>281,612,801</b>

Future repayments	Separate		
	2018 RON	2017 RON	2016 RON
Long- and short-term loans and borrowings, net of future interests	407,577,995	379,123,100	292,589,290
Interest payable at reporting date	1,166,818	1,039,291	677,257
Un-amortized cost of debt origination fees	(225,820)	(233,892)	(150,313)
<b>Total long- and short-term loans and related interest and un-amortized cost</b>	<b>408,518,993</b>	<b>379,928,499</b>	<b>293,116,234</b>
Future interests	20,547,869	16,758,044	7,842,331
<b>Total future repayments for loans and related interest</b>	<b>429,066,862</b>	<b>396,686,543</b>	<b>300,958,565</b>

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

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

Bank	Type of loan	Currency	2018	Due date (mm/dd/yyyy)	Interest rate	Amount repayable	Amount repayable
			Contracted amount			equivalent RON	EUR/USD
BCR ERSTE	Investment loan - 7 years	EUR	25,000,000	11/07/2023	EURIBOR 3M+margin	94,388,452	20,238,095
BCR ERSTE	overdraft	EUR	20,000,000	11/03/2020	EURIBOR 3M+margin	59,706,974	12,801,941
<b>Total long-term bank loans</b>						<b>154,095,426</b>	
TMK EUROPE GmbH	Long-term borrowing	USD	22,837,540	09/25/2022	Libor+0.5%	69,404,123	17,067,540
<b>Un-amortized long-term cost</b>						-	
<b>Total</b>						<b>223,499,549</b>	

Bank	Type of loan	Currency	2017	Due date (mm/dd/yyyy)	Interest rate	Amount repayable	Amount repayable
			Contracted amount			equivalent RON	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	Due date (mm/dd/yyyy)	Interest rate	Amount repayable	Amount repayable
			Contracted amount			equivalent RON	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>Total</b>						<b>96,877,164</b>	

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

### Finance lease

	2018	2017	2016	2015
	RON	Restated RON	Restated RON	Restated RON
Lease payments less than 3 months, gross	3,240,550	2,985,763	2,263,261	2,373,582
Lease payments between 3 and 12 months, gross	6,386,880	5,584,534	5,643,727	5,521,922
Lease payments between 1 and 5 years, gross	39,725,980	43,740,794	46,599,264	53,218,588
<b>Total minimum lease payments, gross</b>	<b>49,353,410</b>	<b>52,311,091</b>	<b>54,506,252</b>	<b>61,114,092</b>
Less: future finance charges	6,042,452	7,679,818	9,287,976	11,493,830
<b>Present value of minimum lease payments</b>	<b>43,310,958</b>	<b>44,631,273</b>	<b>45,218,276</b>	<b>49,620,262</b>
Distributed as follows:				
Maturing within 1 year	7,842,370	6,645,164	5,884,817	5,655,616
Maturing between 1 and 2 years	7,019,904	5,749,207	4,741,808	4,771,627
Maturing between 2 and 3 years	7,190,063	6,003,316	4,935,437	4,727,820
Maturing between 3 and 4 years	7,105,266	6,226,144	5,178,989	4,917,394
Maturing between 4 and 5 years	6,598,674	6,319,120	5,434,560	5,160,056
Maturing over 5 years	7,554,681	13,688,322	19,042,665	24,387,749
<b>Total</b>	<b>43,310,958</b>	<b>44,631,273</b>	<b>45,218,276</b>	<b>49,620,262</b>

On 31 December 2018, the Group had ongoing 11 financial lease contracts for the purchase of 2 vehicles and 9 machinery and equipment (2017: 9 financial lease contracts for the purchase of 4 vehicles and 5 machinery and equipment; 2016: 9 financial lease contracts for the purchase of 7 vehicles and 2 machinery and equipment).

	2018	Separate	2016
	RON	2017 RON	RON
Lease payments less than 3 months, gross	319,483	105,511	52,213
Lease payments between 3 and 12 months, gross	959,919	290,228	120,301
Lease payments between 1 and 5 years, gross	3,460,360	1,059,433	31,525
<b>Total minimum lease payments, gross</b>	<b>4,739,762</b>	<b>1,455,172</b>	<b>204,039</b>
Less: future finance charges	279,770	81,781	3,964
<b>Present value of minimum lease payments</b>	<b>4,459,992</b>	<b>1,373,391</b>	<b>200,075</b>
Distributed as follows:			
Maturing within 1 year	1,156,677	360,797	168,978
Maturing between 1 and 2 years	1,180,971	335,006	31,097
Maturing between 2 and 3 years	1,073,007	328,571	-
Maturing between 3 and 4 years	682,771	278,200	-
Maturing between 4 and 5 years	366,566	70,817	-
<b>Total</b>	<b>4,459,992</b>	<b>1,373,391</b>	<b>200,075</b>

On 31 December 2018, TMK-Artrom had on-going 7 financial lease contracts for the purchase of 6 equipments and one vehicle (2017: 5 financial lease contracts for the purchase of 2 equipments and 3 vehicles; 2016: 6 financial lease contracts for the purchase 6 vehicles).



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

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

	2018	Consolidated		2015
	RON	2017	2016	RON
		RON	RON	
Long-term interest-bearing bank loans, current portion	22,209,048	37,554,818	76,875,748	67,019,156
Short-term bank loans	157,795,799	156,692,186	91,589,778	53,389,100
Short-term interest-bearing borrowing - related parties (note 26)	4,073,600	15,377,010	27,246,600	-
Interest related to long-term bank loans	679,967	579,157	383,162	690,329
Interest related to short-term bank loans	296,862	289,017	126,978	81,715
Interest related to long-term borrowings - related parties (note 26)	189,988	124,772	84,999	60,910
Interest related to short-term borrowings - related parties (note 26)	-	46,345	82,118	-
Un-amortized short-term cost	(225,820)	(179,578)	(150,313)	(367,606)
<b>Total</b>	<b>185,019,444</b>	<b>210,483,727</b>	<b>196,239,070</b>	<b>120,873,604</b>

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

	2018	Separate	2016
	RON	2017	RON
		RON	
Long-term interest-bearing bank loans, current portion	22,209,048	37,554,818	76,875,748
Short-term bank loans	157,795,798	156,692,186	91,589,778
Short-term interest-bearing borrowing - related parties (note 26)	4,073,600	15,377,010	27,246,600
Interest related to long-term bank loans	679,968	579,157	383,162
Interest related to short-term bank loans	296,862	289,017	126,978
Interest related to long-term borrowings - related parties (note 26)	189,988	124,772	84,999
Interest related to short-term borrowings - related parties (note 26)	-	46,345	82,118
Un-amortized short-term cost	(225,820)	(179,578)	(150,313)
<b>Total</b>	<b>185,019,444</b>	<b>210,483,727</b>	<b>196,239,070</b>

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

Bank	Type of loan	Currency	2018 Contracted amount	Due date (mm/dd/yyyy)	Interest rate	Amount repayable <i>RON equivalent</i>	Amount repayable <i>EUR</i>
UNICREDIT BANK	Credit for funding general needs	EUR	15,000,000	02/17/2019	EURIBOR 1M+margin	65,294,595	13,999,999
BANCA TRANSILVANIA	Uncommitted overdraft	EUR	20,000,000	07/11/2019	EURIBOR 3M+margin	92,501,203	19,833,445
<b>Total short-term bank loans</b>						<b>157,795,798</b>	
BCR ERSTE	Investment loan - 7 years current portion	EUR	25,000,000	11/07/2023	3.40%	22,209,048	4,761,905
<b>Total short part of long-term bank loans</b>						<b>22,209,048</b>	
TMK EUROPE GmbH	Long-term borrowing - current portion	USD	22,837,540	07/25/2023	Libor+0.5%	4,073,600	1,000,000
<b>Total long-term borrowings from related parties - current portion</b>						<b>4,073,600</b>	
<b>Total</b>						<b>184,078,446</b>	

Bank	Type of loan	Currency	2017 Contracted amount	Due date (mm/dd/yyyy)	Interest rate	Amount repayable <i>RON equivalent</i>	Amount repayable <i>EUR</i>
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 <i>RON equivalent</i>	Amount repayable <i>EUR</i>
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>	

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

Bank loans received by TMK-Artrom are guaranteed as follows:

- Loans granted by BCR, as follows:  
Multiproduct relief in amount of EUR 20 million guaranteed with:
  - Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK-Artrom;
  - Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK-Reșița;
  - 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 EUR 25 million guaranteed with:
  - Pledge without dispossession TMK-Artrom;
  - Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK-Reșița;
  - 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;
  - Real estate mortgage on land, having courtyard as category of use, with an area of 69.339 square meters plus C1 – industrial and utility building, having the area built on the ground of 66.346 square meters, located in Slatina, Draganesti street, no. 30, Olt County, tabulated in the Land Book of Slatina.
- Loan granted by Unicredit Bank in initial amount of EUR 27 million which according to the addendum from 23 June 2015 decreased to EUR 26 million, and according to the addendum from 16 March 2017 decreased to EUR 16 million and from which at 31 December 2018 the amount used was of EUR 13,999,999 ( from the EUR 15 million available for use) guaranteed with:
  - Pledge without dispossession on credit balance of current bank accounts opened at Unicredit Bank by TMK-Artrom;
  - 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 BANCA TRANSILVANIA in amount of EUR 20 million, guaranteed with:
  - Pledge without dispossession on credit balance of current bank accounts opened at BANCA TRANSILVANIA by TMK-Artrom;
  - 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.

Considering BANCPOST acquisition by BANCA TRANSILVANIA, the loan granted by BANCPOST in 2016 was refinanced and closed on 01 November 2018 through the loan granted by BANCA TRANSILVANIA in same conditions.

As at 31 December 2018, the company had to pay EUR 338.59 for general expenses used with the card at UNICREDIT BANK. The amount is part of the maximum amount of EUR 100,000 for general business expenses accessed only with the UNICREDIT credit card.

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

As at 31 December 2018, the Company had issued bank letter guarantees in BANCA COMERCIALĂ ROMÂNĂ in favour of customer NIS JSC Novi SAD for the performance of the contractual obligations in amount of EUR 520,782.47.

On 31 December 2018 in the BCR multifacility in amount of EUR 20 millions granted by BCR were issued 2 letter of credit one in NIDEC ASI favour in amount of EUR 234,660 valid till 15 June 2019 and one in S.F.H. favour in amount of EUR 160,000 valid till 28 February 2019 and also, a bank guarantee for payment into INOTAL (TMK-RESITA provider) favour in amount of EUR 100,000 valid till 30 May 2019.

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	6,638,643	10/03/2020
UNICREDIT	General needs loan	EUR	15,000,000	999,662	02/17/2019
BANCA TRANSILVANIA	Overdraft	EUR	20,000,000	166,555	07/11/2019
BCR	Investment loan	EUR	25,000,000	-	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 July 2015 and in August 2016 through addendum a new decrease was made down to RON 2,000,000.

At 31 December 2018, 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
- Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK-Reșița

At 24 July 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 and security mortgage on the creditor balance of the current accounts opened by TMK-Reșița 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 21 November 2018 a new amendment which increase the ceiling value up to RON 70,000,000 was signed with the bank. At 31 December 2018 from this limit RON 2,550,000 were allocated for TMK-Artrom's suppliers and from this the amount of RON 1,228,619 was used. At Group level from the limit was used RON 52,378,218.

As at 31 December 2018, 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.

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

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

On 20 December 2018, prior to the acquisition of the majority shareholding in TMK-Reșița from TMK Europe (the "Acquisition"), TMK-Artrom sent to all its Lenders official notification letters requesting, as the case may be, for acknowledgement, approvals and/or waivers according to the terms and conditions of the relevant facility agreements, as follows:

- A notification letter to BANCA TRANSILVANIA to which the bank responded by email on 17 January 2019, in which bank confirms the receipt of the notification and acknowledges the information with respect to the transaction as per the terms and conditions of the loan agreement (no prior approval/waiver from the bank is required under the terms and conditions of the loan agreement);

- A waiver request to UNICREDIT to which the bank responded on 04 February 2019 by confirming that a waiver is not required under the terms of the facility agreement for the Acquisition and consenting to the Acquisition given that control over TMK-Reșița remains within the group (for the purposes of the facility agreement the bank construed as part of the group not only TMK Europe but also TMK PAO);

- A waiver request to Banca Comerciala Romana to which the bank responded on 11 January 2019 by waiving its rights under the facility agreement with respect to all matters related to the Acquisition.

### Other long-term liabilities

	2018 RON	Separate 2017 RON	2016 RON
Long-term sundry creditors	38,194	21,954	4,733
Investment subsidy	66,925	33,515	3,017
Long-term guarantees	51,210	673,611	560,664
<b>Balance of other long-term liabilities</b>	<b>156,329</b>	<b>729,080</b>	<b>568,414</b>

	2018 RON	Consolidated 2017 RON	2016 RON	2015 RON
Long-term sundry creditors	151,024	21,954	4,734	29,460
Long-term advances from customers	1,813,674	-	-	-
Investment subsidy	66,925	33,515	3,017	-
Long-term guarantees	192,675	742,165	669,978	151,412
Other liabilities	-	-	-	24,475
<b>Balance of other long-term liabilities</b>	<b>2,224,298</b>	<b>797,634</b>	<b>677,729</b>	<b>205,347</b>

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

### 17.3. Changes in liabilities from financing activities

Changes in liabilities arising from financing activities were as follows in financial year ended 31 December 2018:

	Consolidated Interest-bearing loans and borrowings RON	Finance lease liabilities RON
<b>Balance at 1 January 2017</b>	<b>293,116,234</b>	<b>45,218,276</b>
Foreign exchange (gain)/loss	822,413	13,287
Acquisition of assets by means of finance lease	-	3,647,000
Net cash flows (used in)/from financing activities	85,989,852	(4,272,365)
- Loans received	154,195,539	-
- Repayment of loans	(59,409,349)	-
- Finance costs paid	(8,796,338)	-
Other	-	25,075
<b>Balance at 31 December 2017</b>	<b>379,928,499</b>	<b>44,631,273</b>
Foreign exchange (gain)/loss	3,677,763	16,640
Acquisition of assets by means of finance lease	-	4,679,262
Net cash flows (used in)/from financing activities	24,912,731	(6,039,663)
- Loans received	49,674,334	-
- Repayment of loans	(13,441,110)	-
- Finance costs paid	(11,320,493)	-
Other	-	23,446
<b>Balance at 31 December 2018</b>	<b>408,518,993</b>	<b>43,310,958</b>

	Separate Interest-bearing loans and borrowings RON	Finance lease liabilities RON
<b>Balance at 1 January 2017</b>	<b>293,116,234</b>	<b>200,075</b>
Foreign exchange (gain)/loss	822,413	28,613
Acquisition of assets by means of finance lease	-	1,516,230
Net cash flows (used in)/from financing activities	85,989,852	(371,527)
- Loans received	154,195,539	-
- Repayment of loans	(59,409,349)	-
- Finance costs paid	(8,796,338)	-
Other	-	-
<b>Balance at 31 December 2017</b>	<b>379,928,499</b>	<b>1,373,391</b>
Foreign exchange (gain)/loss	3,677,763	16,640
Acquisition of assets by means of finance lease	-	3,729,656
Net cash flows (used in)/from financing activities	24,912,731	(659,695)
- Loans received	49,674,334	-
- Repayment of loans	(13,441,110)	-
- Finance costs paid	(11,320,493)	-
Other	-	-
<b>Balance at 31 December 2018</b>	<b>408,518,993</b>	<b>4,459,992</b>

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

### 17.4. 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 2018	
		Carrying value RON	Fair value RON
Long-term bank loans - variable rate	3	59,706,974	59,685,559
Long-term bank loans - fixed rate	3	116,597,500	116,008,993
Long-term intercompany borrowings - variable rate	3	73,477,723	68,029,113

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

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

### 17.5. Liabilities for investments in subsidiaries

	Separate		
	2018 RON	2017 RON	2016 RON
Amounts owed to entities in the group - short-term	57,474,348	-	-
Amounts owed to entities in the group - long-term	218,356,982	-	-
<b>Total liabilities for investments in subsidiaries</b>	<b>275,831,330</b>	<b>-</b>	<b>-</b>

In 21 December 2018 TMK-Artrom purchased a number of 131,010,874 shares of TMK-Resita's share capital, representing 99.99237%, held by TMK Europe GmbH.

The price to be paid by TMK-Artrom for the number of 131,010,874 shares is Euro 62,290,000 (exchange rate 4.6598 RON/EUR), that is Euro 0.475/share.



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

The price shall be paid by TMK-Artrom from its own financial resources as follows:

1. EUR 100,000 (RON 466,390) is to be paid within thirty (30) days from the execution of the sale-purchase agreement of the shares concluded between TMK-Europe GmbH and TMK-Artrom and the transfer of the ownership over the shares following the signing of TMK-Reșița's Shareholders (Shares) Registry by TMK Europe GmbH and TMK-Artrom;

2. The remaining price of EUR 62,190,000 (RON 290,047,941) shall be paid during a five (5) year period, starting with 2019, in equal installments of EUR 12,438,000 (RON 58,009,588) each, no later than 31 December for every year. TMK-Artrom may pay such installments in full or partially in advance, as well as to extend the payment term for such installments (implicitly reducing the value of the installments) for another period of maximum five (5) years, depending on the available financial resources.

As a principle, because this contract provides payment in instalments, without interest, in accordance with IFRS 9, the debt to TMK Europe it is presented at fair value.

The initial amount was discounted at the interest rate for a similar loan - the last received from BCR - using the interest rate of 1.9% obtaining the amount of EUR 3,148,224 (RON 14,683,001). Being an amount due from the relationship with shareholders, the difference between the fair value and the nominal value is transferred as equity item.

## 18. OTHER NON-CURRENT ASSETS

	Consolidated			
	2018 RON	2017 Restated RON	2016 Restated RON	2015 Restated RON
Prepayments for property, plant, and equipment	1,400,986	496,325	10,064,523	9,227,177
Prepaid expenses	456,272	556,112	-	-
- Prepaid expenses - related parties	295,501	471,997	-	-
Other non-current assets	31,637	30,223	942,461	909,040
<b>Total</b>	<b>1,888,895</b>	<b>1,082,660</b>	<b>11,006,984</b>	<b>10,136,217</b>

	Separate		
	2018 RON	2017 RON	2016 RON
Prepayments for property, plant, and equipment	1,087,580	11,519	10,059,567
Gas emission certificates with greenhouse effect	2,232,688	3,658,055	4,085,482
Prepaid expenses	318,831	556,112	-
- Prepaid expenses - related parties	295,502	471,997	-
<b>Total</b>	<b>3,639,099</b>	<b>4,225,686</b>	<b>14,145,049</b>

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

## 19. INVENTORIES

Inventories consist of the following:

	2018	2017	2016	2015
	RON	Restated RON	Restated RON	Restated RON
Raw materials	49,802,332	44,510,369	39,737,817	16,082,254
Finished goods in transit	40,620,391	36,036,770	14,277,337	2,224,429
Work in progress	26,139,295	33,293,909	56,625,823	43,565,396
Finished goods	32,022,485	45,780,774	23,073,500	46,066,398
Consumables	82,664,404	56,106,218	44,302,241	48,061,531
Semi-finished goods	78,910,397	74,199,333	45,908,853	33,949,825
Merchandise at third parties (in transit)	2,930,311	24,659,263	-	-
Consigned finished goods	1,459,332	1,090,062	934,567	-
Other materials	8,690,647	9,249,305	8,346,159	7,073,488
Raw materials and consumables at third parties	845,658	1,508,004	111,129	75,107
Materials in transit	1,177,720	55	-	628,234
Merchandise and packaging	446,869	463,929	453,266	482,986
Raw materials to be purchased	159,814	149,374	2,980,883	16,644
<b>Total</b>	<b>325,869,655</b>	<b>327,047,365</b>	<b>236,751,575</b>	<b>198,226,292</b>

	2018	2017	2016
	RON	Restated RON	Restated RON
Raw materials	61,500,287	59,442,496	36,218,736
Finished goods in transit	40,620,392	36,036,770	14,277,337
Work in progress	25,158,689	32,848,066	56,144,998
Finished goods	36,310,870	48,750,178	25,496,727
Consumables	24,104,586	19,287,220	16,346,634
Semi-finished goods	15,759,626	13,269,639	4,515,703
Merchandise at third parties (in transit)	2,930,311	24,659,263	-
Consigned finished goods	1,459,332	1,090,062	934,567
Other materials	5,734,967	6,799,597	6,137,991
Raw materials and consumables at third parties	495,805	1,251,264	1,588,322
Merchandise and packaging	16,869	33,929	23,266
Raw materials to be purchased	-	-	2,943,453
<b>Total</b>	<b>214,091,734</b>	<b>243,468,484</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 of the Company 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.

In 2018, were set up allowances for inventories considering net realizable value – the movement of the adjustments is presented below:

	2018	2017	2016
	RON	Restated RON	Restated RON
<b>Balance 1 January</b>	<b>13,971,105</b>	<b>15,177,252</b>	<b>15,252,503</b>
Additional allowances set	14,271,058	12,033,284	17,097,626
Resumption / Allowances used	(10,467,803)	(13,239,431)	(17,172,877)
<b>Balance at the end of reporting period</b>	<b>17,774,360</b>	<b>13,971,105</b>	<b>15,177,252</b>

## 19. INVENTORIES (continued)

	2018 RON	Separate 2017 RON	2016 RON
Balance 1 January	5,384,770	6,190,181	5,406,122
Additional allowances set	13,754,852	5,835,665	10,122,636
Resumption / Allowances used	(10,064,676)	(6,641,076)	(9,338,577)
Balance at the end of reporting period	9,074,946	5,384,770	6,190,181

## 20. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables consist of the following:

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON	2015 Restated RON
Trade receivables, from which:	284,089,921	240,812,506	196,723,813	205,918,928
- Receivables from other related parties (note 26)	710,206	1,591,912	658,453	15,769,970
Other receivables - VAT	12,642,850	9,148,159	6,237,007	13,662,816
Sundry debtors, from which:	3,851,479	5,929,016	4,580,307	5,638,247
- Sundry debtors - related parties (note 26)	321,599	555,675	461,924	2,036
Other receivables - penalty and fines	(26)	22	38	46
Employee claims	492,257	426,462	449,626	492,599
Recoverable income tax	-	4,207,521	1,239,068	928,820
Promissory notes	-	-	-	123,769
Other social receivables	1,470,975	-	-	-
<b>Less:</b>				
Allowance for doubtful accounts receivable	(2,731,206)	(3,125,594)	(2,463,975)	(2,897,330)
Allowance for sundry debtors	(2,593,834)	(2,023,558)	(2,037,769)	(2,524,165)
<b>Total</b>	<b>297,222,416</b>	<b>255,374,534</b>	<b>204,728,115</b>	<b>221,343,730</b>

Group's trade receivables are non-interest bearing and generally have an average collection period of 69 days (2017: 67 days).

	2018 RON	Separate 2017 RON	2016 RON
Trade receivables, from which:	285,098,098	218,739,476	202,385,458
- Receivables from other related parties (note 26)	8,542,585	14,048,523	9,670,563
Other receivables - VAT	18,456,168	15,220,171	10,419,588
Sundry debtors, from which:	1,085,226	3,145,748	1,924,033
- Sundry debtors - related parties (note 26)	360,125	947,901	573,606
Employee claims	375,722	422,285	445,199
Settlements between affiliates	-	-	321,551
Recoverable income tax	-	3,211,307	249,401
Other social receivables	1,470,975	-	-
<b>Less:</b>			
Allowance for doubtful accounts receivable	(1,566,701)	(2,242,756)	(2,011,085)
<b>Total</b>	<b>304,919,488</b>	<b>238,496,231</b>	<b>213,734,145</b>

Trade receivables are non-interest bearing and generally have an average collection period of 66 days (2017: 72 days).

## 20. TRADE AND OTHER RECEIVABLES (CURRENT) (continued)

Starting with May 2015 TMK-Artrom and TMK-Reșița form a single fiscal group only for the purpose of VAT operations. TMK-Artrom is the representative of the fiscal group. The monthly payment obligation of TMK-Reșița is offset by the VAT refunded by TMK-Artrom through the consolidation of the tax group.

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
<b>At 1 January</b>	<b>2,023,559</b>	<b>2,037,769</b>	<b>2,524,165</b>
Impairment adjustments expenses	556,064	-	18,246
Used	14,211	(14,211)	(504,642)
<b>At 31 December</b>	<b>2,593,834</b>	<b>2,023,558</b>	<b>2,037,769</b>

	2018 RON	Separate 2017 RON	2016 RON
<b>At 1 January</b>	-	-	-
Impairment adjustments expenses	-	-	504,642
Used	-	-	(504,642)
<b>At 31 December</b>	-	-	-

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
<b>At 1 January</b>	<b>3,125,595</b>	<b>2,463,977</b>	<b>2,897,330</b>
Impairment adjustments expenses	583,750	919,021	655,637
Used	(978,139)	(257,404)	(1,088,992)
<b>At 31 December</b>	<b>2,731,206</b>	<b>3,125,594</b>	<b>2,463,975</b>

	2018 RON	Separate 2017 RON	2016 RON
<b>At 1 January</b>	<b>2,242,756</b>	<b>2,011,085</b>	<b>2,639,509</b>
Impairment adjustments expenses	301,788	437,409	460,568
Used	(977,843)	(205,738)	(1,088,992)
<b>At 31 December</b>	<b>1,566,701</b>	<b>2,242,756</b>	<b>2,011,085</b>

## Ageing analysis of trade receivables

Consolidated	Trade receivables Days past due					Total
	Current	<30 days	30-60 days	61-90 days	>91 days	
	RON	RON	RON	RON	RON	RON
<b>31 December 2018</b>						
ECL rate	0.00%	0.00%	0.72%	0.00%	61.27%	
Estimated total gross carrying amount at default	208,469,992	58,735,634	11,954,495	613,122	4,316,678	<b>284,089,921</b>
Expected credit loss	-	-	86,399,00	-	2,644,807	<b>2,731,206</b>

## 20. TRADE AND OTHER RECEIVABLES (CURRENT) (continued)

Separate	Trade receivables					Total
	Current	<30 days	30-60 days	61-90 days	>91 days	
	RON	RON	RON	RON	RON	RON
<b>31 December 2018</b>						
ECL rate	0.00%	0.00%	0.00%	0.00%	49.47%	
Estimated total gross carrying amount at default	213,872,841	56,995,388	10,988,591	74,543	3,166,735	<b>285,098,098</b>
Expected credit loss	-	-	-	-	1,566,701	<b>1,566,701</b>

The Group and the Company highlighted in trade receivables these amounts:

### Consolidated

Receivables	Currency	2018		2017 Restated	
		RON	Foreign currency	RON	Foreign currency
Internal customers	LEI	70,459,945		71,742,326	
	EUR	20,293,033	4,351,087	8,920,618	1,914,419
External customers	EUR	147,733,522	31,653,157	119,849,650	25,720,465
	USD	41,092,310	10,087,368	34,602,281	8,610,968
	CAD	204,152	68,221	10,751	3,462
Doubtful customers	LEI	1,943,089		2,075,336	
	EUR	1,000,697		2,277,953	117,466
Notes issued by customers	LEI	1,363,173		1,333,591	
<b>Total</b>		<b>284,089,921</b>		<b>240,812,506</b>	

Receivables	Currency	2016 Restated		2015 Restated	
		RON	Foreign currency	RON	Foreign currency
Internal customers	LEI	33,826,016		38,258,115	
	EUR	44,102,229	9,711,794	47,062,052	10,401,603
External customers	EUR	107,405,786	23,651,901	98,568,611	21,785,526
	USD	6,853,040	1,640,602	15,838,840	3,818,704
Doubtful customers	LEI	1,851,589		2,710,536	-
	EUR	1,533,263	337,635	1,681,560	371,657
Notes issued by customers	LEI	1,151,890		1,799,214	
<b>Total</b>		<b>196,723,813</b>		<b>205,918,928</b>	

As of 31 December 2018 the Group registered doubtful customers receivables in amount of RON 2,943,786 (2017: RON 4,353,289; 2016: RON 3,384,852). For the amounts booked in this category were recorded allowances in amount of RON 2,731,206 (2017: RON 3,125,594; 2016: RON 2,463,975), considering the risk of non-collection.

## 20. TRADE AND OTHER RECEIVABLES (CURRENT) (continued)

### Separate

	Currency	2018		2017		2016	
		RON	Foreign currency	RON	Foreign currency	RON	Foreign currency
Internal customers	LEI	77,162,030		51,511,833		39,830,527	
	EUR	20,293,033	4,351,087	8,920,618	1,914,419	44,102,229	9,711,794
External customers	EUR	147,627,158	31,653,157	119,743,382	25,697,659	107,381,970	23,646,687
	USD	36,582,871	8,980,477	33,944,610	8,722,757	7,701,558	1,789,686
	CAD	204,152	68,221	10,751	3,462	-	-
Doubtful customers	LEI	1,412,831		1,544,093		1,217,474	
	EUR	452,849	97,097	1,730,598		999,810	220,169
Notes issued by customers	LEI	1,363,173		1,333,591		1,151,890	
<b>Total</b>		<b>285,098,097</b>		<b>218,739,476</b>		<b>202,385,458</b>	

As of 31 December 2018, the Company registered doubtful customer receivables in amount of RON 1,865,680 (2017: RON 3,274,692). For the amounts recorded in this category RON 1,566,701 allowances were booked, because they are considered to have high risk on collection.

From the amount of RON 213,872,841 separate trade receivables at 31 December 2018 neither past due nor impaired, the amount of RON 126,586,609 is considered without risk, and includes the following categories:

- RON 98,433,774, respectively 46.02% representing receivables insured by COFACE Germany;
- RON 20,477,392, respectively 9.57% receivables covered by export letters;
- RON 7,675,443, respectively 3.59% intercompany receivables.

The difference of RON 87,286,232, respectively 40.79% are considered to have a low risk in aggregate because those customers are in general located in different countries and industries independent markets.

## 21. PREPAYMENTS

Prepayments consist of the following:

	2018	Consolidated		2015
	RON	2017 Restated RON	2016 Restated RON	Restated RON
Prepayments for services, inventories	796,970	72,477	117,073	36,384
Prepaid expenses	1,950,767	1,754,063	1,943,458	1,563,750
- Prepaid expenses - related parties	24,660	16,041	286,108	5,967
Selling and distribution expenses registered in advance until the date of transfer of customer control over the goods	2,121,141	-	-	-
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	-
<b>Total</b>	<b>6,810,454</b>	<b>3,768,116</b>	<b>4,002,107</b>	<b>1,600,134</b>

## 21. PREPAYMENTS (continued)

	2018 RON	Separate 2017 RON	2016 RON
Prepayments for services, inventories, from which:	40,107,536	63,022,969	98,100,197
- Prepayments for services, inventories - related parties (note 26)	39,335,965	62,966,821	98,019,745
Prepaid expenses	1,743,947	1,385,930	1,699,043
- Prepaid expenses - related parties	-	-	286,108
Selling and distribution expenses registered in advance until the date of transfer of customer control over the goods	2,121,141	-	-
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
<b>Total</b>	<b>45,914,200</b>	<b>66,350,475</b>	<b>101,740,816</b>

The amount of RON 39,335,965 (without VAT) represents advances given to TMK-Reșița (2017: RON 62,966,821; 2016: RON 98,019,745).

Prepaid expenses consist of insurance policies for up to one year for equipment and discontinuation of activity, product insurance, insurance for the risk of not collecting the receivables, life insurance and health insurance for employees, as well as other services and subscriptions.

## 22. CASH AND SHORT-TERM DEPOSITS

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

	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON	2015 Restated RON
Cash at banks in foreign currency	16,720,506	10,465,203	17,666,789	1,699,160
Cash at banks in RON	3,439,418	2,382,501	1,215,027	617,246
Short-term deposits	767,347	4,253	9,957	1,839,800
Other cash equivalents	481	366	142	1,410
Cash on hand	1,175	12,204	19,478	25,644
<b>Total</b>	<b>20,928,927</b>	<b>12,864,527</b>	<b>18,911,393</b>	<b>4,183,260</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).

	2018 RON	Separate 2017 RON	2016 RON
Cash at banks in foreign currency	13,705,719	9,643,776	16,360,174
Cash at banks in RON	2,451,724	1,168,126	385,660
Short-term deposits	767,347	4,253	9,957
Other cash equivalents	289	226	-
Cash on hand	-	8,812	16,005
<b>Total</b>	<b>16,925,079</b>	<b>10,825,193</b>	<b>16,771,796</b>

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.



## 22. CASH AND SHORT-TERM DEPOSITS (continued)

Short-term deposits	2018	Consolidated 2017	2016	2015
in RON	767,347	4,253	9,957	1,839,800

There is no restricted cash.

Short-term deposits	2018	Separate 2017	2016
in RON	767,347	4,253	9,957

### Other current assets

	2018 RON	Consolidated 2017 RON	2016 RON	2015 RON
Deposits for letters of guarantee	1,046,698	1,067,612	-	-
<b>Total</b>	<b>1,046,698</b>	<b>1,067,612</b>	-	-

	2018 RON	Separate 2017 RON	2016 RON
Deposits for letters of guarantee	1,046,698	1,067,612	-
<b>Total</b>	<b>1,046,698</b>	<b>1,067,612</b>	-

## 23. 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 2018	(116,170,334)	2.51	(291,587,538)	(291,587,538)
Balance 31 December 2018	(116,170,334)	2.51	(291,587,538)	(291,587,538)

### Legal and other reserves

#### Consolidated

	Legal reserve RON	Other reserves RON	Conversion reserves RON	Total RON
<b>Balance at 1 January 2017</b>	<b>15,184,422</b>	<b>2,591,058</b>	<b>31,987</b>	<b>17,807,467</b>
Increase from the profit of the year	-	-	-	-
Increase from reinvested profit	1,655,110	31,400,256	-	33,055,366
Set-up of reserves representing foreign exchange differences from the conversion of a foreign operation included in the consolidation	-	-	(7,864)	(7,864)
<b>Balance at 31 December 2017</b>	<b>16,839,532</b>	<b>33,991,314</b>	<b>24,123</b>	<b>50,854,969</b>
Increase from the profit of the period	3,389,036	-	-	3,389,036
Increase in capital contribution reserve	-	14,683,001	-	14,683,001
Set-off reserves representing foreign exchange differences from the conversion of a foreign operation included in the consolidation	-	-	331,579	331,579
<b>Balance 31 December 2018</b>	<b>20,228,568</b>	<b>48,674,315</b>	<b>355,702</b>	<b>69,258,585</b>

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

#### Separate

	Legal reserve RON	Other reserves RON	Total RON
<b>Balance at 1 January 2017</b>	<b>15,184,422</b>	<b>2,591,058</b>	<b>17,775,480</b>
Increase from the profit of the year	-	-	-
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>
Increase from the profit of the year	3,389,036	-	3,389,036
Increase in capital contribution reserve	-	14,683,001	14,683,001
<b>Balance 31 December 2018</b>	<b>20,228,568</b>	<b>48,674,315</b>	<b>68,902,883</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.

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

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.

### Retained earnings

#### The structure of consolidated retained earnings

Account name	Balance at 31 December 2018	Balance at 31 December 2017 <i>Restated</i>	Nature
Retained earnings representing undistributed profit / un-covered loss	(364,681,460)	(361,101,570)	The profit can be distributed / the un-covered loss can be covered - as it appears in the statutory financial statements
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	(24,096,707)	(24,096,707)	Can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings from prior period errors	(22,174,952)	(12,902,188)	It should be nil before distributing dividends
Retained earnings representing the surplus realized from revaluation reserves	129,920,080	123,483,696	Can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings from first time application of the accounting Policies Compliant with the EEC Fourth Directive	(4,859,196)	(4,859,196)	Must be covered before distributing dividends
Retained earnings from first time application of the accounting Policies Compliant with the EEC Fourth Directive - tax facilities according to OUG 172/2001	167,569,326	167,569,326	Can be distributed or used to cover losses, but when using the reserve on these amounts, is being recalculated the profit tax and are being established interests and late payment penalties from the application date of the respective facility, according to the law.
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost	91,935,225	99,033,489	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	45,894,856	38,796,592	Can be distributed or used to cover losses
Distribution from profit of the year to legal and other reserves	(3,389,036)	(33,035,966)	
Retained earnings from Grup reorganisation	213,044,092	503,303,034	
Period result	79,576,196	26,619,695	
<b>Total retained earnings</b>	<b>308,738,424</b>	<b>522,810,205</b>	

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

### Retained earnings

#### The structure of consolidated retained earnings

Account name	Balance at 31 December 2016 Restated	Balance at 31 December 2015 Restated	Nature
Retained earnings representing undistributed profit / un-covered loss	(362,041,868)	(358,067,035)	The profit can be distributed / the un-covered loss can be covered - as it appears in the statutory financial statements
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	(24,096,707)	(24,096,707)	Can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings from prior period errors	(7,605,716)	(8,807,495)	It should be nil before distributing dividends
Retained earnings representing the surplus realized from revaluation reserves	116,391,273	106,046,877	Can be distributed or used to cover losses, it is taxable at use of reserve
Retained earnings from first time application of the accounting Policies Compliant with the EEC Fourth Directive	(4,859,196)	(4,859,196)	Must be covered before distributing dividends
Retained earnings from first time application of the accounting Policies Compliant with the EEC Fourth Directive - tax facilities according to OUG 172/2001	167,569,326	167,569,326	Can be distributed or used to cover losses, but when using the reserve on these amounts, is being recalculated the profit tax and are being established interests and late payment penalties from the application date of the respective facility, according to the law.
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost	105,544,558	112,843,918	It has to be realized (through sale and/ or depreciation) before distributing dividends
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost	32,285,523	24,986,163	Can be distributed or used to cover losses
Distribution from profit of the year to legal and other reserves	(172,004)	(444,377)	
Retained earnings from Grup reorganisation	503,303,034	503,303,034	
Period result	2,927,653	8,015,719	
<b>Total retained earnings</b>	<b>529,245,876</b>	<b>526,490,227</b>	

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

### The structure of separate retained earnings

Account name	Balance at 31 December 2018	Balance at 31 December 2017	Balance at 31 December 2016	Nature
Retained earnings representing undistributed profit	29,733,676	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	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	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	91,935,225	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	45,894,856	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	(3,389,036)	(33,055,366)	(172,004)	
Period result	56,569,986	33,055,366	877,190	
<b>Total retained earnings</b>	<b>231,984,240</b>	<b>178,803,290</b>	<b>178,803,289</b>	

In April 2018, under the approval of GSM dated 25 April 2018 the Company recorded the allocation of the net accounting profit of year 2017, in amount of RON 33,055,366, as follows:

- To legal reserves according to Law 31/1990, at least 5% from gross annual profit (but no more than 20% from share capital) including 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", the amount of RON 1,655,110;
- To other reserves of the reinvested profit RON 31,400,256 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".

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

TMK-Artrom's 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, paid one time;
- **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 salary is computed annually for all employees and is increased in the same way with the base salary.

TMK-Reșița's 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, paid one time;
- **Benefits for death of an employee for any cause:** in case of death of an employee, the families of the employees receive four average monthly salaries per Company. The average salary is computed annually for all employees and is increased in the same way with the base salary.

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

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

### Consolidated

	2018 RON	2017 Restated RON	2016 Restated RON	2015 Restated RON
<b>Net liability at the beginning of the year</b>	<b>4,077,382</b>	<b>4,110,501</b>	<b>4,170,363</b>	<b>4,060,396</b>
Expense recognized in statement of income	483,239	394,887	428,201	425,566
Benefits paid	(408,748)	(474,178)	(312,234)	(393,609)
Components of defined benefit costs recorded in OCI	(216,543)	46,172	(175,829)	78,010
<b>Net liability at the end of the year</b>	<b>3,935,330</b>	<b>4,077,382</b>	<b>4,110,501</b>	<b>4,170,363</b>

### Separate

	2018 RON	2017 RON	2016 RON
<b>Net liability at the beginning of the year</b>	<b>3,034,324</b>	<b>2,909,557</b>	<b>2,927,896</b>
Expense recognized in statement of income	339,887	284,375	304,925
Benefits paid	(157,069)	(123,568)	(61,106)
Components of defined benefit costs recorded in OCI	(316,208)	(36,040)	(262,158)
<b>Net liability at the end of the year</b>	<b>2,900,934</b>	<b>3,034,324</b>	<b>2,909,557</b>

## 24. 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 2018 and there are no restructuring plans announced as at this date.

### Consolidated

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 2018	Total 2017 Restated	Total 2016 Restated	Total 2015 Restated
	RON	RON	RON	RON	RON	RON
<b>Opening defined benefit obligation as at 1 January</b>	<b>3,073,324</b>	<b>1,004,058</b>	<b>4,077,382</b>	<b>3,984,849</b>	<b>4,170,363</b>	<b>4,060,396</b>
Current service cost	190,626	113,240	303,866	263,692	296,829	296,286
Interest cost	135,353	44,020	179,373	131,195	131,372	129,280
<b>Remeasurement (gains)/losses:</b>	<b>(140,187)</b>	<b>(76,356)</b>	<b>(216,542)</b>	<b>171,824</b>	<b>(175,829)</b>	<b>78,010</b>
- Remeasurement (gains)/losses arising from experience	749,206	122,430	871,636	116,840	296,149	262,121
- Remeasurement (gains)/losses arising from changes in financial assumptions	(589,649)	(144,096)	(733,745)	257,706	(247,902)	(43,173)
- Remeasurement (gains)/losses arising from changes in demographic assumptions	(299,743)	(54,690)	(354,433)	(202,722)	(224,076)	(140,938)
Benefits paid	(353,108)	(55,640)	(408,748)	(474,178)	(312,234)	(393,609)
<b>Closing defined benefit obligation as at 31 December</b>	<b>2,906,008</b>	<b>1,029,322</b>	<b>3,935,330</b>	<b>4,077,382</b>	<b>4,110,501</b>	<b>4,170,363</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 2018	Total 2017 Restated	Total 2016 Restated	Total 2015 Restated
	RON	RON	RON	RON	RON	RON
Current service cost	190,626	113,240	303,866	263,692	296,829	296,286
Net interest expense	135,353	44,020	179,373	131,195	131,372	129,280
<b>Components of defined benefit costs recorded in profit or loss</b>	<b>325,979</b>	<b>157,260</b>	<b>483,239</b>	<b>394,887</b>	<b>428,201</b>	<b>425,566</b>

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

	PV of Retirement Benefits	PV of Employee Death Benefits	Total 2018	Total 2017 Restated	Total 2016 Restated	Total 2015 Restated
	RON	RON	RON	RON	RON	RON
<b>Opening net liability arising from defined benefit obligation</b>	<b>3,073,324</b>	<b>1,004,058</b>	<b>4,077,382</b>	<b>3,984,849</b>	<b>4,170,363</b>	<b>4,060,396</b>
Components of defined benefit costs recorded in profit or loss	325,979	157,260	483,239	394,887	428,201	425,567
Components of defined benefit costs recorded in OCI	(140,187)	(76,356)	(216,543)	171,824	(175,829)	78,009
Benefits paid	(353,108)	(55,640)	(408,748)	(474,178)	(312,234)	(393,609)
<b>Closing net liability arising from defined benefit obligation</b>	<b>2,906,008</b>	<b>1,029,322</b>	<b>3,935,330</b>	<b>4,077,382</b>	<b>4,110,501</b>	<b>4,170,363</b>



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

### Separate

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 2018	Total 2017	Total 2016
	RON	RON	RON	RON	RON
<b>Opening defined benefit obligation as at 1 January</b>	<b>2,500,493</b>	<b>533,831</b>	<b>3,034,324</b>	<b>2,909,557</b>	<b>2,927,896</b>
Current service cost	148,888	57,783	206,671	192,842	217,499
Interest cost	110,004	23,212	133,216	91,533	87,426
<b>Remeasurement (gains)/losses:</b>	<b>(265,841)</b>	<b>(50,367)</b>	<b>(316,208)</b>	<b>(36,040)</b>	<b>(262,158)</b>
- Remeasurement (gains)/losses arising from experience	429,980	31,614	461,594	(84,322)	126,618
- Remeasurement (gains)/losses arising from changes in financial assumptions	(416,009)	(36,583)	(452,592)	186,123	(213,900)
- Remeasurement (gains)/losses arising from changes in demographic assumptions	(279,812)	(45,398)	(325,210)	(137,841)	(174,876)
Benefits paid	(150,875)	(6,194)	(157,069)	(123,568)	(61,106)
<b>Closing defined benefit obligation as at 31 December</b>	<b>2,342,669</b>	<b>558,265</b>	<b>2,900,934</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 2018	Total 2017	Total 2016
	RON	RON	RON	RON	RON
Current service cost	148,888	57,783	206,671	192,842	217,499
Net interest expense	110,004	23,212	133,216	91,533	87,426
<b>Components of defined benefit costs recorded in profit or loss</b>	<b>258,892</b>	<b>80,995</b>	<b>339,887</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 2018	Total 2017	Total 2016
	RON	RON	RON	RON	RON
<b>Opening 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>	<b>2,927,896</b>
Components of defined benefit costs recorded in profit or loss	258,892	80,995	339,887	284,375	304,925
Components of defined benefit costs recorded in OCI	(265,841)	(50,367)	(316,208)	(36,040)	(262,158)
Benefits paid	(150,875)	(6,194)	(157,069)	(123,568)	(61,106)
<b>Closing net liability arising from defined benefit obligation</b>	<b>2,342,669</b>	<b>558,265</b>	<b>2,900,934</b>	<b>3,034,324</b>	<b>2,909,557</b>

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

### Other disclosures

#### Separate TMK-Artrom

	2018	2017	2016
Average benefit duration	8	13	11
Average age of employees	45	45	47
Average discount rate	4.7%	4.4%	3.23%
Average salary increase	2.5%	3%	2%

#### TMK-Reșița

	2018	2017	2016
Average benefit duration	9	11	14
Average age of employees	46	46	47
Average discount rate	4.7%	4.4%	3.3%
Average salary increase	3%	3%	2%

## 25. TRADE AND OTHER PAYABLES (CURRENT)

Trade and other payables consists of the following:

	2018 RON	2017 Restated RON	2016 Restated RON	2015 Restated RON
Current trade payables, from which:	251,444,946	301,194,406	206,416,805	156,060,584
- Intercompany trade payables (note 25)	79,960,848	129,651,326	114,941,218	66,381,285
Payables for non-current assets, from which:	21,476,994	32,652,095	14,223,910	8,410,735
- Intercompany payables for non-current assets (note 25)	-	-	192,562	-
Bills of exchange payable	387,371	1,155,986	3,692,171	3,866,820
Short-term guarantees	1,196,008	506,556	226,530	46,729
Accrued and other liabilities	181,346	237,151	266,289	395,699
<b>Total financial liability</b>	<b>274,686,665</b>	<b>335,746,194</b>	<b>224,825,705</b>	<b>168,780,567</b>
Accrued and withheld taxes on payroll	10,556,270	7,922,408	7,305,974	7,410,858
Other liabilities - VAT	-	-	-	5,291,513
Salaries and Wages	3,250,058	3,281,637	2,893,148	2,392,855
Advances from customers	997,116	4,526,587	2,213,635	2,449,003
Income tax liabilities	684,388	-	-	-
Liabilities for other taxes	281,417	274,494	165,655	1,185,545
<b>Total non-financial liability</b>	<b>15,769,249</b>	<b>16,005,126</b>	<b>12,578,412</b>	<b>18,729,774</b>
<b>Grand total</b>	<b>290,455,914</b>	<b>351,751,320</b>	<b>237,404,117</b>	<b>187,510,341</b>

Consolidated trade payables are non-interest bearing and are, normally, settled on an average of 94 days term (2017: 94 days).

Advances from customers consist of amounts received in advance according to the contracts signed with customers.

## 25. TRADE AND OTHER PAYABLES (CURRENT) (continued)

	2018 RON	Separate 2017 RON	2016 RON
Current trade payables, from which:	137,282,485	180,834,028	153,901,779
- Intercompany trade payables (note 25)	71,629,829	124,183,529	115,188,187
Payables for non-current assets, from which:	14,104,158	26,635,259	12,171,029
- Intercompany payables for non-current assets (note 25)	-	-	192,562
Bills of exchange payable	387,371	1,143,186	3,692,171
Short-term guarantees	635,753	187,615	135,796
Accrued and other liabilities	20,698	20,611	89,377
<b>Total financial liability</b>	<b>152,430,465</b>	<b>208,820,699</b>	<b>169,990,152</b>
Accrued and withheld taxes on payroll	8,583,615	6,074,675	5,635,927
Salaries and Wages	2,332,344	2,288,955	1,865,509
Advances from customers	679,297	4,211,020	2,096,244
Income tax liabilities	1,686,487	-	-
Liabilities for other taxes	227,673	229,443	161,211
<b>Total non-financial liability</b>	<b>13,509,416</b>	<b>12,804,093</b>	<b>9,758,891</b>
<b>Grand total</b>	<b>165,939,881</b>	<b>221,624,792</b>	<b>179,749,043</b>

Separate trade payables are non-interest bearing and are, normally, settled on an average of 52 days term (2017: 69 days).

Concerning the Company's debts to the fiscal authorities, as of 31 December 2018, there is a balance to be paid RON 10,430,403 (2017: RON 6,304,118), which represents the current debts of taxes and social debts of salaries, income tax, income tax of legal and individual non-resident persons which were required for compensation with input VAT from fiscal authorities.

In 15 February 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 February 2016). Through that was established the additional debts for income tax and VAT in total amount of RON 4,221,471 (from which additional debits of RON 1,332,027 and interest and penalties in amount of RON 2,889,444).

To benefit of the annulment of a part of interest and penalties requested by the tax authorities, the Company paid the debit and the part of the interest and penalties which could not 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 May 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 21).

The Company has constituted a provision for taxes as a result of the fiscal control in amount of RON 1,941,576 (Note 27).

## 26. TRANSACTIONS WITH RELATED PARTIES

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

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 Middle East, Dubai, United Arab Emirates	United Arab Emirates	Related, under common control
- TMK-REȘIȚA S.A. Reșița	Romania	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 Assets SRL	Romania	Related, under common control
- Land Properties Investments	Romania	Related, under common control
- Sarl Priure Saint Jean de Bebian	France	Related, under common control
- TMK Industrial Solutions LLC, Houston	USA	Related, subsidiary sole control
- ORSKY Machine Building Plant Russia	Russia	Related, under common control

### The balances of transactions with related parties

Trade Receivables	Consolidated			
	2018 RON	2017 Restated RON	2016 Restated RON	2015 Restated RON
PAO TMK Russia	388,527	388,177	-	-
TMK Middle East Dubai	-	1,203,735	333,703	-
TMK IPSCO International USA	321,679	-	324,750	15,769,970
<b>Total</b>	<b>710,206</b>	<b>1,591,912</b>	<b>658,453</b>	<b>15,769,970</b>

Trade Receivables	Separate		
	2018 RON	2017 RON	2016 RON
TMK RESITA S.A.	7,461,476	12,020,870	7,778,750
TMK Industrial Solutions LLC, Houston	691,154	435,028	1,526,619
PAO TMK Russia	388,527	388,177	-
TMK Assets Bucharest	1,428	714	3,600
TMK Middle East Dubai	-	1,203,734	333,703
TMK IPSCO International USA	-	-	27,171
Land Properties Investments Bucharest	-	-	720
<b>Total</b>	<b>8,542,585</b>	<b>14,048,523</b>	<b>9,670,563</b>

## 26. TRANSACTIONS WITH RELATED PARTIES (continued)

Other Assets	2018 RON	2017 Restated RON	2016 Restated RON	2015 Restated RON
PAO TMK (sundry debtors)	319,500	553,578	459,880	-
Trade House TMK Russia (sundry debtors)	2,099	2,097	2,044	2,036
<b>Total</b>	<b>321,599</b>	<b>555,675</b>	<b>461,924</b>	<b>2,036</b>

Other Assets	2018 RON	2017 RON	2016 RON
TMK RESITA S.A. (advances for purchase of goods)	39,335,965	62,966,821	98,019,745
TMK Industrial Solutions LLC, Houston (sundry debtors)	407	-	39,137
PAO TMK (sundry debtors)	319,500	553,578	459,880
TMK Assets Bucharest (long-term receivables - guarantees)	46,151	46,109	44,936
TMK RESITA S.A. (sundry debtors)	36,532	392,226	72,545
Trade House TMK Russia (sundry debtors)	2,099	2,097	2,044
TMK Assets Bucharest (sundry debtors)	1,587	-	-
TMK Industrial Solutions LLC, Houston (settlements between affiliates)	-	-	318,159
TMK Industrial Solutions LLC, Houston (interest for settlements between affiliates)	-	-	3,392
<b>Total</b>	<b>39,742,241</b>	<b>63,960,831</b>	<b>98,959,838</b>

Trade Payables	2018 RON	2017 Restated RON	2016 Restated RON	2015 Restated RON
PAO TMK Russia	67,323,717	119,820,387	109,108,523	58,418,812
TMK Europe GmbH Germany	11,982,957	8,484,001	5,194,568	7,835,499
TMK Italia s.r.l. Italy	622,701	780,710	712,579	-
RosNITI JSC Russia	31,473	-	27,247	49,772
TMK-Inox Russia	-	471,370	55	-
Sarl Priure Saint Jean de Bebian France	-	94,858	90,808	-
SCEA Domaine de Bebian France	-	-	-	77,202
<b>Total</b>	<b>79,960,848</b>	<b>129,651,326</b>	<b>115,133,780</b>	<b>66,381,285</b>

Trade Payables	2018 RON	2017 RON	2016 RON
PAO TMK Russia	67,323,716	119,820,387	109,108,523
TMK Europe GmbH Germany	1,590,059	866,787	5,194,568
TMK Industrial Solutions LLC, Houston	2,061,880	2,148,496	246,102
TMK Italia s.r.l. Italy	622,701	780,710	712,579
RosNITI JSC Russia	31,473	-	27,247
TMK Assets Bucharest	-	921	867
TMK-Inox Russia	-	471,370	55
Sarl Priure Saint Jean de Bebian France	-	94,858	90,808
<b>Total</b>	<b>71,629,829</b>	<b>124,183,529</b>	<b>115,380,749</b>

Other liabilities	2018 RON	2017 Restated RON	2016 Restated RON	2015 Restated RON
TMK Europe GmbH (borrowing)	73,477,723	85,570,097	104,867,546	74,814,305
TMK Europe GmbH Germany (interest owed at reporting date)	189,988	171,116	167,117	60,910
TMK Europe GmbH Germany (amounts owed to group's entities)	275,831,330	-	-	-
<b>Total</b>	<b>349,499,041</b>	<b>85,741,213</b>	<b>105,034,663</b>	<b>74,875,215</b>

## 26. TRANSACTIONS WITH RELATED PARTIES (continued)

Other liabilities	2018 RON	Separate 2017 RON	2016 RON
TMK Europe GmbH (borrowing)	73,477,723	85,570,097	104,867,546
TMK Europe GmbH Germany (interest owed at reporting date)	189,988	171,116	167,117
TMK Europe GmbH Germany (amounts owed to group's entities)	275,831,330	-	-
<b>Total</b>	<b>349,499,041</b>	<b>85,741,213</b>	<b>105,034,663</b>

### Transactions with related parties

Sales (Turnover)	Object of the transaction	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
PAO TMK	claim for billets - raw material	1,109,170	382,496	-
TMK Middle East	pipes	907,918	2,743,175	1,504,825
TMK Italia s.r.l.	audit services	27,996	22,994	24,829
Sinarsky pipe plant	pipes	1,125,288	1,051,554	551,879
TMK IPSCO International	pipes	1,719,567	3,647,869	10,325,152
TMK IPSCO Canada	pipes	-	-	89,370
TMK Europe GmbH Germany	audit services	23,333	22,770	20,634
TMK GLOBAL Switzerland	pipes	144,488	101,146	110,410
ORSKY Machine Building Plant	pipes	208,550		
<b>Total</b>		<b>5,266,310</b>	<b>7,972,004</b>	<b>12,627,099</b>

Sales (Turnover)	Object of the transaction	2018 RON	Separate 2017 RON	2016 RON
TMK RESITA SA	waste product, pipes, re-invoiced fero materials from domestic market, perceives commission, management services	43,835,432	32,155,648	23,318,327
TMK Industrial Solutions LLC	pipes for resale	8,521,593	5,242,162	1,486,508
PAO TMK	claim for billets - raw material	1,109,170	382,496	-
TMK Middle East	pipes	907,918	2,743,175	1,504,825
TMK Italia s.r.l.	audit services	27,996	22,994	24,829
TMK Assets	management services	3,600	4,275	6,750
Sinarsky pipe plant	pipes	1,125,288	1,051,554	551,879
Land Properties Investments	management services	-	800	2,400
TMK IPSCO International	pipes	-	-	8,840,913
TMK IPSCO Canada	pipes	-	-	89,370
TMK Europe GmbH Germany	audit services	23,333	22,770	20,634
TMK GLOBAL Switzerland	pipes	144,488	101,146	110,410
ORSKY Machine Building Plant RUSIA	pipes	208,550		
TMK Real Estate Bucharest	management services, sale of property, plant and equipment and other materials	-	-	5,250
<b>Total</b>		<b>55,907,368</b>	<b>41,727,020</b>	<b>35,962,095</b>

## 26. TRANSACTIONS WITH RELATED PARTIES (continued)

Purchases	Object of the transaction	2018 RON	Consolidated 2017 Restated RON	2016 Restated RON
PAO TMK	pipes and blooms for resale, consulting services, financial costs	178,506,627	238,764,306	123,631,991
TMK Europe GmbH	agent commission for pipes sales, materials for own consumption, spare partes	69,638,449	39,977,846	27,925,183
TMK Italia s.r.l.	agent commission for pipes sales	11,403,761	9,133,514	8,395,022
RosNITI JSC	research and development services	144,442	16,515	45,229
Sarl Priure Saint Jean de Bebian	protocol expenses	111,742	94,598	90,302
TMK INOX Russia	steel pipes for resale	-	469,850	124,855
Sinarsky pipe plant Rusia	debit note for claim	-	83,954	-
TMK Ipsco International USA	debit notes for quality claims	-	-	144,559
<b>Total</b>		<b>259,805,021</b>	<b>288,540,583</b>	<b>160,357,141</b>

Purchases	Object of the transaction	2018 RON	Separate 2017 RON	2016 RON
TMK RESITA SA	billets - raw material, other materials	647,851,003	511,983,820	371,502,648
PAO TMK	pipes and blooms for resale, consulting services, financial costs	178,506,627	238,764,306	123,631,991
TMK Industrial Solutions LLC	agent commission for sales of pipes produced by TMK-Artrom and pipes of Russian origin	13,697,212	8,684,728	2,356,078
TMK Europe GmbH	agent commission for pipes sales, materials for own consumption, spare partes	13,663,588	11,359,572	27,925,183
TMK Italia s.r.l.	agent commission for pipes sales	11,372,890	9,133,514	8,395,022
TMK Assets	rent and apartment maintenance	552,807	541,865	315,172
RosNITI JSC	research and development services	144,442	16,515	90,302
Sarl Priure Saint Jean de Bebian	protocol expenses	111,742	94,598	144,559
TMK INOX Russia	steel pipes for resale	-	469,850	228,626
Sinarsky pipe plant Rusia	debit note for claim	-	83,954	124,855
TMK Real Estate Bucharest	rent and apartment maintenance, car rent	-	-	45,229
<b>Total</b>		<b>865,900,311</b>	<b>781,132,722</b>	<b>534,759,665</b>

### Borrowings within the Group – long-term and short term

The company TMK EUROPE GmbH Germany (former TMK SINARA HANDEL GMBH) is the lender with the amount of RON 70,193,087 representing USD 18,037,540, related to the loan agreement w/n/01.12.2008, respectively the assignment of receivables no. 054/20.02.2002 from AVAS (AVAB) in initial amount of USD 22,837,540 and RON 38,425. RON 4,073,600, equivalent of USD 1,000,000, represent short term liabilities and amount of RON 69,404,123 equivalent of USD 17,037,540 represent long term liabilities.

In 2015 have been reimbursed USD 4,800,000 and RON 38,425.07 from the loan in accordance with the payment schedule.



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

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 17 November 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 USD 400,000 and the 57th will be worth USD 437,540.03.
- The payment of debt amounting to RON 38,425.07 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 November 2013 was signed Amendment No. 1 to Contract of 1 December 2008 according to which the loan reimbursement begins with 25 January 2015, maintaining the same number of instalments.

In 3 December 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 USD 400,000 and a last instalment of USD 437,540.03 as a result on 31 December 2015 the full amount of the loan was long-term.

On 8 August 2016 according to Addendum no. 3 were expressly dropped all the movable and immovable guarantees mentioned above.

In 18 December 2018 was concluded Addendum no. 4 on which parties agree about repayment of USD 1,000,000 in second half of the year 2019, and starting with January 2020, Borrower will continue the reimbursement if remaining outstanding amount of USD 17,037,540.03 as following: 42 installments in amount of USD 400,000 and the last one in amount of USD 237,540.03 on the 25th day of each month.

The interest due by TMK-Artrom on 31 December 2018 is of USD 46,638.76, respectively RON 189,897.65.

The remuneration package for managers with mandate and directors (BOD members) comprises cash compensations formed from fixed monthly remuneration granted in net amounts and performance bonuses for achieving the approved KPI performance indicators.

Cash compensations formed from monthly remuneration and paid yearly KPI bonuses, including the correspondent taxes, granted to managers with mandate and members of the Board of Directors from

## 26. TRANSACTIONS WITH RELATED PARTIES (continued)

TMK-Artrom and its subsidiaries, in the last 3 years were in gross amounts as follow:

Year	Number of persons	Fixed remuneration	Bonus
2018	11	RON 14,015,803	RON 3,479,269
2017	9	RON 13,328,286	RON 1,654,325
2016	9	RON 11,356,325	RON 1,497,399

These amounts do not include provisions for performance bonuses which will be paid in 2019 and granted for achieving and exceeding the KPI performance indicators for the year 2018.

## 27. PROVISIONS

Other short-term provisions	2018	Consolidated		2015
	RON	2017 Restated RON	2016 Restated RON	Restated RON
Accruals for managers bonuses	6,837,663	4,090,673	2,112,256	1,719,322
Provisions for taxes	1,941,576	1,941,576	782,824	2,362,956
Provisions for emission certificates	668,096	1,466,859	-	-
Provisions for quality complaints material cost	165,761	296,159	240,506	231,652
Provisions for quality complaints additional cost	126,066	38,003	56,769	55,374
Accruals for unused vacations	52,994	65,240	32,500	5,638
Provisions for risks and expenses	1,539,140	-	-	3,240,823
<b>Total</b>	<b>11,331,296</b>	<b>7,898,510</b>	<b>3,224,855</b>	<b>7,615,765</b>

Other short-term provisions	2018	Separate	
	RON	2017 RON	2016 RON
Accruals for managers bonuses	5,236,353	3,214,756	1,786,442
Provisions for taxes	1,941,576	1,941,576	782,824
Provisions for emission certificates	668,096	1,466,859	-
Provisions for quality complaints material cost	165,761	264,437	240,506
Provisions for quality complaints additional cost	126,066	21,272	56,770
Accruals for unused vacations	31,964	30,241	32,500
<b>Total</b>	<b>8,169,816</b>	<b>6,939,141</b>	<b>2,899,042</b>

In 2018 the company established a provision for greenhouse gas emission allowances in the amount of RON 668,096 for the deficit of certificates required for the production of year 2018 and reversed the previously established provision in amount of RON 1,466,859 as a result of the handing over of the greenhouse gas emission certificates related to the production of the year 2017 to the European Unique Register of Gases with Gear (RUEGES) in April 2018.

**27. PROVISIONS (continued)**

Other long-term provisions	2018	Consolidated 2017 Restated	2016 Restated	2015 Restated
	RON	RON	RON	RON
Provisions for decommissioning property, plant and equipment	219,350	219,350	219,350	219,350
Accruals for managers bonuses	402,834	-	-	-
Provisions for quality complaints additional cost	-	7,931	7,931	7,931
<b>Total</b>	<b>622,184</b>	<b>227,281</b>	<b>227,281</b>	<b>227,281</b>

Other long-term provisions	2018	Separate 2017	2016
	RON	RON	RON
Provisions for decommissioning property, plant and equipment	219,350	219,350	219,350
Accruals for managers bonuses	336,199	-	-
Provisions for quality complaints additional cost	-	7,931	7,931
<b>Total</b>	<b>555,549</b>	<b>227,281</b>	<b>227,281</b>

## 27. PROVISIONS (continued)

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 1 January 2016</b>	<b>234,812</b>	<b>57,684</b>	<b>1,920,371</b>	<b>5,638</b>	<b>2,362,956</b>	-	<b>3,034,304</b>	<b>7,615,765</b>
Expense with provisions recognized in statement of income	581,550	337,178	2,104,876	26,862	-	-	(2,190,758)	859,708
Amounts used	(575,856)	(338,093)	(1,920,370)	-	(1,580,132)	-	(338,904)	(4,753,355)
Unused amounts reversed	-	-	-	-	-	-	(504,642)	(504,642)
Translation differences			7,379	-	-	-		7,379
<b>At 31 December 2016</b>	<b>240,506</b>	<b>56,769</b>	<b>2,112,256</b>	<b>32,500</b>	<b>782,824</b>	-	-	<b>3,224,855</b>
Expense with provisions recognized in statement of income	452,031	143,741	4,198,786	66,688	1,158,752	1,466,859	-	7,486,857
Amounts used	(396,378)	(162,507)	(2,192,623)	(32,500)	-	-	-	(2,784,008)
Translation differences	-	-	(27,746)	(1,448)	-	-	-	(29,194)
<b>At 31 December 2017</b>	<b>296,159</b>	<b>38,003</b>	<b>4,090,673</b>	<b>65,240</b>	<b>1,941,576</b>	<b>1,466,859</b>	-	<b>7,898,510</b>
Expense with provisions recognized in statement of income	469,769	442,549	6,813,347	52,312	-	668,096	1,539,140	9,985,213
Amounts used	(600,167)	(354,486)	(4,010,340)	(65,690)	-	(1,466,859)	-	(6,497,542)
Translation differences	-	-	30,591	1,132	-	-	-	31,723
Unused amounts reversed		-	(86,608)	-	-		-	(86,608)
<b>At 31 December 2018</b>	<b>165,761</b>	<b>126,066</b>	<b>6,837,663</b>	<b>52,994</b>	<b>1,941,576</b>	<b>668,096</b>	<b>1,539,140</b>	<b>11,331,296</b>

## 27. 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 1 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>
Expense with provisions recognized in statement of income	462,791	221,260	5,236,353	31,964	-	668,096	-	6,620,464
Amounts used	(561,467)	(116,466)	(3,214,756)	(30,241)	-	(1,466,859)	-	(5,389,789)
<b>At 31 December 2018</b>	<b>165,761</b>	<b>126,066</b>	<b>5,236,353</b>	<b>31,964</b>	<b>1,941,576</b>	<b>668,096</b>	-	<b>8,169,816</b>

## 27. PROVISIONS (continued)

The movement in consolidated long-term provisions are as follows:

Long-term provisions	Provisions for quality complaints additional cost	Provisions for decommissioning property, plant and equipment	Accruals for manager bonuses	Total
At 1 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
Expense with provisions recognized in statement of income	-	-	402,834	402,834
Used	(7,931)	-	-	(7,931)
At 31 December 2018	-	219,350	402,834	622,184

The movement in separate long-term provisions are as follows:

Long-term provisions	Provisions for quality complaints additional cost	Provisions for decommissioning property, plant and equipment	Accruals for manager bonuses	Total
At 1 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
Expense with provisions recognized in statement of income	-	-	336,199	336,199
Used	(7,931)	-	-	(7,931)
At 31 December 2018	-	219,350	336,199	555,549

## 28. MANAGEMENT OF FINANCIAL RISK – OBJECTIVES AND POLICIES

The main financial liabilities of TMK-Artrom and the Group 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 and the Group are 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.

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

TMK-Artrom borrows mainly on variable interest rates. In 2018, 71.4% 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 18.03% of portfolio at 31 December 2018 and 18.5% at 31 December 2017. At 31 December 2018 and 31 December 2017 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 2018 EURIBOR registered negative values being levelled at 0 according to credit contracts.

On 31 December 2018, the Company did not have financial assets with variable interest rate.

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

	Variation in margin	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
<b>31 December 2018</b>			
increase in LIBOR	10,00	(149.4)	(125.5)
decrease in LIBOR	(10,00)	149.4	125.5
<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	(38.4)	(32.2)
decrease in LIBOR	(10)	38.4	32.2

### Foreign currency risk

The Company's exposure to foreign currency risk relates to sales, purchases and borrowings denominated in a currency other than the functional currency of the Company. The currencies in which these transactions and balances are denominated are EUR and USD.

The Company in 2018 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 28 the paragraph "Financial instruments, cash and deposits" below.



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

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

### Consolidated

	Percentage volatility	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
<b>31 Decembrie 2018</b>			
EUR/RON	10%	(44,514)	(37,391)
EUR/RON	-10%	44,514	37,391
USD/RON	10%	(3,486)	(2,928)
USD/RON	-10%	3,486	2,928
<b>31 Decembrie 2017</b>			
EUR/RON	10%	(38,441)	(32,391)
EUR/RON	-10%	38,441	32,391
USD/RON	10%	(2,899)	(2,435)
USD/RON	-10%	2,899	2,435
<b>31 Decembrie 2016</b>			
EUR/RON	10%	(22,571)	(18,960)
EUR/RON	-10%	22,571	18,960
USD/RON	10%	(7,196)	(6,044)
USD/RON	-10%	7,196	6,044

### Separate

	Percentage volatility	Effect on profit before tax (thousands RON)	Effect on equity (thousands RON)
<b>31 December 2018</b>			
EUR/RON	10%	(42,552)	(35,744)
EUR/RON	-10%	42,552	35,744
USD/RON	10%	(2,969)	(2,494)
USD/RON	-10%	2,969	2,494
<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

## 28. 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 December 2018, about 45% 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 Group's financial liabilities, including interest payments:

### Consolidated

Liquidity risk	Less than 3 months RON	3 to 12 months RON	1 to 5 years RON	>5 years RON	Total RON
<b>2018</b>					
Interest bearing loans (including future interest)	67,722,605	124,505,679	235,897,580	-	428,125,864
Leasing	3,240,550	6,386,879	38,613,902	1,112,079	49,353,410
Liabilities for investments in subsidiaries	466,390	57,007,958	218,356,982	-	275,831,330
Other non-current liabilities	-	-	2,224,298	-	2,224,298
Trade and other payables	266,861,679	7,824,986	-	-	274,686,665
<b>Total</b>	<b>338,291,224</b>	<b>195,725,502</b>	<b>495,092,762</b>	<b>1,112,079</b>	<b>1,030,221,567</b>
<b>2017</b>					
Interest bearing loans (including future interest)	68,312,905	149,213,902	168,776,617	10,652,109	396,955,533
Leasing	2,985,762	5,584,534	29,296,787	14,444,007	52,311,090
Other non-current liabilities	-	-	797,634	-	797,634
Trade and other payables	279,893,998	55,852,196	-	-	335,746,194
<b>Total</b>	<b>351,192,665</b>	<b>210,650,632</b>	<b>198,871,038</b>	<b>25,096,116</b>	<b>785,810,451</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	2,263,261	5,643,727	32,522,887	14,076,377	54,506,252
Other non-current liabilities	-	-	677,729	-	677,729
Trade and other payables	205,507,459	19,318,246	-	-	224,825,705
<b>Total</b>	<b>262,664,073</b>	<b>170,314,712</b>	<b>116,585,378</b>	<b>31,554,401</b>	<b>581,118,564</b>
<b>2015</b>					
Interest bearing loans (including future interest)	5,552,218	119,982,521	121,245,037	35,312,959	282,092,735
Leasing	2,369,642	5,525,866	27,305,939	25,912,649	61,114,096
Other non-current liabilities	24,475	-	180,872	-	205,347
Trade and other payables	146,955,651	21,823,466	1,450	-	168,780,567
<b>Total</b>	<b>301,882,112</b>	<b>169,155,319</b>	<b>148,915,620</b>	<b>61,225,608</b>	<b>681,047,122</b>

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

### Separate

Liquidity risk	Less than 3 months RON	3 to 12 months RON	1 to 5 years RON	>5 years RON	Total RON
<b>2018</b>					
Interest bearing loans (including future interest)	67,722,605	124,505,679	235,897,580	-	428,125,864
Leasing	319,483	959,919	3,460,360	-	4,739,762
Liabilities for investments in subsidiaries	466,390	57,007,958	218,356,982	-	275,831,330
Other non-current liabilities			156,329		156,329
Trade and other payables	144,605,479	7,824,986			152,430,465
<b>Total</b>	<b>213,113,957</b>	<b>190,298,542</b>	<b>457,871,251</b>	<b>-</b>	<b>861,283,750</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>

Financial indicators of the loan contracts were respected as at 31 December 2018.

### 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.

### 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%.

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

For 100% risks, a provision for all recorded client invoices not received is set, not only for those 90 day outstanding.

The classification into the five categories will be made as follows:

*A = Companies with temporary problems 0%;*

We have the debtors' assurance that the payment will be made at once. The payment was not made for technical reasons (the invoice was issued late, or it was incorrectly prepared, but the client always pays on time. The document included errors.)

*B = Steady companies 15%*

The debtor' financial situation shows that they have enough resources to make the payment, they guarantee the payment will be made and mention the payment term and have liquid assets.

They have not been sued because intensive work is conducted with them and the payment schedule was prepared.

A 15% risk is assigned when the payment schedule is prepared and several amounts have been paid. The department in charge with the receivables has enough information (Balance Sheet, Income Statement) and the Financial Department can perform a financial analysis on these clients.

*C = Unsteady companies 30%*

Following analysis of the financial situation and the feedback to the request to pay the debt, the management has decided to initiate legal proceedings. The attorneys are confident they will win. All clients sued are classified in the C category. If the financial analysis shows they have the sources to make the payment and choose not to make it, they will be classified as:

*D = Companies in a pre-bankruptcy stage 50%*

All actions to receive the debts have been taken by the Financial and Legal Departments. Debt collection has been transferred to the Security Service and the probability to receive the debts is possible and/or likely. When the client is in this situation, it is virtually impossible to receive the debt (the company Security Service is in charge).

*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.

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

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.

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 November 2017 and later until 28 December 2018. A new prolongation for 2019 was done. At 31 December 2018 credit limits granted by Coface SA covered 75% of requested limits for external customers and on internal market 51% of requested limits. As at 31 December 2018, 62% from the insurable receivables were covered by Coface. For 8% from the total of third parties receivables were opened irrevocable letters of credit or guarantee letters received. The customers which are not covered 100% by Coface SA and do not have opened letters of credit are carefully monitored in order to limit the possible losses from non-collection. The customers covered by COFACE are third-party customers from EU, Romania and non-EU markets (including USA and Canada).

As at 31 December 2018, customer Donalam had about 10% from the total turnover of year 2018.

Starting with July 2017 in the insurance policy signed with Coface Germany were also included TMK-Reșița's customers, which has become co-insured.

As at 31 December 2018, credit limits granted by Coface at Group level covered externally 74% from the requested limits, and on domestic market 35% from the requested limits.

### 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.

## 29. AUDIT COMPANIES FEES

The total remuneration payable by the Group and the Company, excluding VAT, to our auditors, Ernst & Young Assurance Services SRL for the audit of the separate and consolidated financial statements as of 31 December 2016, 31 December 2017 and 31 December 2018, are the equivalent in RON of 252,800 EUR.

## 30.COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Company's total commitments for the acquisition of property, plant and equipment as at 31 December 2018 are of RON 5,621,331 (2017: RON 21,755,240).

Group's total commitments for the acquisition of property, plant and equipment as at 31 December 2018 are of RON 6,335,794 (2017: RON 21,755,240).

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

### Future rent expenses:

	2018 RON	Consolidated 2017 RON	2016 RON
Less than one year	1,122,851	1,559,150	915,384
Between one and two years	703,381	1,362,684	1,110,265
Between two and tree years	461,926	1,248,230	733,607
	<b>2,288,158</b>	<b>4,170,064</b>	<b>2,759,256</b>

	2018 RON	Separate 2017 RON	2016 RON
Less than one year	1,180,764	1,088,634	755,890
Between one and two years	808,929	1,409,632	236,750
Between two and tree years	474,880	1,401,772	229,200
	<b>2,464,573</b>	<b>3,900,038</b>	<b>1,221,840</b>

### 30.COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

#### Future payments for operating lease:

	Consolidated EUR	Consolidated RON	Separate EUR	Separate RON
<b>Assets</b>				
Property, plant and equipment (right-of-use assets)	252.117	1.175.847	221.347	1.032.339
Prepayments	-	-	-	-
<b>Liabilities</b>				
Lease liabilities	252.117	1.175.847	221.347	1.032.339
Deferred tax liabilities	-	-	-	-
Trade and other payables	-	-	-	-
<b>Net impact on equity</b>	-	-	-	-
<b>Impact on the statement of profit or loss (increase/(decrease)) for 2019:</b>				
Depreciation expense (included in cost of sales)	9.232	43.055	9.232	43.055
Depreciation expense (included in administrative expenses)	126.554	590.238	108.092	504.133
Operating lease expense (included in cost of sales)	(10.200)	(47.572)	(10.200)	(47.572)
Operating lease expense (included in administrative expenses)	(130.712)	(609.627)	(111.597)	(520.476)
Operating profit	<b>5.126</b>	<b>23.906</b>	<b>4.473</b>	<b>20.860</b>
Finance costs	7.254	33.831	6.354	29.637
Income tax expense	(341)	(1.588)	(301)	(1.404)
<b>Profit for the year</b>	<b>(1.788)</b>	<b>(8.337)</b>	<b>(1.581)</b>	<b>(7.372)</b>

#### Contingent assets

TMK-Reșița owns an old equipment, which was removed from service in 1993 due to the abandonment of the production of liquid-based steel, called Furnace no. 2. This equipment can not be disposed because it is included in the List of Historical Monuments, so that approximately 9,000 tonnes of scrap can not be valued from its demolition.

TMK-Reșița started an action to downgrade the Furnace no.2 from the Historical Monuments list, action that was rejected by the Ministry of Culture and National Heritage, which justified that the documentation submitted by TMK-Reșița is incomplete and it is necessary to carry out a historical study by an expert certified by the Ministry of Culture and technical expertise elaborated by certified technical experts.

There was also an execution file against the Ministry of Culture and National Heritage requesting the enforcement of the Civil Sentence irrevocable by Decision of the High Court of Cassation and Justice, for the purpose of issuing a decision regarding the applicant's request TMK-Reșița TMK-Reșița to declassify the Furnace.

The Ministry of Culture and National Heritage replied again that the documentation is incomplete.

The company will continue to act on all legal ways to obtain a declassification of the furnace which is subject to physical degradation and presents risk of accidents being located within the factory in the railway transport area that serves the production workshops



### **30.COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)**

Litigations against National Fiscal Administration Agency ("ANAF")

#### **1. TMK-Artrom**

Litigation against National Fiscal Administration Agency ("ANAF") and General Department for the Administration of Big Contributors ("DGAMG")

TMK-Artrom challenged the Fiscal report no. F - MC 15 of 8 February 2016, the Decision regarding the supplementary fiscal obligations no. F - MC 4 of 8 February 2016 and the Decision regarding the non-change of the base of taxes no. F - MC5 of 8 February 2016, requesting the court (i) mainly, to annul the fiscal report and all the following deeds, (ii) secondary, the annulment of the Decision no. 42 of 7 October 2016 regarding the decision to reject the contestation filed by the company, the annulment in part of the fiscal report and the supplementary income decision regarding the income taxes in amount of 727,223 RON, interest rate/delay increases in amount of RON 1,392,488 and delay penalties in amount of RON 239,693, the monthly VAT in amount of RON 481,237, interest rate/delay increases in amount of RON 867,632 and delay penalties in amount RON 158,622 and the interest rate/delay increases and delay penalties calculated for the period 20 July 2010 – 15 December 2015; and (iii) the obligation to the payment of the trial expenses. On 13 October 2017, Bucharest Court of Appeal ruled against the claim. TMK-Artrom filed appeal. The first hearing is set with the High Court of Justice and Cassation on 18 June 2020.

TMK-Artrom paid the supplementary debts for the income taxes under the terms and conditions set by the Emergency Ordinance 44/2015. Therefore, TMK-Artrom paid the amounts set in the fiscal report after the decrease of such taxes by (i) 77.1% for the delay increases and (ii) 54.2% of the interest rate. Furthermore, the delay penalties set for TMK-Artrom had been canceled.

#### **2. TMK-Reșița**

Litigation against National Fiscal Administration Agency ("ANAF") and General Department for the Administration of Big Contributors ("DGAMG")

TMK-Reșița challenged the Fiscal report no. F-MC 318 of 15 October 2014, the Decision regarding the supplementary fiscal obligations no. F-MC 1538 of 15 October 2014, the Decision regarding the measures set by the fiscal inspectors no. 87050 of 14 October 2014 and the Decision regarding the non-change of the base of taxes no.F-MC 1539 of 15 October 2014, requesting the court (i) mainly, to annul the fiscal report and all the following deeds, (ii) secondary, the annulment of the Decision no. 178 of 16 June 2015 regarding the decision to reject the contestation filed by the company, the annulment in part of the fiscal report and the supplementary income decision regarding the income tax for individuals in amount of RON 11,194, monthly VAT in amount of RON 544,300, interest rate/delay increases in amount of RON 1,161,841 and delay penalties in amount of RON 84,985, monthly VAT in amount of RON 41,037, interest rate/delay increases in amount of RON 76,307 and delay penalties in amount of RON 6,156, monthly VAT in amount of RON 58,928, interest rate/delay increases in amount of RON 131,085 and delay penalties in amount of RON 8,839, the amount of RON 393,453 representing the interest rate/delay increases and delay penalties calculated for the period 28 December 2011 – 25 September 2014; (iii) the modification of the decision regarding the measures of the fiscal authority based on the annulment in part of the fiscal report and the decision regarding the supplementary fiscal obligations for the amounts mentioned above; and (iv) the obligation to the payment of the trial expenses. On 21 April 2016, Bucharest Court of Appeal ruled against the claim. TMK-Reșița filed appeal. The first hearing is set with the High Court of Justice and Cassation on 20 June 2019.

### **30.COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)**

TMK-Reșița paid the supplementary debts for the income taxes under the terms and conditions set by the Emergency Ordinance 44/2015. Therefore, TMK-Reșița paid the amounts set in the fiscal report after the decrease of such taxes and the annulment of the delay penalties.

#### **Taxation**

The taxation systems in Romania and in the jurisdictions where the Group operates are undergoing continuous developments. Thus, it is subject to various interpretations and constant changes which may sometimes be retroactive. In some circumstances, the fiscal authorities may treat some aspects in a different way by calculating additional taxes, interest and penalties, which can be significant. In Romania, the fiscal year remains open for tax audit for a period of 5 years, all the Romanian companies of the Group having this period open. The management considers that the tax liabilities included in these financial statements are adequate.

In accordance with the requirements issued by the Ministry of Public Finance in Romania, which relate to the fiscal treatment of the items of equity that have not been subject to the calculation of the income tax as at the date of their recording in the accounts due to their nature, should the Group change the destination of the statutory reserves in the future (to cover losses or to make distributions to the shareholders), this will lead to additional income tax liabilities.

Seamless steel tubes originating in Romania with outside diameter less than or equal to 114.3 mm and intended for use as pipe, standard or high pressure applications are subject to anti-dumping duty, applicable to imports into the United States. This fee is applicable since 2000, differentiated by each manufacturer – TMK-Artrom with a percentage of 13.06%. TMK-Artrom supply of such products are minor and not a target product for the US market, TMK-Artrom SA, not taking part in the previous administrative review investigations.

On 7 August 2018, the Commerce Department of the United States published a notice regarding the opportunity to review the fees stated above. Being the end of a new period allowing the revision administrativa at the request of interested parties, in October 8, 2018, was initiated the review of the fees outlined above, including TMK Artrom SA.

TMK-Artrom decided to participate voluntarily and seek reduction/elimination of the fee even if the amount of such pipes delivered on US market is small during the investigated period. During the period 01 August 2017 - 31 July 2018 the deliveries do not exceed 500 tons, a small volume compared to the total volume of pipes shipped in the US. Following this investigation, the American Commerce Department may decide to reduce anti-dumping duty, the elimination or maintaining it up to date 01 September 2021, the expiration date of the current antidumping decision. Non-participation in this request from the Department of Commerce of the United States would impact in the increase of the tax if in the dumping investigation procedure an equivalent country with higher costs would be selected.

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

The Board of Directors of TMK-Artrom decided on 28 November 2018 to approve the acquisition by TMK-Artrom of all the shares held by TMK Global SA as sole shareholder in TMK Italia s.r.l. The transaction was not completed in 2018. The shares purchase agreement was executed on 5 February 2019 at the price approved by the Board of Directors.

The price for the acquisition of 50.000 shares, with a nominal value of EUR 1 each, representing 100% of share capital of TMK Italia s.r.l., is of EUR 1,730,800, meaning EUR 34.61 each share. The price was agreed by TMK-Artrom and TMK Global SA based on the valuation report issued by DARIAN DRS SA on 27 November 2018 which valued the shares taking into consideration the value of the shares at 31 October 2018.

The price is to be paid by TMK-Artrom from its own resources within 90 days from the date of the execution of the relevant shares purchase agreement by TMK-Artrom and TMK Global SA.

Date: 1<sup>st</sup> March 2019

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

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



TMK-ARTROM S.A.

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EUID: ROONRC.J28/9/1991; J28/9/31.01.1991  
VAT No. RO 1510210/1992  
Subscribed and Paid Share Capital: 291.587.538,34 lei

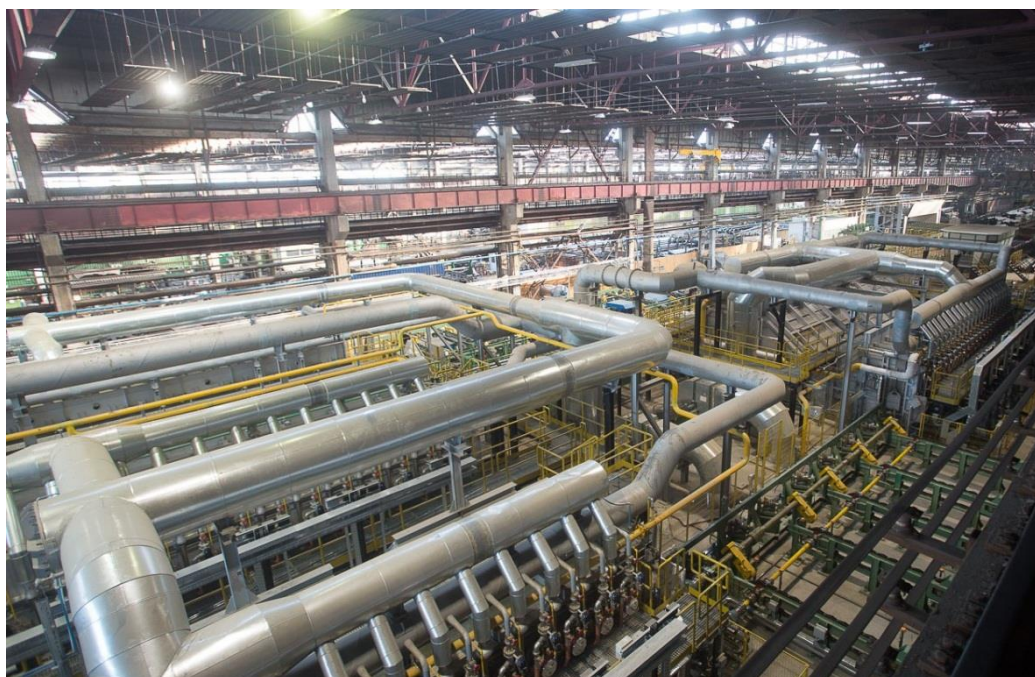
# TMK-ARTROM SA

## CONSOLIDATED SET OF GRI SUSTAINABILITY REPORTING

### STANDARDS 2018

### CONSOLIDATED NON-FINANCIAL STATEMENT

*The content of this set has been drafted in accordance with Global Reporting Initiative (GRI) standards and accompanies the annual financial reporting.*



## Corporate Information

### TMK-Artrom S.A. (Management Unit)

#### Registered Office

Draganesti Str. 30, Slatina,  
OLT county, Romania, 230119  
+40 (249) 436862, 434640, 434641

### TMK-Resita S.A.

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### TMK-Industrial Solutions

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USA



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### Dear partners,

TMK-ARTROM S.A. has prepared and published the second sustainability report that has been developed in line with the Global Reporting Initiative (GRI) Standards and is primarily intended for employees, shareholders, business partners, the local community, and any other interested people. This non-financial reporting is a confirmation of our commitment to making sustainable development a priority in our business strategy and to present us as a company with a transparent and responsible business.

2018 was for us a year of consolidation of strategic investments that would direct TMK-ARTROM towards a much more elaborate and elitist market for products with high profitability and high added value.

Thus, in February we commissioned a new Heat Treatment plant with state-of-the-art technology that allows to increase the ratio of premium products in our sales portfolio.

In the same manner, we ended the year finalizing a much-wanted acquisition by the company, namely, in December 2018, TMK-ARTROM acquired its raw material supplier, TMK-RESITA, an operation which strengthens the partnership of the two plants at the shareholding level as well. This integration has been achieved in order to maintain and develop the flexibility in production and sales as one of our actions to develop closer collaboration relationships with the relevant market, and to maintain the excellence as a customer satisfaction degree.

As we consider engaging in community life to be of great importance, we have carefully analyzed its needs and developed many social projects in 2018 so that we can be closer to people and come to the support of those in need of support; young students in disadvantaged areas, talented young people who want to study and deepen the knowledge of Hi-Tech courses outside school, children in the first years of their lives, old people to whom we managed to bring brighter days, all of them were in our range of interest and support.

The year 2018 was for the over 2300 employees a peak year because more than 200.000 tons of pipe were produced and delivered, which is a historical record and a reason for professional pride

Although TMK-ARTROM and TMK-RESITA increased the finished production of pipes, they also managed to significantly improve their environmental footprint as a result of the investments made.

In 2018, we have increased the intensity and efficiency of professional training, including in the field of health and safety at work. As a result of these trainings, our factories have experienced a year of significant progress in technology by assimilating new high added value products and high degree of technological complexity, but also by significantly improving the indicators in the field of health and safety at work.

Every day, through our work, we try to obtain quality products with a minimal impact on the environment and in health and safety conditions, being aware that each of us must think his activity through the business as well as in the light of the future of humanity.

I wish you all a year with beautiful events!



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TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

**GRI Table of Contents**

INTRODUCTION .....	11
GRI-102 General Disclosures.....	11
102-1 Name of organization: TMK-ARTROM S.A. ....	11
102-2 Activities, brands, products, and services: .....	11
102-3 Location of headquarters.....	13
102-4 Location of operations .....	13
102-5 Ownership and legal form.....	14
102-6 Markets served .....	14
102-7 Scale of the organization .....	14
102-8 Information on employees and other workers.....	15
102-9 Supply chain .....	16
102-10 Significant changes to the organization and its supply chain.....	16
102-11 Precautionary Principle of approach .....	16
102-12 External initiatives.....	18
102-13 Membership of associations .....	18
102-14 Statement from senior decision-maker:.....	18
102-15 Key impacts, risks, and opportunities .....	18
102-16 Values, principles, standards, and norms of behavior.....	20
102-17 Mechanisms for advice and concerns about ethics.....	21
102-18 Governance structure .....	22
102-19 Delegating authority .....	26
102-25 Conflicts of interest.....	26
102-40 List of stakeholder groups.....	26
102-41 Collective Bargaining Agreements (CBA) .....	28



API:  
5CT-0440  
5L-0352

LRQA:  
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ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



102-42 Identifying and selecting stakeholders .....	28
102-43 Approach to stakeholder engagement .....	29
102-44 Key topics and concerns raised.....	29
102-45 Entities included in the consolidated financial statements.....	29
102-46 Defining report content and topic Boundaries .....	30
102-47 List of material topics.....	30
102-48 Restatements of information: Not applicable .....	31
102-49 Changes in reporting: Not applicable .....	31
102-50 Reporting period: It refers to the calendar year 2018.....	31
102-51 Date of most recent report: 2017 .....	31
102-52 Reporting cycle: The reporting cycle is annual. ....	31
102-53 Contact point for questions regarding the report .....	31
102-54 Claims of reporting in accordance with the GRI Standards:.....	31
102-55 GRI content index.....	31
102-56 External assurance .....	31
103-1 Explanation of the material topic and its Boundary .....	31
103-2. The management approach and its components.....	32
103-3. Evaluation of the management approach .....	35
201-2 Financial implications and other risks and opportunities due to climate change.....	37
201-3 Defined benefit plan obligations and other retirement plans.....	37
201-4 Financial assistance received from the Government: .....	39
GRI 202 Market presence .....	39
202-1 Ratios of standard entry level wage by gender compared to local minimum wage .39	
202-2 Proportion of senior management hired from the local community.....	40
GRI 203 INDIRECT ECONOMIC IMPACTS.....	40



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

203-1 Infrastructure investments and services supported.....	40
203-2 Significant indirect economic impacts .....	41
GRI 204 PROCUREMENT PRACTICES.....	41
204-1 Proportion of spending on local suppliers .....	41
GRI 205: ANTI-CORRUPTION.....	42
205-1 Operations assessed for risks related to corruption .....	43
205-2 Communication and training about anti-corruption policies and procedures.....	43
205-3 Confirmed incidents of corruption and actions taken .....	43
GRI 300 ENVIRONMENT .....	43
GRI 301 –Materials.....	43
301-1 Materials used by weight or volume .....	43
301-2 Recycled input materials used .....	45
301-3 Reclaimed products and their packaging materials.....	45
GRI 302 – ENERGY .....	46
302-1 Energy consumption within the organization.....	46
302-2 Energy consumption outside of the organization .....	47
302-3 Energy intensity .....	47
302-4 Reduction of energy consumption.....	47
GRI 303 WATER.....	48
GRI 303 -1 Water withdrawal by source .....	48
GRI 303-2 Water sources significantly affected by withdrawal water.....	49
GRI 303-3 Water recycled and reused .....	50
GRI 304 Biodiversity.....	50
GRI 305 EMISSIONS.....	51
305 -1 Direct (Scope 1) GHG emissions.....	51



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

305-2 Energy indirect (Scope 2 ) GHG emissions, from purchase respectively .....	51
305-3 Other indirect CO2 emissions .....	51
305-4 CO2 intensity.....	53
305-5 Reduction of GHG emissions.....	54
305-6 Emissions of ozone - depleting substances(ODS) .....	54
305-7 Nitrogen oxides (NOx), sulfur oxides (Sox) and other significant air emissions .....	54
GRI 306 EFFLUENTS AND WASTE .....	55
306-1 Water discharge by quality and destination .....	55
306-2 Waste by type and disposal methods.....	56
306-3 Significant spills .....	58
306-4 Transport of hazardous waste .....	58
306-5 Water bodies affected by water discharges and/or runoff .....	59
GRI 307 COMPLIANCE WITH THE ENVIRONMENT .....	59
307-1 Non-compliance with environmental laws and regulations.....	59
GRI 308 –SUPPLIERS, ENVIRONMENTAL ASSESSMENT .....	60
308-1 New suppliers that were screened using environmental criteria .....	60
308-2 Negative environmental impacts in the supply chain and actions taken.....	60
GRI 400 Social.....	61
GRI 401 Human Resources.....	61
401-1 New employee hires and employee turnover .....	61
401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees.....	63
401-3 Parental leave .....	63
GRI 402 LABOR/ MANAGEMENT RELATIONS .....	63
402-1 Minimum notice periods regarding operational changes .....	63



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

GRI 403 Occupational Health and Safety.....	64
403-1 Workers representation in formal joint management - worker health and safety committees. ....	66
403-2 Types of injury and rates of injury occupational diseases, lost days, and absenteeism , and number of work - related fatalities.....	66
403-3 WHealth and safety topics covered in formal agreements with trade unions .....	69
403-4 Health and security issues covered in the agreements with the trade unions .....	71
GRI 404 TRAINING AND EDUCATION .....	71
404-1 Average number of training per year per employee .....	71
404-2 Programs for upgrading employee skills and transition assistance programs .....	72
404-3 Percentage of employees receiving regular performance and career development reviews .....	72
GRI 405 DIVERSITY AND EQUAL OPPORTUNITIES.....	73
405-1 Diversity of governance bodies and employees .....	74
405-2 Ratio of basic salary and remuneration of women to men .....	74
GRI 406 NONDISCRIMINATION .....	75
406-1 Incidents of discrimination and corrective actions taken.....	75
GRI 407 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING .....	75
407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk .....	75
GRI 408 CHILD LABOR .....	76
408-1 Operations and suppliers at significant risk for incidents of child labor .....	76
GRI 409 FORCED OR COMPULSORY LABOR .....	76
409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor .....	76
GRI 410 SECURITY PRACTICES.....	77



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

410-1 Security personnel trained in human rights policies or procedures .....	77
GRI 411 RIGHT OF INDIGENOUS PEOPLES .....	77
411-1 Incidents of violations involving rights of indigenous peoples.....	77
GRI 412 HUMAN RIGHTS ASSESSMENT .....	77
412-1 Operations that have been subject to human rights reviews or impact assessments .....	77
412-2 Employee training on human rights policies or procedures.....	78
412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening .....	78
GRI 413 LOCAL COMMUNITIES .....	78
413-1 Operations with local community engagement, impact assessments, and development programs.....	78
413-2 Operations with significant actual and potential negative impacts on local communities.....	81
GRI 414 SUPPLIER SOCIAL ASSESSMENT.....	81
414 Supplier social assessment.....	81
414-1 New suppliers that were screened using social criteria .....	81
414-2 Negative social impacts in the supply chain and actions taken .....	81
GRI 415 Public Policy.....	81
415-1 Political contributions .....	81
GRI 416 CUSTOMER HEALTH AND SAFETY .....	82
416-1 Assessment of the health and safety impacts of product and service categories ....	82
416-2 Incidents of non-compliance concerning the health and safety impacts of products and services.....	82
GRI 417 Marketing and labeling .....	82
417-1 Requirements for product and service information and labeling .....	83



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

417-2 Incidents of non-compliance concerning product and service information and labeling .....	83
417-3 Incidents of non-compliance concerning marketing communications .....	83
GRI 418 CUSTOMER PRIVACY .....	83
418-1 Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data .....	83
GRI 419 SOCIOECONOMIC COMPLIANCE .....	84
419-1 Non-compliance with laws and regulations in the social and economic area .....	84



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

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EN 10255

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DNV-GL Rules  
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## INTRODUCTION

### GRI-102 General Disclosures

#### Organizational profile

#### 102-1 Name of organization: TMK-ARTROM S.A.

#### 102-2 Activities, brands, products, and services:

TMK-Artrom was established in 1982 as a state-owned company called Întreprinderea de Țevi Slatina (Slatina Pipe Company), being a producer of seamless steel pipe. The first pipe was produced in 1988. Since 1991, the name of the company has become ARTROM with the transformation into a joint stock company. Since November 20, 1995, TMK-Artrom shares have been listed on the Bucharest Stock Exchange. It followed the privatization of the company which was completed on April 30, 1999, when the majority shareholder of the company became the Austrian company Staro GmbH. In 2001, the German company Sinara Handel GmbH (currently TMK Europe) was assigned from Staro GmbH (with the approval of APAPS) in his favor, the privatization contract, becoming the majority shareholder in Artrom.

Starting March 1, 2006, Sinara Handel GmbH became part of the TMK Group. It had/has the same ultimate beneficiary as Sinara Handel GmbH, maintaining indirect control over the majority of the unchanged share package. Thus, Artrom joined one of the largest producers of pipes in the world - TMK Group and changed its name to TMK-Artrom.

Also, in 2006 in the structure of the TMK Group entered CSR S.A. - Combinatul siderurgic Reșița – TMK Reșița, whose majority shareholder in 2004 became Sinara Handel GmbH which is the supplier of raw material (billet for pipes) of TMK-Artrom. Subsequently, CSR changed its name to TMK-Resita SA. In December 2018 TMK ARTROM became the majority shareholder of TMK RESITA.

Both companies, TMK-Artrom and TMK Resita, are part of the European Division of TMK. TMK Group has 4 divisions allocated to both regional and specializations where appropriate: the Russian Division, the American Division, the European Division and the Middle East Division). TMK-Artrom is the leading company in the European Division and today manages all the activities of the European Division of TMK. TMK ARTROM acquires raw materials from TMK RESITA. With a production capacity of 450,000 tons of liquid steel per year, TMK RESITA produces 177 mm, 220 mm, 280 mm, continuous casted, carbon steel, low alloy and alloy round bars used in TMK ARTROM's technological process.

At the beginning of 2018, TMK-Artrom officially inaugurated the new heat treatment complex after an investment of 36 million EUR, providing a heat treatment capacity of 165,000 tons of which approximately 90,000 tons of premium heat treatment. With this investment, TMK-Artrom has the possibility of heat treatment for long pipes, a rare capacity in Europe and also treats heat pipes with thick walls up to 60 mm.

TMK-Artrom has a production capacity of approximately 200,000 tons of seamless steel pipe per year, the company being recognized in Europe as one of the world's leading producers of seamless carbon steel pipes, low alloyed and alloyed with a dimensional range starting from an outer diameter of 15.88 mm to 254 mm and a wall of 1.5 mm to 60 mm. The seamless pipes produced in TMK-Artrom are designed for industrial applications, consisting of mechanical pipes, boiler pipes for high



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TRD 100/102  
Vd TUV

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temperature applications and low temperature applications, line pipe, pipes for the production of couplings, pipes for hydraulic cylinders, precision pipes, etc.

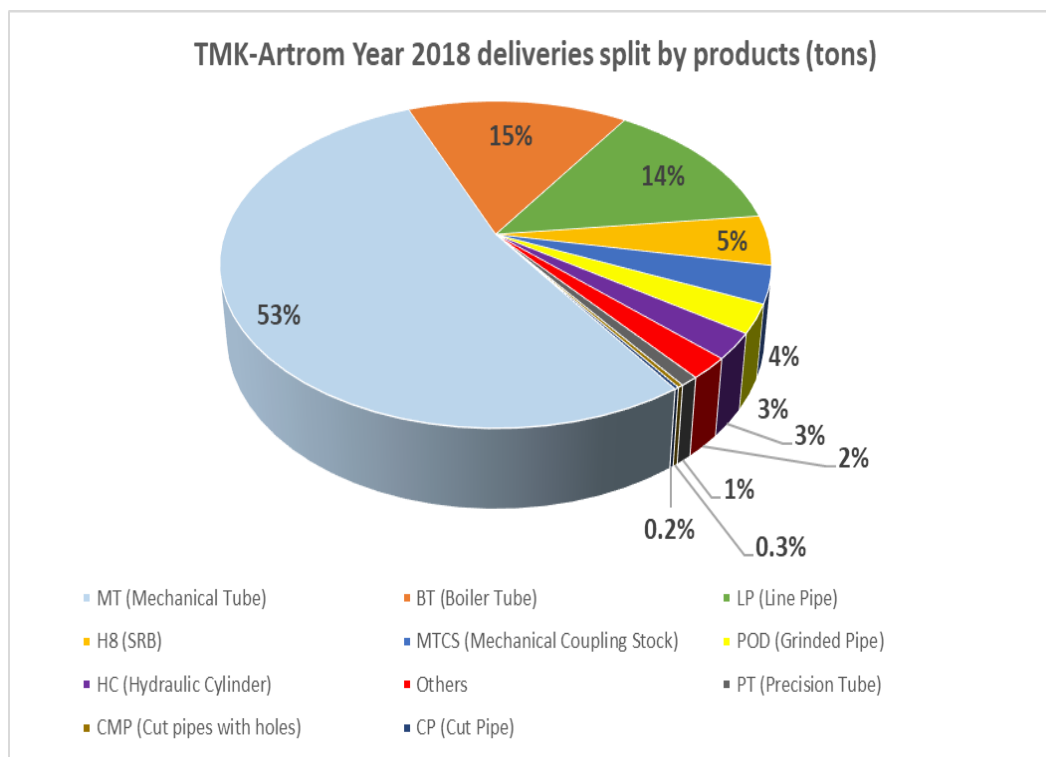
All TMK-Artrom products / services are marketed under the TMK brand, with the TMK-Artrom logo on labels and documents and also company identification data.

The products made in TMK-Artrom are seamless steel pipes, namely:

- mechanical tubes (MT)
- boiler pipes for high temperature and low temperature applications(BT)
- line pipe (LP)
- coupling stock pipes (CS)
- pipe for the production of hydraulic cylinders (HC)
- Precision pipes (PT)
- Bore and rolled pipe (H8 tolerances) for the production of hydraulic cylinders
- Grinded (POD) pipe for the production of cylinder rods
- Pipe cut to fixed and precise lengths (CP) with very small tolerances (+/- 0.2 mm)

TMK-Artrom not provide separate services, but only provides services of its own products to obtain products with high added value (cutting to fixed lengths, holes in the wall smooth or threaded grinding pipe externally, boring and rolling the inside of the pipe, etc.).

Products (services) of TMK-Artrom are not prohibited from trading on any market. At the level of 2018, 60% of TMK-Artrom's deliveries were represented by mechanical pipe, followed by boiler pipes with 19% - as shown in the graphic below.



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TRD 100/102  
Vd TUV

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TUV CPR:  
EN 10210-1,2  
EN 10255

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ISO/TS 16949

### 102-3 Location of headquarters

TMK-Artrom's headquarters (registered office) is located in Slatina, Str. Drăgănești nr. 30, PO 230119, Olt County, Romania.

TMK-ARTROM has offices in Slatina, str. Ecaterina Teodoroiu, block V22 and block V23, ground floor, Olt county and also in Bucharest, str. Daniel Danielopolu nr. 2, floor 1, district 1.

TMK-ARTROM owns 100% of a US trade company called TMK-Industrial Solutions LLC, headquartered in 10940 West Sam Houston Pkwy N, Houston, TX 77064, USA.

Also, TMK ARTROM holds 100% of the shares of TMK REȘIȚA, located in Traian Lalescu Street no. 36, Reșița, Caraș Severin County.

On September 26, 2017 The General Meeting of Shareholders approved the setting up of a point of business in Bucharest, Daniel Danielopolu street, No 2, sector 1 - representation office for which the fiscal registration operations were performed at the General Directorate of the Large Taxpayers Bucharest receiving the registration number 38337349.

At the headquarters in Slatina (Str. Drăgănești no 30, PO 230119) is located the seamless pipe production plant and the headquarters of the European Division of TMK. As a business organization, TMK-Artrom's management is also responsible for the leadership of the European Division of TMK. The TMK-ARTROM CEO is also the head of the European Division of TMK. In the European Division TMK operates five companies:

- 1) TMK-Artrom -a seamless steel pipe plant located in Slatina, Romania. Within TMK-Artrom is also the sales team responsible for the sale of TMK products in Southeast Europe, including Turkey.
- 2) TMK Resita - a steel-producing plant (billets, rectangular billets), raw material supplier of TMK-Artrom, located in Resita .
- 3) TMK Industrial Solutions LLC - a trading company located in Houston, USA. The company is responsible for distribution on the two American continents of TMK-ARTROM products and industrial pipes (non-OCTG) produced by the other companies of TMK from Russia and the USA. TMK-Industrial Solutions is 100% owned by TMK-ARTROM.
- 4) TMK Europe GmbH, a trading company, located in Dusseldorf, Germany. The company is responsible for delivering TMK products to the Center and Northern Europe. It acts under an Agent Agreement as Trade Agent for TMK-ARTROM. TMK Europe GmbH is 100% owned by PAO TMK located in the Russian Federation.
- 5) TMK Italia s.r.l. - a trading company, located in Lecco, Italy. The company is responsible for delivering TMK products in Western and Southern Europe, including North Africa. It acts under an Agent Agreement as a Trade Agent for TMK-ARTROM. TMK-Italia is 100% owned by TMK-Global in Switzerland.

### 102-4 Location of operations

TMK-Artrom has its production capacities in the town of Slatina, Olt County, Romania. The trade activity is coordinated directly from the headquarters and is made through direct sales to worldwide customers. In Western Europe and America, the sale is made with the help of trade companies within



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

## TMK-ARTROM S.A. Sustainability Report 2018

the European Division that do not act as Traders but are appointed on a contractual basis as trade agents. The acquisition of raw materials and materials is performed directly from the headquarters.

### 102-5 Ownership and legal form

Ownership: Private

Legal form: listed joint-stock company (SA), shares are listed on the capital market through the Bucharest Stock Exchange (BVB), ART symbol.

### 102-6 Markets served

All TMK-Artrom products are marketed under the TMK brand, with the TMK-Artrom logo on labels and documents and also the company identification data.

TMK-Artrom products are promoted by TMK-ARTROM's sales staff and / or by trading companies within TMK's European Division acting as contractual trade agents, namely: TMK-Italia s.r.l. (Lecco, Italy), TMK Industrial Solutions LLC (Houston, Texas, USA) and TMK Europe GmbH (Dusseldorf, Germany).

Contact the relevant markets is carried out continuously during the visits and regular meetings with current and potential customers through verbal or visual presentations. TMK-Artrom products are promoted at trade fairs such as: Tube & Wire Dusseldorf - Germany, Made in Steel Milan-Italy, OTC Houston USA, etc.

TMK-ARTROM serves a portfolio of over 600 customers in Europe (including Turkey), North and South America, North Africa, the Middle East and the CIS. Most customers are long-term partners of TMK-ARTROM. There is no customer representing more than 8% of TMK-ARTROM production. At the same time, TMK-Artrom's site ([www.tmk-artrom.eu](http://www.tmk-artrom.eu)) offers up-to-date information on the latest product or service offered, as well as other information on regular financial statements, job advertisements, environment, quality, social responsibility .

As a destination for TMK-Artrom products, the largest quantities were delivered in Europe in 2017 (about 84%), North and South America (about 14%), the rest being destined for other countries (CIS, North Africa, Orient).

### 102-7 Scale of the organization

a) Total number of employees on December 31, 2018

TMK ARTROM has a total consolidated number of 2282 employees.

TMK ARTROM has a total of 1486 employees.

TMK-Industrial Solutions LLC has a total of 11 employees.

TMK REȘIȚA has a total of 783 employees.

Decisions and responsibilities are assigned to employees according to their level of competence. Personnel training and development have a special priority within TMK ARTROM, that wants to form its tomorrow's specialists and leaders, with the company focusing on the promotion of internal candidates in middle or top management positions. Training courses are not the only ones that lead to the development of staff skills, but also the daily work in which staff learn new things, where team results are the key to company performance.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

In 2018, all TMK ARTROM employees had the opportunity to attend to internal training courses and 550 employees benefited from at least one external course, i.e. 38% of the average number of employees in 2018. The Professional training within the company takes place in two stages: initial training and continuous training. Initial training is performed in order to acquire the knowledge required by the law to fill a particular post, and continuous training is performed to improve the skills to practice the job and to update the knowledge in accordance with the novelties of the moment. Through training, the company aims to ensure that employees have the skills required to carry out the tasks specified in the job description as well as increasing the flexibility and stability of employees reducing staff fluctuations.

Internal courses are those with internal lecturers who have trainer skills besides their basic position and external ones are performed with external lecturers within the company or outside. Through the participation of the employees in training the company complies with the legal provisions of the Labor Code TITLE VI: PROFESSIONAL TRAINING.

### **102-8 Information on employees and other workers**

Within the company, the activity is permanent and continuous (organized in 3 shifts per day for 8 hours each shift, 365 days / year), employees performing a permanent work.

Most of the 1486 employees have employment contracts for an indefinite period. There is a limited number of employees with fixed-term contracts throughout the probationary period. At the end of the probationary period, the employee who is retained in the company signs a contract for an indefinite duration;

From the point of view of the daily working hours, the labor contracts are divided into two categories:

#### Full-time employment contracts - 8 hours / day (full-time);

99% of these contracts allow paid overtime (maximum 8 additional hours per week). Overtime and work on Saturdays and Sundays are paid 175%.

Work provided during the night is paid 125%.

#### Employment contracts with less than 8 hours / day (part-time);

TMK ARTROM uses only a small part of the employees with a part-time contract. Employees with part-time employment benefit from all the salary and extra-salary rights that all employees have, in proportion to the actual time worked.

#### c. Other Employee Information:

Depending on the region where they live, 99% of TMK ARTROM's employees reside in the city of Slatina (OLT County) and the surroundings of the city. A percentage of 1% of employees come from neighboring regions (Dolj County, Valcea County) and Bucharest.

The company's activity is continuous (not seasonal) and is carried out with its own employees. There are no outsourced services and / or significant parts of current activity. Only external services are used for occasional activities that exceed the capacity of the workforce at some point limited in time (i.e. capital repairs, investment works, etc.).



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

Employees of the Company benefit from a Collective Bargaining Agreement of a set of rights and benefits based on a social system developed over the years based on a constructive social dialogue between the social dialogue partners. These rights and benefits include (but are not limited to): minimum guaranteed salary, bonuses, salary bonuses, compensation for special activities, overtime, occasional additional work, holiday bonuses, rewards, insurance and additional medical services, etc. The Social Expenditure Fund is managed by the Social Commission composed jointly by representatives of trade unions, employees and management.

Employee data are retrieved and compiled from the Human Resource Service's own data base that complies with personal data protection law (Regulation 679 / April 26, 2016). The company manages the employment contracts internally by protecting all personal data under existing laws and in correlation with it.

### 102-9 Supply chain

Under a competitive market, the supply chain is of particular importance within the TMK ARTROM business. This is an important potential for creating value for the customer: service quality, deadline performance and response time.

By rationalizing the supply chain costs, part of the company's profitability is disputed. TMK ARTROM is a seamless pipe supplier that is aware that product traceability and quality are of particular importance to its customers.

As customers have ever-increasing demands on our products, TMK ARTROM's requirements for suppliers are also increasing. In this way, with the effort of all our collaborators we try to offer our clients and stakeholders as much transparency as possible on the supplier's channel not only in terms of technical capability but also in terms of how the supplier operates on the market in terms of the environment, social security and health and thus to society

When we select our business partners and therefore the suppliers we ensure that they also have ethical behavior. Our motto is responsible and sustainable behavior towards employees, customers, partners and suppliers.

### 102-10 Significant changes to the organization and its supply chain

Not applicable.

### 102-11 Precautionary Principle of approach

TMK-ARTROM and TMK have an approach based on risk management, risk management activity is organized in terms of production activity and in terms of new products and investment. In this way in addition to the annual assessment of suppliers, TMK ARTROM and TMK REȘIȚA draw up a map of the significant risks that may arise in the supply and logistics chains.

Risk management analyzes the risks that may arise on the supplier channel in terms of discontinuing collaboration with them, logistical issues, quality or insolvency issues, climate change issues, or cyber-attacks. These risks are assessed, prioritized and tracked by action plans drawn up in the short or long term. Risk reassessment is performed annually or whenever needed, and there is a new, undetermined risk until then.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

In this respect, TMK -ARTROM and TMK REŞİTA have approved several suppliers on the list of suppliers, delivering the same type of product so that the risk of lack of service or material due to cases of force majeure or other causes tends to zero.

For pipes produced for the automotive industry, TMK ARTROM always keeps a safety stock of raw material in the warehouse.

The materials supplied by both companies have attached to the delivery documents, according to legal requirements, as appropriate, technical safety data sheets, REACH registration documents, RoHS declaration of conformity (certifying that the product does not contain substances prohibited by EC Directive no 211/65 / EU).

Also, designing a new product and implicitly acquiring technology involves risk assessments based on scientific evidence existing in the literature and practice, as well as analyzing the impact that the relevant product / technology has on the environment or on the user. Each year TMK ARTROM and TMK REŞİTA aim to develop new products in accordance with market requirements and implicitly, customers. These products refer to both pipes of different dimensions from those in the product catalog and to products with high added value. At the design time, the risks involved in the implementation of this new product into production and on market are assessed.

In 2018 new products were made, among which we mention:

#### 1. Pipes treated and quenched with a wall thickness exceeding 25 mm

In terms of new heat treatment facilities equipped with the latest furnaces, TMK ARTROM managed to quenching pipes over 25 mm thick. These quenched pipes on the new heat treatment complex have high mechanical characteristics, which allows them to be used in the manufacture of various components in the oil industry.

To increase mechanical characteristics, especially for resilience, where very good values can be obtained even at minus 60 degrees, this mode of quenching is very appropriate.

The investment made at the end of 2017 aims to design the technology for pipe quenching up to a wall thickness of 60 mm, which will make TMK ARTROM one of a few in the world in carrying out this process.

#### 2. Manufacturing steel mechanical pipes for structural constructions and lifting equipment high flow limit (S690G2QL1).

The steel developed in TMK ARTROM and machined from raw material produced by TMK REŞİTA is a structural steel with high flow and hardness, quenched and returned. With a minimum flow resistance of 690 N / mm<sup>2</sup>, and good resilience even at minus 60 degrees, the steel has a high bending and weldability. Due to the high-strength nature of the materials, the use of the S690QL (quenched and returned) will promote less-designed structures with increased load capacity and energy efficiency.

The structural steel delivered to customers since 2018 is used in a variety of sectors, including: heavy-duty transport, automotive industry, metal construction, lifting equipment.

The products obtained in the "Heat Treatment Complex" are considered to be environmentally friendly products in the sense that the environmental impact for obtaining them is the best possible according to the existing technology at the moment. The Combustion System of the Heat Treatment Complex uses burners with increased combustion efficiency and noxious emissions according to Directive 2010/75 / EU, the requirements of which are the most stringent in the world at this time.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949





### 102-12 External initiatives

By TMK ARTROM management strategy developed principles concerning human rights, labor, environment, anti-corruption as established by the United Nations Global Compact Initiatives. TMK ARTROM has not subscribed to any external initiative organization at this time. The same principles develop and impose on its suppliers, and therefore on TMK REȘIȚA.

### 102-13 Membership of associations

TMK ARTROM is a member of the professional and employers' association UNITUB Romania (Pipe Producers Association of Romania). As a professional association, UNITUB is affiliated with ESTA (European Steel Pipes Association) based in Paris in France, and as an employers' association is affiliated to the Employers' Federation 'Metalurgia' in Romania which in its turn is affiliated to CONPIROM Employers' Confederation.

TMK-ARTROM assures UNITUB's presidency.

The company actively participates through its members at the meetings organized by UNITUB and ESTA respectively.

### Strategy

### 102-14 Statement from senior decision-maker:

Adrian POPESCU - Chairman of the Management Board and CEO (see p.2)

### 102-15 Key impacts, risks, and opportunities



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



TMK ARTROM and TMK REȘIȚA have implemented an integrated quality management system (IMS) according to the ISO 9001 quality standard, the ISO 14001 environmental standard and the ISO 45001 occupational health and safety standard.

Since 2014, through the formalized risk management process, ensures both companies identify, assess and control risks that could affect the overall objectives and sub-objectives set in each structure of the company.

Risk management is an element of the internal control system that identifies significant risks to the activities carried out. The main objectives of risk management are:

- - maintain threats within acceptable limits;
- - take appropriate decisions to exploit opportunities;
- - avoid risk by the decision not to start or continue the activity that led to the relevant risk;
- - take the existing risk or increase its level to take advantage of the opportunity.

TMK ARTROM S.A and TMK REȘIȚA documented how to identify, evaluate and treat the risks and described how to work in two procedures, namely:

- the "Risk Management" procedure describing the financial risk assessment described and made available to interested parties in the financial statement
- the "Risk and Opportunity Management Actions within the Integrated Management System" procedure, which refers to the risks to the processes and objectives of the integrated SMI system. Risks and opportunities are analyzed against the objectives of the Integrated Management System (IMS) and are recorded in the risk register. The risk register is audited by the Risk Analysis Committee and approved by the CEO.

Risk treatment actions concerns:

- a) Risks and opportunities related to product compliance and the requirement clients
- b) Risks and opportunities related to ensuring the efficient operation of processes and achieving the objectives of the integrated system:
  - quality management process,
  - resource management process,
  - training and awareness process,
  - supply, design and development process,
  - sales process, production management process,
  - product management process,
  - monitoring and measurement process,
  - analysis process conducted by the management.
- c) Risks and opportunities related to environmental aspects and compliance obligations

All the activities in TMK ARTROM and TMK RESITA are subject to risk analysis including the "new product development" activity. The company monitors both environmental and security aspects in all project stages starting from the design, production and delivery phase. In this respect, a product sustainability check has also been introduced.

The action plans indicate concrete actions on risk, deadlines for action, the persons responsible for the implementation of the actions and the estimated result of the actions.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

Actions are considered effective if, according to the monitoring results, the category of each specific risk does not increase and according to the results of the annual analysis all risks have been reduced to an acceptable level.

The CEO has an important role to play in promoting the Company's risk-oriented concept of thinking, providing the resources needed for effective risk and opportunity management, to check how risks and opportunities are identified.

## 102-16 Values, principles, standards, and norms of behavior

Our mission is coordinated complementary to the TMK Group, namely to be a responsible global provider of efficient solutions for users of steel pipes for industrial application.

**Global** - as we will increase our participation in the global pipe business. We intend to expand our exports, optimize and balance the range of products and markets, strengthen partnerships with our customers and attract new partners. We consider alliances and partnerships as an opportunity to strengthen our global competitiveness.

**Industrial pipes** - as we are involved in the business, we can do it very well. This is the production of steel industrial pipes and the provision of related services. We strongly believe in the long-term prospects of profit growth in our industry. We will invest in further strengthening TMK Artrom's competitive position in the industry.

**Effective solutions** - as we continue to be an innovative company that builds and develops strong customer relationships based on the long-term partnership concept, TMK Artrom's products and services as well as innovative developments that meet the needs of our customers.

**Responsibility** - as we respect and appreciate the loyalty of our customers and suppliers, employees and shareholders. We support regions and protect the environment in our production locations. We continue to offer our customers additional benefits besides the use of our products. We appraise and reward TMK employees for their contribution to the company's success, and we commit ourselves to protect security and health as one of the most important priorities.

Our values and principles that have been and will continue to be viable for the organization's future success are as follows:

### 1. Innovation

Through continuous development of business practices and technologies, TMK ARTROM aspires to performance and wants to position itself as a leader in its long-term and sustainable business. TMK ARTROM pays attention to the quality of its products, being a producer of mechanical pipe of which deliveries are operative and flexible, according to the customer's individual needs.

### 2. Social responsibility

TMK ARTROM develops a culture of social responsibility based on business ethics, namely for customer rights, technologies and environmentally friendly products, fairness in working relationships, transparency towards public authorities, integrity and community investment.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

TMK ARTROM protects the environment, recovers and recycles materials, saves natural resources.

TMK ARTROM is constantly concerned with increasing the level of involvement of its employees, its representatives, trade unions and those outside the organization (creditors, consumers and investors) in developing and implementing its practices in the field of social responsibility.

### 3. Integrity

TMK ARTROM correctly informs public opinion and stakeholders about what it is going to do (transparency), is consistent in its actions and has verticality. TMK ARTROM assumes responsibility for its decisions and actions, thus being legally and socially responsible.

### 4. Loyalty

The entire staff is devoted to the organization, stakeholders, and community / society in order to meet the goals assumed both personally and on behalf of the organization.

### 5. Responsibility

TMK ARTROM's staff honor their responsibilities and assume responsibility for their actions.

### 6. Objectivity

TMK ARTROM and its staff are characterized by impartiality and do not allow professional reasoning to be influenced by prejudices, conflicts of interest, or other unwanted influence factors that may intervene in the course of their professional activity.

### 7. Transparency and Ethics

TMK ARTROM focuses on the transparency, quality, completeness and accuracy of information provided to the public. TMK ARTROM and its staff are in an open and constructive dialogue with all stakeholders, dialogue based on respect and professionalism.

### 8. Nondiscrimination

TMK ARTROM, its staff and its partners do not have discriminatory attitudes about race, sex, religion, sexual orientation, political affiliation or other criteria that may be the basis of discrimination.

### 9. Fair competition

TMK ARTROM and its staff have and upright and honest conduct in their relations with competitors, thus ensuring fair and equitable competition in their own field of activity.

## 102–17 Mechanisms for advice and concerns about ethics

The TMK-ARTROM SA and TMK REȘIȚA Code of Conduct, adopted in 2014 and approved by the Board of Directors, lay down rules (standards) of ethical and professional conduct to be observed by employees, regardless of their function, including the members of the Board of Directors or the Management Board, as well as the collaborators of TMK-ARTROM S.A.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

The Code of Conduct is available in both Romanian and English and is published on the company's website to ensure a transparent and responsible relationship with business partners, customers, suppliers, local, central and international authorities. This is brought to the attention of employees through the internal means of communication and through regular training - in 2018 there were organized (re) trainings on ethics issues at the level of all staff. The provision of ethical counseling and receipt of information about possible breaches of ethical principles is the responsibility of the hierarchical chief of each employee.

The company ensures compliance with ethical standards through its own internal control departments. Thus, within the "Internal Audit and Risk Analysis Department", there is a person designated to be responsible for monitoring the Code of Conduct issues.

TMK-ARTROM S.A. encourages employees, stakeholders, business partners, workers, and any public person to expel unethical actions and any violation of the Code of Conduct, which will be immediately investigated to take the necessary action under applicable laws and / or internal regulations within the company.

Following the implementation of a system to promote fair business models and ethical behavior of our employees, as well as the selection of suppliers of goods and services that in turn comply with generally valid ethical codes, no reports of non-compliance of the Code of Conduct were identified in 2018 so there were no investigations on this segment.

## Governance

### 102-18 Governance structure

The organizational structure including top-level governance refers to the following:

1) The general shareholders' meeting is the supreme governing body of the Company which decides on its activity and ensures the economic and commercial policy.

General meetings are ordinary and extraordinary.

THE ORDINARY GENERAL MEETING meets at least once a year within five months as of the end of the financial year and, in addition to discussing other issues on the agenda, has the following main tasks:

- a) discuss, approve or amend annual financial statements on the basis of the reports submitted by the Board of Directors, the financial auditor and fix the dividend;
- b) elect and revoke the members of the Board of Directors, determine their remuneration and decide on their management;
- c) determine the prerogatives and attributions of the Board of Directors;
- d) approve the budget of revenues and expenditures and the program of activity;
- e) decide on the pledging, hiring or dissolving of one or more of the Company's units;
- f) appoint and revoke the financial auditor and set the minimum duration of the financial audit contract.

THE EXTRAORDINARY GENERAL MEETING will be convened whenever necessary and will take decisions regarding:



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

- a) change of the legal form of the Company;
- b) relocation of the Company's headquarters;
- c) changing of the object of activity of the Company;
- d) extending the duration of the Company;
- e) increase of the share capital;
- f) reduction of the share capital or its reintegration through the issue of shares;
- g) merger with other companies or division;
- h) early dissolution of the Company;
- i) issue of bonds;
- j) converting shares from one category to another;
- k) conversion of a category of bonds into another category or into shares;
- l) any other amendment to the Articles of Incorporation or any other decision for which the approval of the extraordinary general meeting is requested;

The following attributions are delegated to the Board of Directors:

Moving the company headquarters;  
 Change of the object of activity except for the main object of activity; and  
 Establishment or dissolution of secondary offices, branches, agents, representative offices or other such units without legal personality.

These powers delegated to the Board of Directors by this Articles of Incorporation can not be further delegated to other directors.

## II) Management of the Company

The Company was managed by May 5, 2018 by a Board of Directors consisting of 5 members as follows:

Mr. Andrey Zimin, as Chairman;  
 Mr. Adrian Popescu, as General Manager;  
 Mr. Surif Mikhail Albertovich, as a member;  
 Mr. Parkhomchuk Andrey, as a member.  
 Ms. Olga Nikolaeva, as a member.

Starting May 2018, the company is managed by a Board of Directors consisting of 7 members, of which 2 are independent. Thus, by decision of the General Meeting of Shareholders of April 25, 2018, the structure of the Board of Directors changed from 5 members to 7 members by electing 2 independent members with mandate valid by April 25, 2022, the composition of the Board of Directors being:

Andrey Zimin-President of Board of Directors  
 Adrian Popescu - CEO  
 Surif Mikhail - Member  
 Parkhomchuk Andrey-Member  
 Olga Nikolaeva - Member  
 Tat Florin-Tudor - Independent Member  
 Nastase Vlad - Independent Member



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

Directors (administrators) are appointed by the ordinary general shareholders' meeting for a four-year term mandate that can be renewed. Any of the shareholders may appoint candidates for the position of director.

The Board of Directors has the following basic competences that cannot be delegated to directors:

- a) Establishing the Company's main activity and development directions;
- b) Establishing the accounting and financial control system and approval of financial planning;
- c) Appointment and dismissal of officers with the exception of the CEO and determination of their remuneration;
- d) Supervision of officers' activity;
- e) Preparing the annual report, organizing the general meeting of the shareholders and implementing its decisions;
- f) Introducing the application for the opening of insolvency proceedings;

The Board of Directors represents the company only in relations with the CEO and the other officers.

On April 25, 2018, the first meeting of the Board of Directors took place in the new structure that approved the establishment and composition of the Audit Committee of the Board of Directors of TMK-ARTROM SA (in accordance with Article 13 of the Articles of Incorporation of the Company) formed of three members:

Mr. Florin-Tudor Tat - Chairman of the Audit Committee - Independent  
 Mr. Mikhail Surif - Member of the Audit Committee,  
 Mr. Năstase Vlad - independent member of the Audit Committee.

The Audit Committee operates as an advisory body to the Board of Directors on economic and financial issues.

### III) Company Leadership

The Company's management prerogatives are delegated to the CEO and six Deputy Chief Executive Officers, namely:

Chief Operational Officer COO  
 Chief Commercial Officer (CCO)  
 Chief Economical– Accountancy Officer (CEAO)  
 Chief Financial Officer CFO  
 Chief Procurement Officer CPO  
 Executive Plant Officer (ExPO)

The officers appointed by the Board of Directors form the Management Board, having the individual and collective prerogatives established by the CEO within the limits of the competencies assigned to him.

The CEO is also the Chairman of the Management Board.



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5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

The CEO represents the Company in relation to third parties and has full powers to hire, dismiss, establish the remuneration of any employees, establish and amend at any time the Company's organizational chart.

By the decision of the General Meeting of Shareholders taken on April 25, 2018, the following changes were approved in the company's management structure:

Thus, the MANAGEMENT BOARD is composed of:

1. Mr. Adrian Popescu - CEO and Chairman of the Management Board
2. Mr. Cristian Drinciu - Chief Operational Officer
3. Mr. Valeru Mustață - Chief Commercial Officer
4. Ms. Cristiana Văduva - Chief Economical – Accountancy Officer
5. Mr. Chernyy Evgeny - Chief Financial Officer
6. Mr. Alexander Pavlov - Chief Procurement Officer
7. Mr. Constantin Neacsu - Executive Plant Officer

Officers are appointed exclusively from outside of the Board of Directors, except for the CEO who is also a member of the Board of Directors.

The Company is validly represented in relations with third parties, including but not limited to financial institutions, courts of all jurisdictions, governmental authorities, by the following persons acting jointly or separately, as follows:

- a) by the CEO acting individually; or
- b) by the joint signatures of the COO (first signature) and the CEO (second signature) in accordance with the mandate given by CEO or,
- c) by the joint signature of the CCO (first signature) and the CEO (second signature) , in accordance with the mandate given by CEO.
- d) by the joint signature of the CFO (first signature) and the CEO (second signature) in accordance with the mandate given by the CEO; or
- e) by the joint signature of the CPO (first signature) and the CEO (second signature) in accordance with the mandate given by the CEO, or.
- f) by the joint signature of the ExPO (first signature) and the CEO (second signature) in accordance with the mandate given by the CEO.
- g) The Chief Economy – Accounting Officer is the representative of CEO regarding the preventive financial control over the company's operations within the limit of the mandate given by the CEO.

In case of absence, the CEO may delegate his powers of representation to the Company to any of the Executive Directors, specifying whether the executive officers to whom these prerogatives have been delegated act jointly or separately as well as the period of validity and limits of the mandate granted to them.

The CEO may delegate his right to sign and represent the Company on a special power of attorney basis.

III) Committees responsible for deciding economic, environmental and social issues.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



Decisions on the activity of the company are taken by the Board of Directors and / or the Management Board within their competence in accordance with the Articles of Incorporation.

### 102-19 Delegating authority

The Company's management prerogatives are delegated by the Articles of Incorporation to the CEO and six deputy officers, namely:

Chief Operational Officer  
Chief Commercial Officer  
Chief Financial Officer  
Chief Financial Officer  
Chief Procurement Officer  
Executive Plant Officer

The CEO represents the Company in relation to third parties;

Officers are appointed exclusively from outside the Board of Directors, except for the CEO who is also a member of the Board of Directors.

In the event of an absence, the CEO may delegate his powers of representation to any of the executive officers, specifying whether the executive officers to whom these prerogatives have been delegated act jointly or separately as well as the period of validity and limits of the mandate granted.

The CEO may delegate his right to sign and represent the Company based on a special power of attorney.

### 102-25 Conflicts of interest

The Conflict of Interest Regulation, approved by TMK-Artrom's CEO in July 2016, aims to limit the influence of the private, personal interests of employees on their positions, business decisions taken, and ensuring and respecting high standards corporate governance on principles of openness, transparency and predictability.

The provisions of the Regulation are applicable to all employees of the company, including management (persons holding a senior management position: CEO, executive officer, department head, division head, etc.), members of the Board of Directors and other boards or committees. The regulation includes a special section related to the reporting obligations of the Board members in accordance with applicable law (notification of any conflict of interest to the Board of Directors, abstention from participation in discussions and voting in these situations, etc.).

The conflict of interest regulation has been distributed through the internal means of communication and posted on the company's Intranet page, which can be consulted by all employees. In addition, regular training on conflict of interest is organized within the company, with all employees of the company being (re) trained in this regard in 2018.

### 102-40 List of stakeholder groups

TMK Artrom identified the main stakeholders, namely:

#### 1) Investors (Shareholders)



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

TMK-ARTROM SA is an open joint stock company. The regulated market on which the issued securities are traded is the Bucharest Stock Exchange, Regulated Market - STANDARD category - ART market symbol. TMK-ARTROM is listed on the Bucharest Stock Exchange since 1995.

The quality, completeness and accuracy of the information provided to investors by TMK-Artrom SA are in line with the capital market laws in force. All investor information are presented in the "Investor Relations" category on the official website and is published at the same time on the BSE and the FSA without delay.

Meetings with financial analysts, placement consultants, brokers and investors are organized to present the financial results, as the case may be, upon request.

## 2) Creditors, banks

TMK-ARTROM has relations with banks both as a borrower and as a holder of bank accounts and cash availability.

The relationship with banks is very tight, the communication is performed almost daily with the persons appointed by the banks responsible for the relationship with our company, financial statements are periodically transmitted, including budgets and calculations of financial conventions imposed by credit agreements.

The main creditor banks are Banca Comerciala Romana SA, Bancpost SA and Unicredit Bank SA.

TMK EUROPE GmbH Germany, which is also the majority shareholder of TMK-Artrom SA, is one of the main creditors through short and long-term loans granted and reported to all stakeholders publicly in current reports through the Bucharest Stock Exchange and the Company's website.

## 3) Customers and suppliers

TMK ARTROM maintains an open dialogue with customers and suppliers, this being a key element in the company's success. TMK ARTROM requirements related materials supplied are described clearly and transparently to all providers in equidistant "Supplier Quality Manual".

Also in 2017, TMK ARTROM has developed a close collaboration with customers and suppliers sharing corporate responsibility information. The company strives to increase transparency across the supply chain by improving information on the origin of the material (see Supply Chain chapter).

Minimum requirements for suppliers and business partners are described in the Code of Conduct. The anti-corruption clause is an integral part of TMK ARTROM's business contracts.

## 4) Employees or other individuals related to the company's activity.

The company employees are in constant contact with the company's management through various internal actions, making it possible to discuss and evaluate various aspects of the company.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

The dialogue between middle management and employees also takes place daily in formal, operational, and social-related discussions.

Annually, employees fill in the "employee satisfaction and loyalty measurement" questionnaire where the employee can comment on their aspirations and needs, and the employer completes the Employee Performance Analysis to comment on their performance. The results are centralized and structured in such a way as to take improvement measures in this area of activity.

**5) State authorities, centralized and decentralized authorities and services of the state and local authorities (Slatina, Olt County, Bucharest).**

**6) The local community**, which mainly refers to the 99% secured workforce within the local community.

**7) Internal stakeholders:** Management Board, Board of Directors, Executive Officers, Auditors.

**8) Trade unions** as representatives of employees and social dialogue partners are informed and consulted in various decisions taken by management or in connection with employee security, issues related to social aspects, work schedules and other issues covered by the Collective Bargaining Agreement.

#### **102-41 Collective Bargaining Agreements (CBA)**

From the total number of 1486 employees, 1353 employees are affiliated to trade unions. The rest of employees are not affiliated to trade unions. All employees, irrespective of membership or non-membership of a trade union organization, enjoy the rights provided by the CBA.

At the company level there is a CBA concluded with social dialogue partners employee representatives, representative trade union organizations. The CBA sets out the general and specific parameters of the conditions provided by the company to all employees in and for work performed as well as the employees' obligations towards the company. The CBA provides a set of rules pooling employers - unions Social Fund, how the negotiation-renegotiation of contractual arrangements, general conditions of individual employment contracts, various rights other than those directly related to work performed (for family, retirement, holidays, health insurance and additional medical treatment, etc.), internal regulations and other aspects of the relationship between employer, employees and social dialogue partners.

Annually in December, the articles of the CBA are renegotiated, which relate to the remuneration of employees for the work performed and other rights related to the negotiated salary or the average / minimum wage per company.

#### **102-42 Identifying and selecting stakeholders**

As a company with an important role in metallurgical business, TMK ARTROM understands and assumes that its activities have a significant impact on the relevant stakeholders. After identifying stakeholders, TMK ARTROM issued a list of them correlated with their expectations and requirements,



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

the consequence of failing to meet expectations and the strategy of behavior to meet expectations. For this reason, the company has put in place a process of stakeholder consultation and involvement so that it can identify potential opportunities and risks.

Stakeholders were identified and prioritized according to the influence and interest of stakeholders on the company. Through stakeholder discussions, a close relationship with stakeholders was achieved, responding in due time to their needs.

#### **102-43 Approach to stakeholder engagement**

TMK ARTROM intends to develop closer collaboration relationships with identified stakeholders. For the next year aims to continue and develop cooperation with customers as well as relevant stakeholders. Customer satisfaction as a measurable quality objective is assessed annually and gives a vision of how the company and products delivered are perceived. The company aims to expand the number of rated customers in terms of the satisfaction level of delivered products, trying to understand the needs of customers as much as possible.

The company aims to analyze more closely the impact of its decisions on stakeholders and analyze how it can interact with stakeholders who do not have business relationships with the company, such as the local community.

As a business strategy in 2018, TMK ARTROM aims to question its online stakeholders on sustainability issues and integrate the results into the management analysis.

#### **102-44 Key topics and concerns raised**

Customer satisfaction, performance and requirements of suppliers, flow of information with banks, state institutions and other stakeholders.

In the reporting year, the company achieved a high degree of customer satisfaction according to the assessment report.

The assessment was based on the answers to the customer questionnaires, the results of the customer meetings at the clients' premises, the company headquarters and the specialized trade fairs.

The performance of major suppliers is communicated at meetings, but also through monthly scoring. Supplier requirements were analyzed at meetings at their headquarters or at the company's headquarters.

The company replied to questionnaires submitted by stakeholders.

#### **102-45 Entities included in the consolidated financial statements**

The companies included in the consolidated financial statements and in this report are TMK - ARTROM SA, TMK REȘIȚA SA and TMK Industrial Solutions LLC (USA).



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

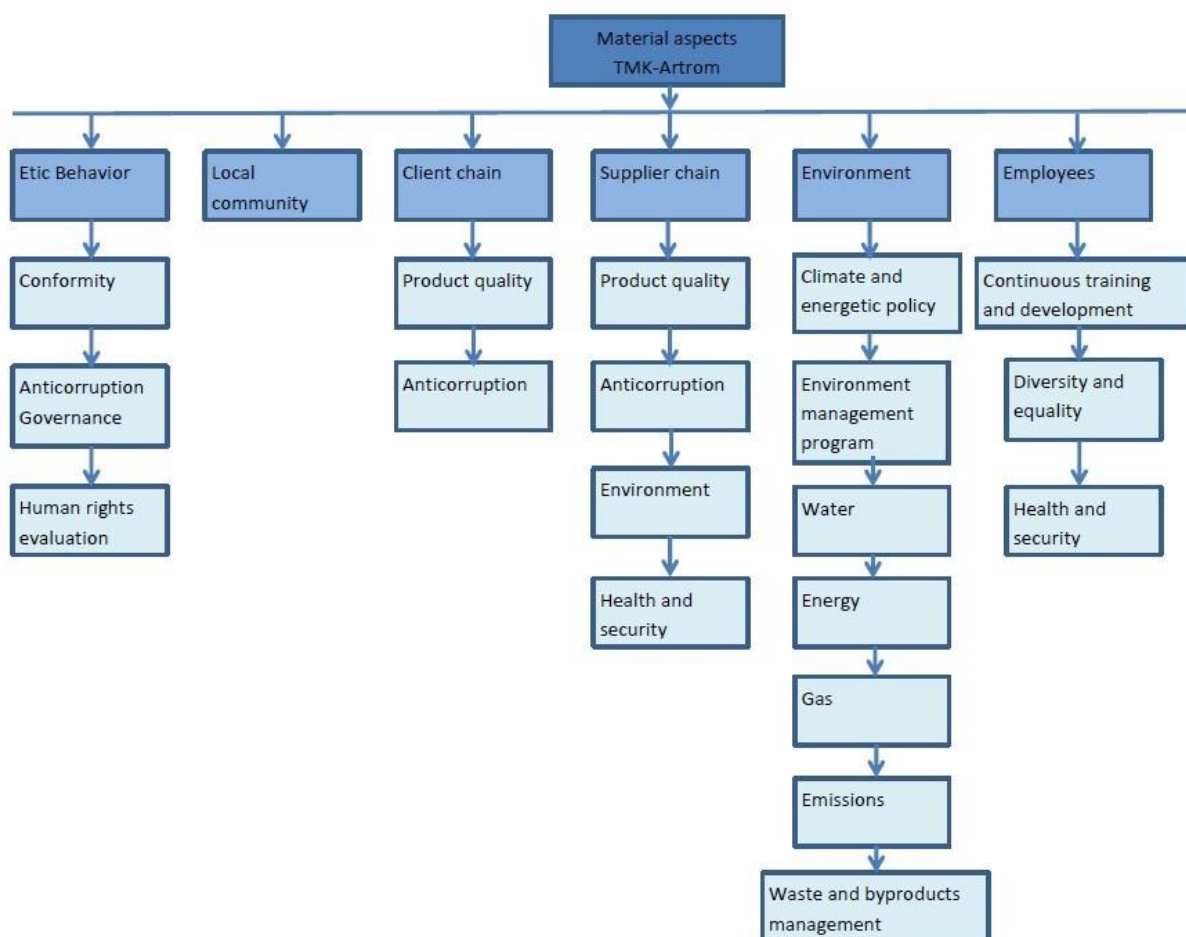
### 102-46 Defining report content and topic Boundaries

During the preparation of the GRI report, TMK ARTROM identified issues related to sustainability reporting that are of particular importance to the company. Various sources of information have been analyzed so the topics are chosen according to their importance.

The most important principle for collecting topics was the stakeholder discussion. Sustainability managers collected responses and information from sales, procurement, environment, health & security sales specialists and received information about the topics concerned. The result was a long series of important topics for stakeholders identified during collaboration with customers, suppliers, state bodies, and benchmarking of selected suppliers, competitors and customers.

Finally, "material topics" were identified for sustainability performance in TMK ARTROM.

### 102-47 List of material topics



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

**102-48 Restatements of information: Not applicable**

**102-49 Changes in reporting: Not applicable**

**102-50 Reporting period: It refers to the calendar year 2018**

**102-51 Date of most recent report: 2017**

**102-52 Reporting cycle: The reporting cycle is annual.**

**102-53 Contact point for questions regarding the report**

contact: office.slatina@tmk-artrom.eu.

**102-54 Claims of reporting in accordance with the GRI Standards:**

The Report is prepared in accordance with the CORE option.

**102-55 GRI content index**

(pg. 2)

**102-56 External assurance**

This sustainability report was not audited externally, but internal control systems were used to ensure the integrity and accuracy of the data presented in it.

**103-1 Explanation of the material topic and its Boundary**

The following aspects have been identified as having high material for the company: ethical behavior, customer chain, supplier chain, environment, employees. These aspects can make a major contribution to the company's material results, negatively or positively influence the economic and financial results, and may generate losses if they are not properly managed.

Having influence on the economic and financial results is a major concern to stakeholders through direct or indirect effect that may have on stakeholder interest.

For these aspects, the company has designed and implemented internal compliance and monitoring procedures and regulations, and a correction system through audits and corrective plans. The company carries out internal audits and, where appropriate, external audits to periodically identify limits, risks and impacts on any stakeholder.

The customer and supplier chain has a significant impact on business and compliance with various regulations. Therefore, their selection is performed through assessment, monitoring and audits that reduce risks and negative impact.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



Environmental aspects have a significant impact on stakeholders through the effects of non-compliance with the rules imposed by legal rules. That is why the company has permanently and periodically (if any) identified these effects, which is the impact on the stakeholders and has implemented internal regulations and procedures that control the effects on stakeholders and compliance with the relevant legislation.

Employees have a direct impact on the company and the stakeholders. For the company, health, security and high staff qualifications ensure continuity of business and business flow, reduce unplanned contingency costs etc.

For this, TMK-ARTROM has also implemented specific selection procedures, periodic assessment, education and qualification of employees, motivation, as well as an internal social dialogue system and their involvement in major company decisions.

Ethical behavior is essential and has a significant impact on the fact that it represents the company's business card in relations with suppliers, customers, authorities, collaborators, and leads to a moral classification of the company's business. That is why TMK-ARTROM imposed internal regulations for compliance with an ethical code and periodically assesses the ethical level of the activity of business partners and its own employees.

The local community does not have a significant impact and is not a critical issue for the company, so policies and regulations to analyze and assess the impact of this issue on the company have not been implemented. In its turn, the company does not have an essential effect on the community because its impact is minor due to the geographical position of the operational activity and the stability of the company (which has never interrupted its activity since its establishment). However, interaction with the local community is indirectly performed within the generally accepted rules as normal.

## 103-2. The management approach and its components

### 1) THE INTEGRATED MANAGEMENT SYSTEM

TMK ARTROM and TMK REȘIȚA have implemented an integrated quality, environment, occupational health and safety (SMI) management system in line with international standards ISO 9001: 2015; ISO 14001: 2015; ISO 45001: 2018, certified by the Lloyd's Register certification body.

The Quality, Environment, Health and Occupational Safety policy is an integral part of our business and ensures that stakeholders continue to maintain and develop their business in line with international, regional and national standards, mandatory legal requirements and regulation, ensuring environmental protection environment, employee protection and rational use of energy resources.

The Integrated Management System policy is compatible with the organizational context and strategic direction. The needs and expectations of stakeholders are understood and integrated into the business process.

Each year, the management team of TMK-ARTROM sets targets with measurable indicators on quality, environment, health and occupational safety.

For 2018, have been set targets, such as:

- Reducing the quantity of non-compliant products delivered to the customer so that it is as close to zero as possible;
- Increasing production volume and reducing metal consumption;



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



- Reducing inappropriate critical production purchases;
- Increase equipment productivity;
- Increasing the level of knowledge, competence and involvement of the staff in the production process and in the improvement of the Integrated Management System;
- Ensuring the efficiency of assimilation and promotion of new product types;
- Improvement of the recovery activity for the recycling of the quantity of packaging waste;
- Reducing the risk factors for injury and professional illness;
- Measuring, monitoring, assessing and continuously improving health performance at work.

In order to achieve these, management programs are established, that include the necessary measures / actions, responsible persons and related resources. Measures to achieve these goals use statistical analysis methods such as the 8D, SIX SIGMA, or FMEA methodologies. Responsibilities for the achievement of management programs are assigned to senior managers and top management which also provide the resources needed to implement the measures set up to achieve the objectives.

## 2) RESPONSIBILITY FOR THE ECONOMIC AND FINANCIAL PERFORMANCE

The responsibility for the economic and financial performance is achieved by the management at the highest level by the Board of Directors and the Management Board.

TMK ARTROM has defined its economic and financial targets in line with the interest of investors (shareholders) and in the spirit of achieving banking conventions. These targets include net sales, profit, cash flow return, liquidity and indebtedness.

The target of 2018 as regards the achievement of a saleable production was met (200,000 tons), being the largest production in the history of TMK-ARTROM.

The pre-tax profit achieved in 2018 (72,365,302 lei) was significantly higher than the one in 2017 (33,102,201 lei), an increase of 118% over the previous year due to the increased cost management intensity and management in higher value added product sales.

## 3. STRATEGY

TMK-ARTROM has a five-year strategy, and investments carried out in 2018 will lead to a change in production structure to increase the share of PREMIUM-type high value added products. Our long-term strategies refer to the EBIDTA and operational cash-flow increase.

## 4. COST MANAGEMENT

TMK-ARTROM has developed the necessary policies, procedures and documentation for cost-effective planning, management, collection and control. The same cost management strategy applies also to TMK REȘIȚA.

## 5. INVESTMENT POLICY

In its development policy, TMK-ARTROM has pursued and aims strengthening of the existing capacities and achieving strategic targets as follows:

Increasing the quality of its products;

Increasing the share of Premium products with high added value;



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

Rapid and secure recovery of the investments performed;

In order to ensure that its strategic goals are achieved through the investment projects implemented, within the investment project approval process TMK-ARTROM performs TECHNICAL AND ECONOMIC ANALYSIS with internal or external specialists subject to corporate approval (Management Board, Board of Directors, GMS).

## 6. RISK MANAGEMENT

There is a specialized department within the company that monitors business risks, observance of compliance and conduct regulations. The Internal Audit, Compliance and Risk Management Department assesses its area of interest, reports to the management the issues found following its assessments and proposes compliance or recovery measures. The head of the department is also the Chairman of the Risk Committee.

Starting 2014, TMK-ARTROM S.A. has developed and implemented the internal risk management procedure that allows identification and management of risks and opportunities both at the company level and at the level of its internal structure.

Also within TMK-ARTROM and TMK REȘIȚA there is an approved Business Code of Conduct which is already known and appropriated by all employees. and sets ethical and professional conduct rules (standards) to be respected by employees regardless of their function (including members of the Board of Directors, Management or Management Board) as well as the collaborators of TMK-ARTROM S.A. and respectively TMK REȘIȚA.

The compliance rules based on the TMK-ARTROM SA and TMK REȘIȚA SA Code of Conduct are based on the philosophy of the company, which implies, on the one hand, the requirement to provide customers with the highest quality for the delivered products and services under the conditions of total fairness and, on the other hand, the desire to be perceived as a trusted partner, a guiding mark in the industry, both nationally and internationally.

The Code of Conduct of TMK-ARTROM S.A. and TMK REȘIȚA S.A respectively includes provisions on the company's and its employees' obligations to comply with laws on combating corruption and bribery and to support the international community's efforts to combat bribery and corruption. Conflict of interest concerns, as well as donation and sponsorship rules, offering and receiving gifts, protocol and hospitality are also included in the Code of Conduct.

In order to support the provisions of the TMK-ARTROM S.A. Code of Conduct on corruption prevention and conflict management, specific documents such as the "Procedure for the Prevention and Reporting of Corrupt Practices" (in force since January 2015) and the Regulation on Conflict of Interests (approved in July 2016) were drafted.

## 7. EMPLOYMENT MANAGEMENT

The company is aware of the fact that employed workforce is one of the most valuable resources and an "asset" with a major impact on the economic results of the business. That is why TMK-ARTROM treats human resources as a major chapter of its work and bases its human resources policies on a number of principles, namely:

Respect towards employees' work.

Active participation of employees in major decisions through their elected representatives.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

Correct and timely remuneration of labor provided by the human resource.

Granting all benefits and compensation agreed upon with the social dialogue partners without discrimination or limitation, strictly based on the importance of job evaluation, training and employee dedication to the work performed.

It pays special attention to the professional training of employees and encourages multidisciplinary qualifications.

Encourages employee stability in the company and the traditionalism of intergenerational transfer of professional knowledge.

Encourage employees' children to continue their parents' tradition and engage in the company.

### 103-3. Evaluation of the management approach

#### 1. Evaluation of the Integrated Management System

At the beginning of each year, the top management conducts the "Integrated Management System Analysis", which analyzes the relevance of the Policy with the business strategy, the applicable laws, the degree of achievement of the objectives and measures set.

The Policy is maintained or, if applicable, is updated, and new targets for the coming year are set. The integrated system certifications are available at [www.tmk-artrom.eu](http://www.tmk-artrom.eu).

TMK ARTROM SA and TMK RESITA prepare at the end of each year the internal and external audit plan for the following year.

Internal IMS audits refer to checking the compliance of the integrated management system with ISO 9001, 14001 and 18001, process, product audits or audits performed according to IATF (auto).

External audits are carried out by TMK-ARTROM's representatives to the major suppliers of raw materials, materials, manufacturing tools and spare parts.

At the same time, an increasing number of clients have conducted audits at TMK-ARTROM, in line with quality requirements, environmental and occupational health requirements. In recent years, TMK ARTROM has also been evaluated by the majority of major external customers under the Social Responsibility Standard (ISO 26000). External audits also have the role of establishing a complementary relationship between the IMS of TMK-ARTROM and the IMS of their clients, being an opportunity for mutual understanding and a useful exchange of experience.

Client audits often involve auditing TMK ARTROM's management systems and also raw material supplier TMK REȘIȚA. The management systems of the two companies are unified and certified at Division level.

In all cases, customer audits have been finalized with positive results, this being the case for further collaboration or receipt of new orders.

Audit results are analyzed to determine their effectiveness, achievement of indicators for the audit process, downward trend, or even lack of non-compliance.

Depending on the results of audits, the frequency and the requirements of the following audits are determined, managerial decisions are taken, the identified risks are reassessed.

Environmental compliance is also one of TMK ARTROM's objectives. All employees support the ISO 14001 management system that includes legal requirements and requirements to ensure the



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949

internal and external control mechanisms in relation to the environment. The annual management review ensures that no problems have arisen or that the issues have been addressed, the way in which environmental laws has been complied with, what new standards or laws has emerged at national or European level in the past year.

Evaluating economic and financial indicators and complying with compliance and conduct policies.

TMK-ARTROM evaluates its economic and financial activity, how management approaches are managed through internal and external audits conducted by either third parties or internal specialized departments.

### External financial audits

On a half-yearly basis a financial audit is performed by an external audit team (appointed by the General Meeting of Shareholders). The economic and financial results included in the financial statements are audited by the statutory auditor. In 2018 the economic and financial audit was carried out by Ernst & Young Romania. The Audit Report is published on the TMK-ARTROM website ([www.tmk-artrom.eu](http://www.tmk-artrom.eu)) and on the Bucharest Stock Exchange and the FSA website.

### Internal financial audits

TMK-ARTROM evaluates its business management approaches, compliance, and risk management through internal audits by the Internal Audit and Risk Management Department.

Audits are performed either for topics and subjects planned in the annual internal audit plan, or topics and on-site topics based on the emergence of new risk items or new business subjects that need to be evaluated in real time.

## 2. Evaluation of management activity

The activity and performance of the management at all levels is measured and analyzed based on a set of Key Performance Indicators (KPIs) set for each manager by its hierarchical superior. KPIs include both economic and financial indicators as well as quantitative, operational or qualitative indicators. The assessment of management's activity is carried out annually in close correlation with the revenue and expenditure budget approved by the GMS.

**CONCLUSION:** TMK-ARTROM S.A. acts with responsibility in achieving excellence in all aspects of the business and is constantly concerned with improving the quality of products and services offered to provide them with the highest degree of professionalism under the motto " " INTEGRITY AND CORECTNESS IN PERFORMANCE ".

## GRI 201 Economic performance

### 201-1 Direct economic value generated and distributed



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5L-0352

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TRD 100/102  
Vd TUV

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TUV CPR:  
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EN 10255

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RINA

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ISO/TS 16949

	Stand alone	Stand alone	Consolidated	Consolidated restated
	2018	2017	2018	2017
<b>1 Value generated: revenues</b>				
Net sales	1.385.787.328	1.065.446.401	1.396.645.640	1.185.628.179
Revenues from financial investments	3.494	1.714	3.554	1.049
Sales of assets	4.028.169	559.256	5.172.542	2.513.710
<b>Total</b>	<b>1.389.818.991</b>	<b>1.066.007.371</b>	<b>1.401.821.736</b>	<b>1.188.142.938</b>
<b>2 Economic value distributed:</b>				
Operating costs	1.160.558.738	923.139.010	1.079.340.085	993.338.051
Employee wages and benefits	117.292.412	99.986.135	173.478.207	151.284.808
Payment to providers of capital	10.600.444	6.027.422	13.325.720	8.680.085
Payments to government by country	38.199.853	4.241.883	42.668.143	7.923.272
Community investments	344.178	175.390	397.517	222.400
<b>Total</b>	<b>1.326.995.625</b>	<b>1.033.569.840</b>	<b>1.309.209.672</b>	<b>1.161.448.616</b>
<b>3 Economic value</b>	<b>62.823.366</b>	<b>32.437.531</b>	<b>92.612.064</b>	<b>26.694.322</b>

TMK-ARTROM has decided to apply the consolidation method by grouping interests named in IFRS “pooling of interests” for the entities under common control. Following the acquisition of the majority shares of TMK Reșița on 21 December 2018, were restated the consolidated financial statements under IFRS for the years 2016 and 2017.

## 201-2 Financial implications and other risks and opportunities due to climate change

No risks or financial implications due to climate change have been identified

## 201-3 Defined benefit plan obligations and other retirement plans

TMK ARTROM has an employee benefit plan in place. The employee benefits assessment is presented in an actuarial report prepared by Pricewaterhouse Coopers Audit SRL in accordance with the requirements of ‘IAS 19 Employee Benefits’. Estimation of employee benefits is updated annually



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5CT-0440  
5L-0352

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ISO 9001  
ISO 14001  
OHSAS 18001

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PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949

since actuarial projections depend on future events and are based on assumptions that may change over the projected period.

Employee benefits granted to employees are retirement benefits and death benefits from any cause. In the case of retirement benefit, employees who retire, receive an allowance equal equivalent with two gross salaries in the month of retirement. And in the case of the death of the employee of any cause, his family receives two average salaries negotiated at the company level. According to the actuarial report of 2018, the present value of the liabilities at 31 December 2018 is 2,900,934 lei. For this value the company has a provision established.

The company employees benefit from 2 types of benefits:

- a. Monthly remuneration;
- b. Extra pay benefits under the Collective Bargaining Agreement
  - a. The monthly remuneration is represented by the monthly salary received by each employee according to the work performed and the professional training.

The monthly remuneration is composed of:

- monthly salary
- salary increases for various specific conditions
- monthly premiums
- paid holiday and holiday premium for all employees
- overtime paid by 175%, Saturday and Sunday paid by 175%, night paid by 125%, public holidays paid by 200%

b. Benefits of an extra-salary nature in accordance with the provisions negotiated between the Employer and the Unions and created through the execution of the Collective Bargaining Agreement:

- meal vouchers for all employees;
- treatment vouchers, tourist and transport services provided by the unit for all employees;
- paid free days for special events (births, baptism, etc.);
- persons dismissed by collective redundancies - a number of compensatory average salaries;
- retired employees receive an allowance equal to at least 2 basic salaries equal to the one in the retirement month, granted one time;
- an average salary negotiated, indexed on the company for the birth of each child or the death of a relative;
- two negotiated average salaries, indexed on the company in the case of the death of a first degree relative;
- three negotiated salaries indexed on the company, if the employee has suffered a first and second degree disability accident;
- nine average salaries negotiated, indexed on the company, if the employee has suffered an accident at work, or in connection with work, causing his death, paid to the survivors;
- the employees of the company relocated in other localities - daily subsistence;
- humanitarian, cultural and tourism actions;
- expenses occasioned by anniversaries and religious holidays, festive days, children's days, women's day and Christmas;
- the amounts needed to contribute to setting up funds for activities in the field of preparation, negotiation and application of the collective bargaining agreement at all levels;
- nutrition to strengthen and protect the body's resistance;
- the value of the individual protective equipment is fully supported by the company;



API:  
5CT-0440  
5L-0352

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ISO 9001  
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OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
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RINA

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ISO/TS 16949



- regular medical examination and employment;
- additional medical insurance covering and covering the cost of medical treatment;
- long-term loyalty bonuses for key personnel and specialists;

#### 201-4 Financial assistance received from the Government:

In 2018, TMK-ARTROM benefited from exemption from the payment of 60% of the number of green certificates, totaling 1,857,461.9 LEI, out of the total required quota according to the Government Decision no. 495/2014 on the establishment of a state aid scheme for exempting certain categories of final consumers from the application of Law no. 220/2008 establishing a system for the promotion of energy production from renewable energy sources.

In 2018, TMK-ARTROM benefited from the excise duty exemption for electricity and natural gas amounting to 1,192,686.9 LEI, according to section 13 art. 394, art. 355 par. 3, respectively art. 358 of the Fiscal Code.

TMK-REȘIȚA benefited in the year 2018 from the exemption from the payment of 85% of the number of green certificates representing 8,183 334.19 lei related to the mandatory quota, according to Government Decision no. 495/2014 on the establishment of a state aid scheme for the exemption of certain categories of final consumers from the application of Law no. 220/2008 establishing the system for promoting the production of energy from renewable energy sources.

In 2018, TMK-RESITA benefited from the excise duty exemption for electricity and natural gas in the amount of 530,193.02 lei, according to Section 13 art. 394, art. 355 paragraph 3, respectively art. 358 of the Fiscal Code.

#### GRI 202 Market presence

The company's employee ratio by sex and age compared to the local one cannot be established at this time because both our company and other companies have any information about employment contracts subject to strict confidentiality rules.

#### 202-1 Ratios of standard entry level wage by gender compared to local minimum wage

In 2018, the local minimum salary is 1,900 lei according to the Romanian laws. In TMK ARTROM, the minimum salary established according to the negotiations between the employer and the Unions was 2100 lei on January 1, 2018 and 2197 lei on July 1, 2018 for all employees regardless of gender in 2018. To this salary the salary bonuses are added (seniority, management bonus, no workload bonus, substitute bonus). In addition to the minimum salary set on the company, the other financial benefits stipulated in the Collective Bargaining Agreement (the 8% monthly bonus, the holiday bonus, the leave and holiday vouchers and the meal vouchers) are added. All the listed benefits are granted to all salaries without exception by gender.

Within our company there is no significant number of employees paid with the minimum salary stipulated in Romanian laws in 2018.

TMK ARTROM has no daily workers. All employees are hired under a contract of employment ('employees'). In trade union negotiations, the minimum wage per company is negotiated annually and cannot be lower than the minimum legal level provided by laws.



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5CT-0440  
5L-0352

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ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
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TRD 100/102  
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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
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EN 10255

LR  
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RINA

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ISO/TS 16949



The minimum salary is 2100 lei on January 1, 2018 and 2197 lei on July 1, 2018 lei plus the other benefits listed are applied to TMK ARTROM for newcomers without exception by gender.

In TMK REȘIȚA, the minimum salary established according to the negotiations between the employer and the Trade Union was 2222 lei for all employees of all genders in 2018. This salary is supplemented by salary bonuses (seniority, management increase, team leader). In addition to the established salary of 2222 lei, the other financial benefits provided by the Collective Bargaining Agreement (the 8% monthly bonus, the holiday bonus, the leave and holiday vouchers and the meal vouchers) are added. All listed benefits are granted to all employees without exception by gender. The minimum salary of 2222 lei plus the other listed benefits apply to newly qualified, without exception by gender at TMK RESITA.

## 202-2 Proportion of senior management hired from the local community

People from the local community and senior management positions within TMK ARTROM ('senior management') as defined below are 77%. and in TMK RESITA the ratio is 67%.

By "senior management" we included:

-Board of Directors - see [http://www.tmk-artrom.eu/tmkartrom\\_board\\_of\\_directors](http://www.tmk-artrom.eu/tmkartrom_board_of_directors)

-Management Board, Executive Managers, Chiefs of Departments - see [http://www.tmk-artrom.eu/tmkartrom\\_management](http://www.tmk-artrom.eu/tmkartrom_management)

Through the senior management in TMK ARTROM from the local community, we defined Romanian citizens with stable residence in Romania (residents), in the town of Slatina, OLT county, respectively senior management in TMK REȘIȚA - Romanian citizens with stable residence in the city of Reșița, Caraș Severin County.

## GRI 203 INDIRECT ECONOMIC IMPACTS

### 203-1 Infrastructure investments and services supported

During 2018, the main investment in TMK-ARTROM was the completion of the installation, commissioning and optimization of the new Heat Treatment Complex, which represented 80% of the total investments made this year.

The remaining 20% represented energy-efficient investment measures. The investment in the energy efficiency area was to replace, in all factory production halls, classical mercury or sodium light fixtures with LED lighting.

Other investment projects carried out had as main purpose the equipment for IT data provisioning as well as capitalized major works for assuring the safety of the operation of machines from the rolling lines.

TMK-ARTROM is one of the main contributors to local budgets, and through co-operation with local companies, it brings added value to contributions. Major maintenance, construction and



API:  
5CT-0440  
5L-0352

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ISO 9001  
ISO 14001  
OHSAS 18001

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TRD 100/102  
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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949

mechanical building works for the 2018 investments and much of the company's services have been subcontracted with local companies, with payment records for these over EUR 6 million.

For the local community, in 2018, TMK-ARTROM provided conditions and production facilities for practical work for students in vocational schools from Slatina and also for other higher education institutions.

### 203-2 Significant indirect economic impacts

In 2018, investment payments totaling EUR 7 million were recorded, most of this amount being part of the investment project "Heat Treatment Complex".

This investment was started at the end of 2016 with the main installation works in 2017 and in 2018 tests, optimizations, development of the complex were made, with additional equipment and entry into production, the total amount spent to date for this project exceeding 35 million euro.

The impact of this investment is reflected in the production mix of the plant, which has become extremely flexible depending on the types of heat treatments, the significant increase in the volume of pipes in the premium range, the increase in the number of employees in the plant, natural gas for all heat-treated products.

The new products incorporate additional added value that, along with increased production levels and reduced manufacturing costs, generate revenue growth.

TMK-REȘIȚA SA carried out in 2018 activities with direct impact in maintaining the quality of the products, carrying out investments through energy efficient programs.

TMK REȘIȚA has installed equipment for increasing the quality of electric power by installing a Power Factor Compensation Facility (SVC) and has performed extensive repairs to the power stations that supply electricity to the external consumers with whom TMK-REȘIȚA SA has a contract distribution.

Also in 2018, TMK-REȘIȚA SA acquired a state-of-the-art fire-fighting machine and trained fire-fighters in a private system.

Last but not least, TMK-REȘIȚA SA made investments in 2018 in installations for the Reduction of GHG emissions of pollutants into the atmosphere, procurement of equipment and maintenance works at these installations, which exceeded EUR 700,000.

## GRI 204 PROCUREMENT PRACTICES

### 204-1 Proportion of spending on local suppliers

TMK ARTROM S.A. makes its own purchases of raw materials, materials, and services through its own domestic services. The main raw material, billets used for pipe production, is purchased from TMK REȘIȚA. The other materials and services used in the production process are purchased from domestic or foreign producers that have been active on the market for a long time, being recognized for the products they deliver. Sources of materials and services can therefore be either local, national or international.

Certain specific materials are only available from international suppliers and must be imported. Where there are quality products at competitive prices, they are purchased from local suppliers (from Romania). There are no cases where purchases are made on a preferential basis, the only way to analyze the products is the quality-price ratio and the supplier's existence in the Approved Suppliers



API:  
5CT-0440  
5L-0352

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ISO 14001  
OHSAS 18001

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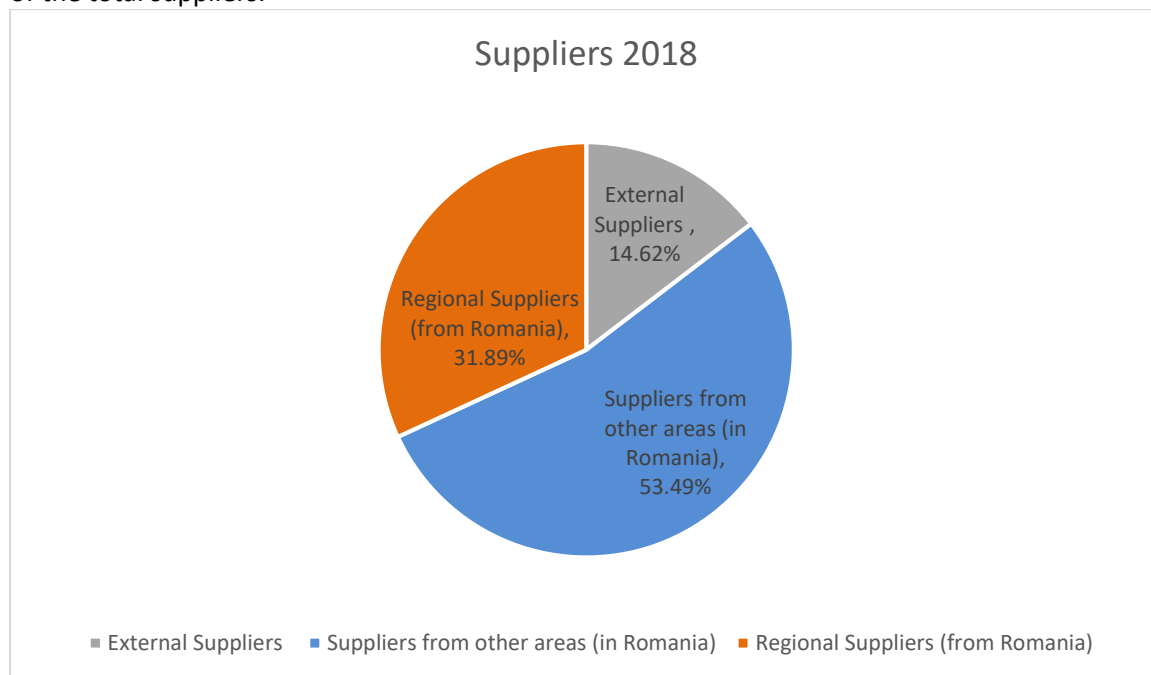
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EN 10255

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ISO/TS 16949

List. The use of local suppliers has the advantage of reducing the purchase time, cost and time of transport and increasing the availability of quality control at the supplier.

The proportion of local suppliers (from Romania) in the total suppliers at the end of 2018 is 85.38% (257 suppliers out of a total of 301 suppliers existing at the end of 2018 on TMK ARTROM SA's Approved Suppliers List). Out of the 257 Romanian suppliers there are 96 regional suppliers (suppliers from Olt County and neighboring counties: Dolj, Vâlcea, Argeş, Teleorman), which represents 31.89% of the total suppliers.



In the case of TMK REȘIȚA, the proportion of local suppliers (in Romania) to the total suppliers at the end of 2018 is 91.06% (163 suppliers out of a total of 179 suppliers existing at the end of 2018 on the List of Approved Suppliers of TMK Resita S.A.).

Out of the total of 163 suppliers in Romania, there are 43 regional suppliers (suppliers from Caraș Severin County and neighboring counties: Timiș, Hunedoara and Mehedinți), which represents 24.02% of all suppliers.

## GRI 205: ANTI-CORRUPTION

Within TMK-ARTROM S.A and TMK REȘIȚA there is a set of internal norms (procedures, policies and regulations) that regulate how the company management understands to manage these topics:

1. Code of Conduct;
2. The procedure for preventing and reporting the acts of corruption;
3. Transparency policy in recruiting staff;
4. Regulation on conflict of interest;
5. Risk Management Procedure.

TMK REȘIȚA uses the same package of normative acts.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949

### 205-1 Operations assessed for risks related to corruption

The internal procedure for the prevention and reporting of corruption acts regulates the basic principles of the anti-corruption culture of TMK-ARTROM S.A. respectively TMK REȘIȚA, but also the main measures for the prevention, detection and reporting of corruption.

The corruption risk is regularly and systematically assessed by all structural units of the company as part of the risk management process of TMK-ARTROM SA and TMK RESITA SA as well as through the internal audit function that performs regular checks of operations the company, including in order to identify any corrupted and lacks of objectivity information.

### 205-2 Communication and training about anti-corruption policies and procedures

The company's anti-corruption principles are contained in the Code of Conduct and Procedure on Preventing and Reporting Corrupt Practices (documents available in both Romanian and English) and are brought to the attention of employees through both internal intranet, (in 2018, all employees of the company being (re) trained on corruption, ethics and conflict of interest issues). The management of TMK-ARTROM S.A and TMK REȘIȚA is permanently involved in obtaining and maintaining an impeccable reputation of the company, the anti-corruption principles being discussed and approved at the highest levels of management: the members of the Board of Directors, the Chief Executive Officer and the Board of Directors.

The zero tolerance for corruption acts is communicated to potential employees through the Transparency Policy in recruiting staff, and they are informed about the anti-corruption principles of TMK-ARTROM S.A and TMK RESITA respectively and on the existence of a system of reporting of potential violations of Transparency Policy principles in recruiting staff.

In addition, as part of TMK-ARTROM SA's contractual policy TMK REȘIȚA, contracts with trade partners include the "anti-corruption clause", whereby the parties undertake to comply with anti-corruption laws and not to be involved in acts of corruption.

### 205-3 Confirmed incidents of corruption and actions taken

Corruption acts may be reported and identified in TMK-ARTROM S.A. respectively TMK REȘIȚA SA by persons inside or outside the company (whistleblowers) and / or audits (internal and external) performed during the reporting period, being analyzed and settled according to the internal procedure in force (the final decision on the actions undertaken by the Board of Directors and the CEO TMK-ARTROM SA).

In 2018 there were no confirmed corrupt incidents in which the company and / or its employees were involved.

## GRI 300 ENVIRONMENT

### GRI 301 –Materials

#### 301-1 Materials used by weight or volume



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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EN 10210-1,2  
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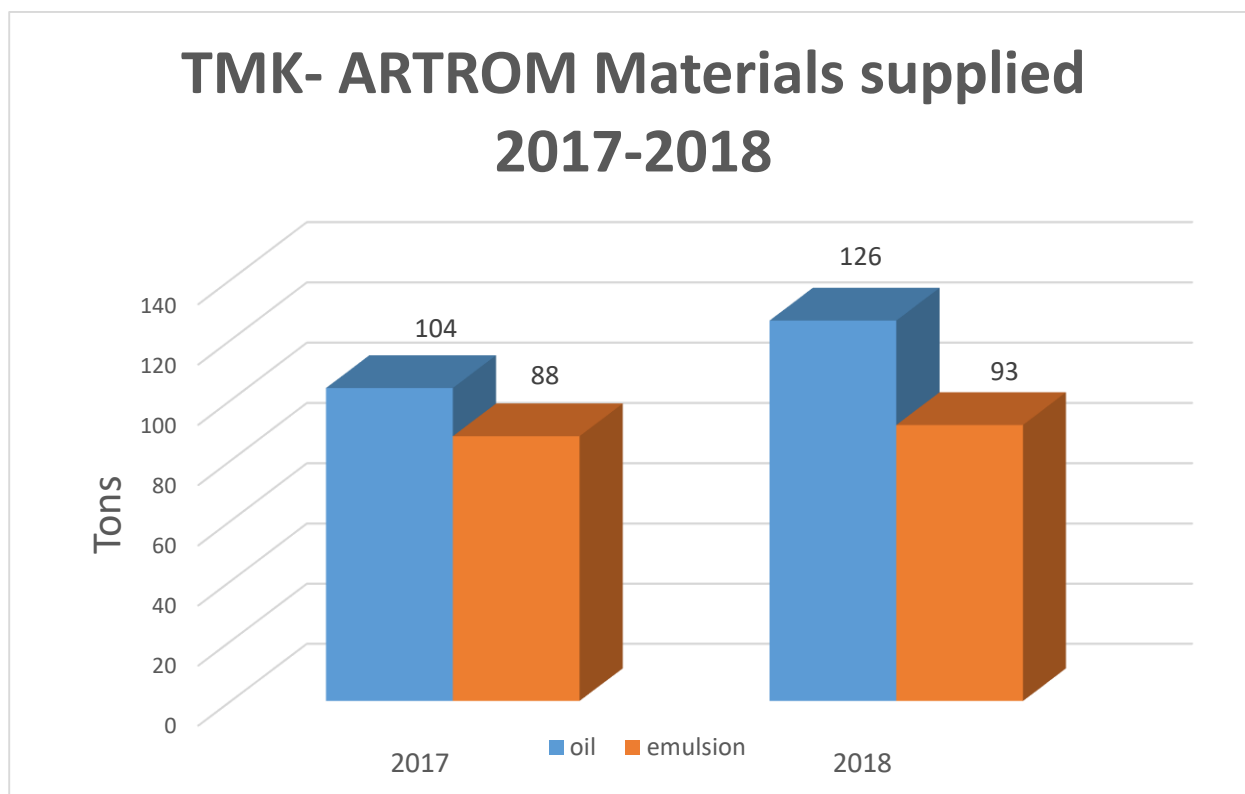
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Pipe manufacturing is an industrial process with a high consumption of raw material - steel billets, energy consumption, water, packaging materials, pipe protection and other materials to achieve a product that meets customer requirements.

The organization uses the highest quality and environmentally friendly oils and emulsions. For maintenance of the machines in 2018, were used 126 tons of oil and 93 tons of emulsion.

The quantities of oil and emulsion increased as the production of goods in 2018 increased to 200,276 tons compared to 190,284 tons in 2017.



The materials used in the packaging process are made of recyclable materials such as steel, paper, cardboard and wood. The largest share of the packaging materials is the materials purchased from the countries of the European Union; of these materials, the high percentage is represented by the platband: 319m76 tons purchased in the reporting year, and 241,172 tons of steel billets were used as raw material.



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5L-0352

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OHSAS 18001

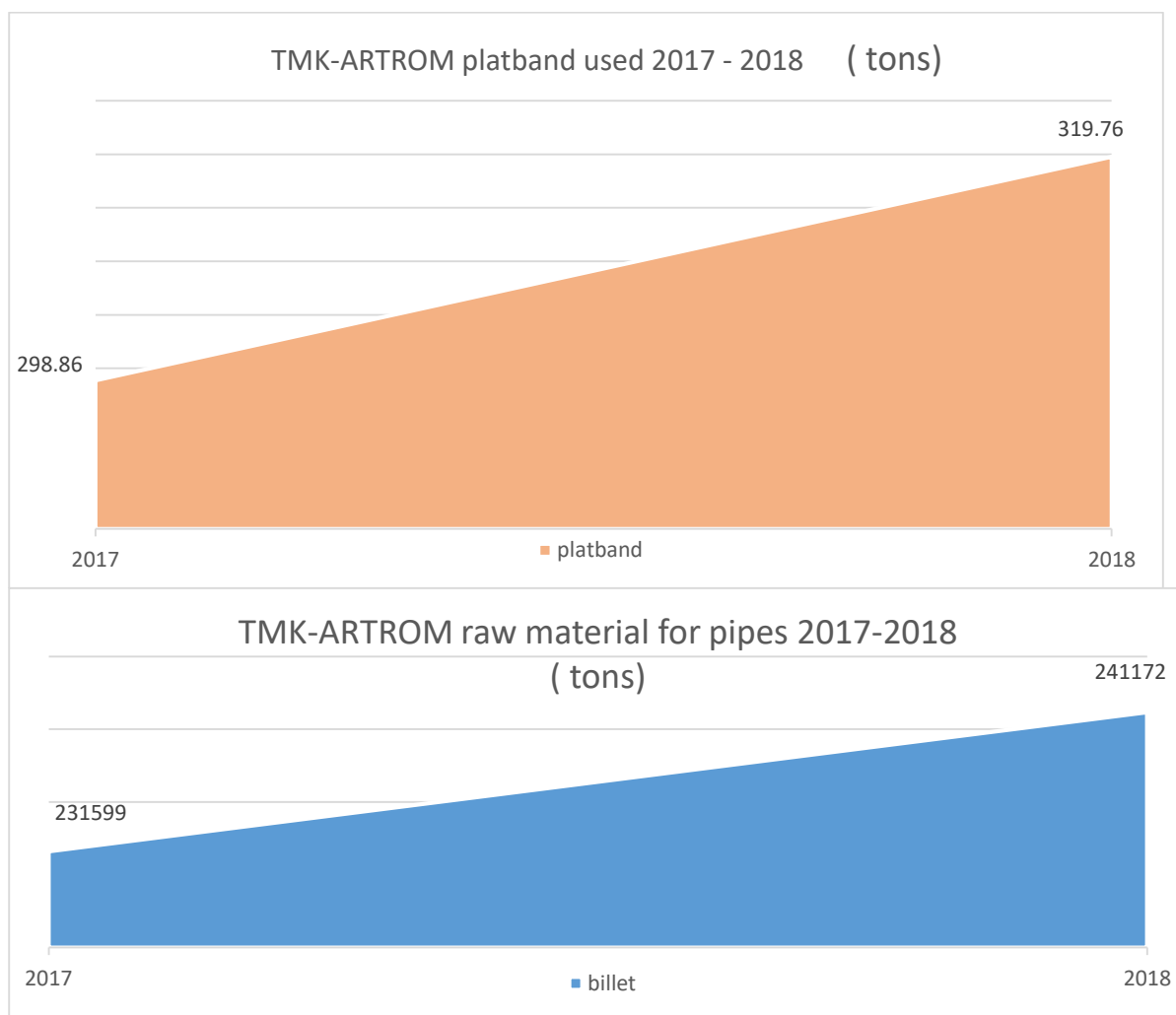
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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949



### 301-2 Recycled input materials used

No recyclable materials are used in the process of pipe manufacturing. In the auxiliary processes to the main technological process, respectively in the process of transporting and storing raw material and finished product, the packaging materials received with the raw material, the connecting wire and the wooden spacers are reused until their deterioration and transformation into waste.

### 301-3 Reclaimed products and their packaging materials

Of the total claimed pipes, 97.68% was the pipe sold on the external market and 2.32% was the pipe sold to the domestic market (60.29 tons of claimed pipe - 1.40 tons on the domestic market and 58.89 tons on the external market).

In 2018 a specific consumption of materials used for packing and transporting pipes of 3.98 kg of package / ton of sold pipe was made.

The packaging used for the packaging of the claimed pipes reached a value of approximately 240 kg, all of which are recyclable materials.



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5L-0352

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ISO 14001  
OHSAS 18001

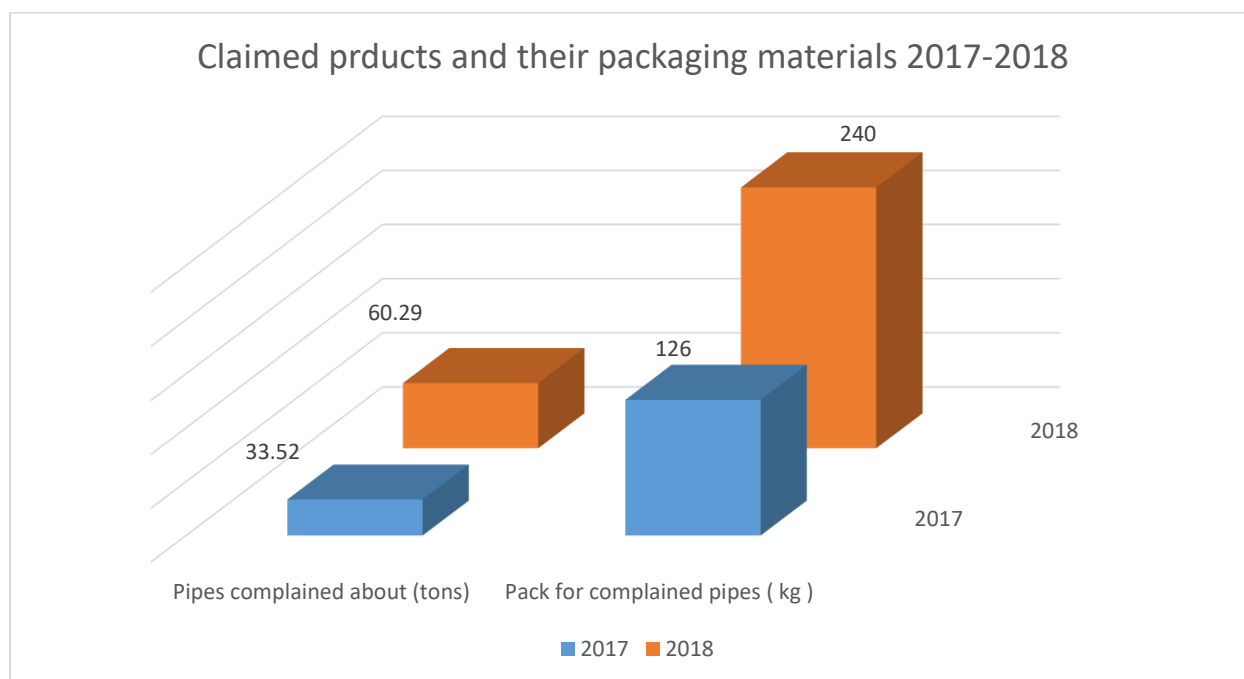
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PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949



## GRI 302 – ENERGY

Through the policies and measures undertaken, TMK ARTROM and TMK REȘIȚA effectively manage the environmental aspects of their activities, while actively contributing to reducing the negative impact on the environment.

Our concern is to minimize the impact on the environment by using the best technologies and our investments are well thought out at the design stage.

### 302-1 Energy consumption within the organization

The total electricity consumption of 2018 made by TMK ARTROM was 219,390 GJ, while the consumption of natural gas was 1 357 420 GJ.

TMK-ARTROM, respectively TMK REȘIȚA, acquires electricity from electricity suppliers accredited by the NERA. The electricity supplier that TMK-ARTROM had in 2018 is a buyer who purchases electricity through the OPCOM wholesale electricity trading platforms.

The purchased electricity is transported through the lines of the national TRANSELECTRICA transporter and is distributed through the distributor networks "DISTRIBUTION OLTENIA".

In 2018 it is estimated that over 36% of the electricity supplied came from renewable sources: hydroelectric, wind, solar, biomass and others.

The total energy consumption made by TMK-REȘIȚA SA in 2018 was: 913,674,715 GJ.

TMK-REȘIȚA SA acquires electricity both directly from the Transelectrica SA Power Supply Network at the 220 kV level, respectively at the lower 110 kV, average or low voltage levels in the Enel Distribuție Banat SA distribution network.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

LRQA:  
ISO/TS 16949



In 2018, 33.11% of the electricity supplied came from renewable sources: hydroelectric, wind, solar, biomass and others.

TMK-REȘIȚA SA is licensed to provide the electricity distribution service. In carrying out this activity, TMK-REȘIȚA SA resold in 2018 an amount of approximately 345 MWh of electricity to its subconsumers.

### 302-2 Energy consumption outside of the organization

Of the total electricity consumption, in TMK ARTROM 78% was used for metallurgical purposes and 22% for auxiliary activities. Natural gas consumption was used in 95% metallurgical purpose and 5% in auxiliary activities.

Of the total consumption of TMK-REȘIȚA SA, 0.1% of the company's electricity consumption is used for recreational activities.

### 302-3 Energy intensity

The energy intensity in 2018 was in TMK ARTROM of 7.9 GJ / year compared to 2017 when it was 8.4 GJ / T. The energy intensity calculation methodology is the ratio between the energy consumed in the year in GJ and the pipe production measured in tons.

### 302-4 Reduction of energy consumption

In 2018 it carried out an investment started in 2017 for energy efficiency: replacement of existing fixtures in production workshops with LED lighting.

Through this investment estimates a reduction of electricity consumption for industrial lighting by about 30%.

TMK-REȘIȚA SA carried out energy efficiency projects such as:

- a) Use of a frequency inverter for engine starting and operation at medium voltage of 6 kV, 1400 kW;
- b) Replacement of the gas burner from the ladle heating system no. 1 with oxy-gas burner.
- c) Replacement of the oxy-gas burner from the distributor heating system to the Continuous Casting Machine with oxy-gas burner.
- d) Development of reactive power compensating equipment on the 110 kV supply of TMK Resita.



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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### 302-5 Reductions in energy requirements of products and services

TMK-ARTROM performs on-line monitoring of energy consumption by sectors of activity and also on its own technological and auxiliary process.

TMK ARTROM was commissioned in the year 2018 the "Heat treatment complex" investment, which has an impact on energy efficient part by reducing the consumption of natural gas for heat treatment operations by about 40% the old furnaces.

### GRI 303 WATER

#### GRI 303 -1 Water withdrawal by source

TMK-ARTROM secures its water supply from its own source, having nine wells drilled at a depth of 120 m within the company. The wells have an operating flow rate of 3 l / s.

The amount of water extracted from the underground in 2018 was 663294 cubic meters. This amount was used as follows:

- a) 202477 cubic meters for drinking purposes
- b) 460817 cubic meters for technological purposes. Technologically, water is used to cool the machines, the roller tracks, the pipe quenching plants then collected and the pumping station basins where it is filtered and then pumped into the cooling towers and reintroduced into the circuit.



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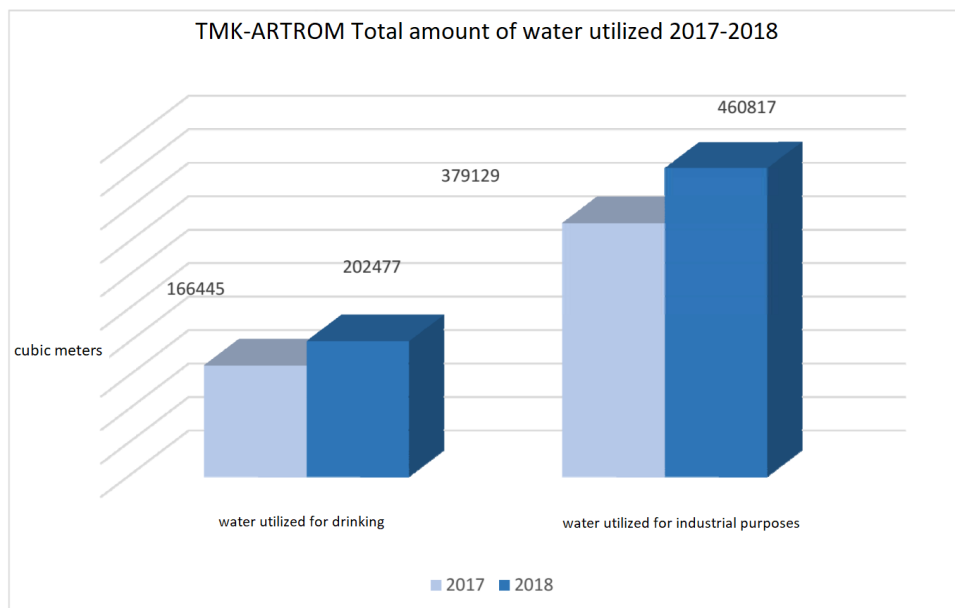
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TMK-REȘIȚA SA secures the water necessary from a surface water source from SECUL dam for industrial activities, as well as from the drinking water supplier Aquacaras SA, for drinking water consumed.

The quantities of raw water taken from the Secu Dam by TMK-REȘIȚA SA in 2018:

Name of water consumer	MU	Quantity
TMK-REȘIȚA SA	m <sup>3</sup>	1 073 542
SC AQUACARAS SA	m <sup>3</sup>	5 593 801
Messer Romania Gaz	m <sup>3</sup>	67 949
TOTAL	m <sup>3</sup>	6 735 292

The cooling system that ensures operation in the optimal parameters for TMK-REȘIȚA SA's technological equipment ensures, through the water supply, the complete recirculation of the water used in the production process. Cooling of the electric furnace, steel treatment in ladle, de-dusting plant, vacuuming plant, is done indirectly cooling and is performed only on closed circuits with interposed cooling towers.

The industrial water used is only to refresh and replenish the lost water through the process of evaporation in the process and in the cooling towers.

### GRI 303-2 Water sources significantly affected by withdrawal water

TMK ARTROM has 9 water supply sources from a depth of 120 m, the water consumption in 2018 being 663 thousand cubic meters, below the maximum authorized value of 858 thousand cubic meters.



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All water sources are duly authorized by the OLT Basin Water Administration. In the area near the site there are no areas of interest for nature preservation or bird species, water supply to the local community being located at about 5 km from the company's plant and is not affected by the amount of water extracted and used by the company.

The volume of extracted water represents a minor impact on the deep aquifer layer.

The amount of water used in 2018 for TMK-REȘIȚA SA's own consumption represents 14.1% of the volume of the Secu dam, thus not affecting the fish population.

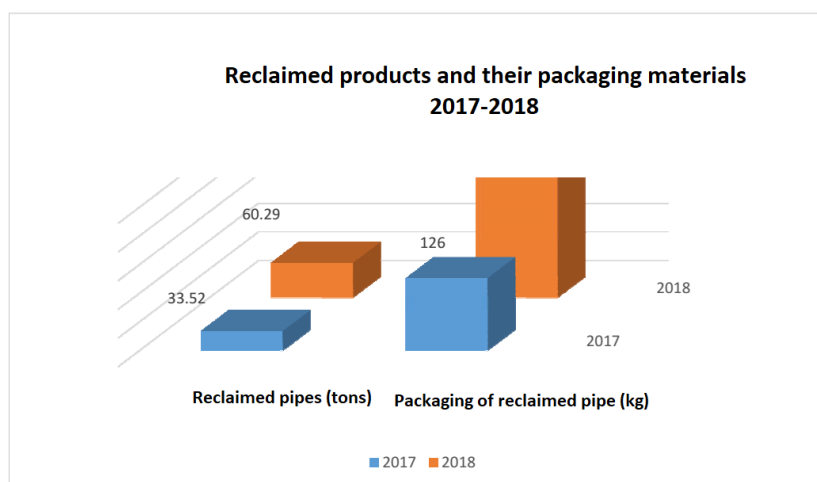
### GRI 303-3 Water recycled and reused

Access to water in the pipe industry is particularly important when talking about the quenching process where water is used directly or for direct pipe cooling. Most of the water used in the production process is recirculated in the cooling system. All the work is done in accordance with legal regulations.

In 2018 a volume of 8101676 cubic meters of water was recirculated. The utilization rate of recirculated water is approximately 97.33%.

Access to water is very important for the cooling of metallic metallurgical units in TMK REȘIȚA (electric furnace, steel treatment in ladle, vacuuming plant) and especially for the cooling of continuous casting equipment by which the flowing steel is solidified. All cooling circuits are closed, so the water used in the production process is recirculated. In 2018 a volume of 31,867,739 m3 of water was recirculated.

The degree of recirculation of authorized cooling water is 96.7% and the actual one is approx. 98%.



### GRI 304 Biodiversity

Not applicable. TMK ARTROM is located in the industrial area of Slatina.



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TRD 100/102  
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## GRI 305 EMISSIONS

### 305 -1 Direct (Scope 1) GHG emissions

TMK-ARTROM S.A. produces seamless carbon steel or low alloy pipes by hot rolling and cold rolling or drawing; the pipe production process is a direct process of direct emissions from natural gas combustion in heating and heat treatment furnaces and TMK has as a priority the reduction of CO2 emissions from the air.

The company receives natural gas through the SRG gas control station, which has two gas metering control stations, imposed by the consumer supply pressure level.

In 2018, Direct GHG emissions from the heat treatment of pipes and from the workplace heating process were 70,065 tons of CO2 at a production of 200,276 tons of production sold.

The quantity of emissions is determined by the calculation methodology and on the basis of the weekly determinations of the natural gas composition.

The company is interested and makes its best efforts to minimize the impact of CO2 emissions on the environment, applying the best available technologies.

TMK-REȘIȚA SA produces carbon steels and low or medium alloyed steels, which is continuously cast in 260 x 340 mm rectangular or 177, 220, 280 or 350 mm diameter round bars. The technology process generates direct gas emissions, of which the most significant is CO2, well-known for the greenhouse effect it produces on the earth's atmosphere.

CO2 emissions result from:

- burning of natural gas (used to produce the heat energy needed to melt the metallic charge from the electric furnace or other technological activities including heating the work areas)
- oxidation of carbon in various raw materials, auxiliaries or other materials used in the production of steel or continuous casting in bars (scrap iron, ferro-alloys, slag foaming material, dust for coating the ladle, distributor or lubricant in the crystallizer, etc.).

In 2018, Direct GHG emissions resulting from the continuous steel casting and casting process, including the process of heating the work areas, represented 28,046 tons of CO2 at a production of 263,275.7 tons of liquid steel.

### 305-2 Energy indirect (Scope 2 ) GHG emissions, from purchase respectively

In Romania at the level of 2018, for the production of a kw of electric power, the CO2 generated was of 0.31452kg.

In order to achieve the production, in 2018 TMK ARTROM consumed an amount of 60,941.62 MWh of electricity. By calculating for TMK ARTROM the indirect CO2 emissions from the energy purchase, it results 19,167 tons of CO2. In order to achieve the production, in 2018 TMK REȘIȚA consumed 190,883 MWh of electricity. Calculating for TMK REȘIȚA the CO2 emission level of the purchased electricity is 60036,5 t CO2.

### 305-3 Other indirect CO2 emissions

Company traffic has little impact on indirect CO2 emissions, the carbon footprint is 776 tons of CO2. However, in order to reduce the air emissions of vehicles and diesel equipment owned by the company, the company has implemented a monitoring program for them. Thus, every vehicle is



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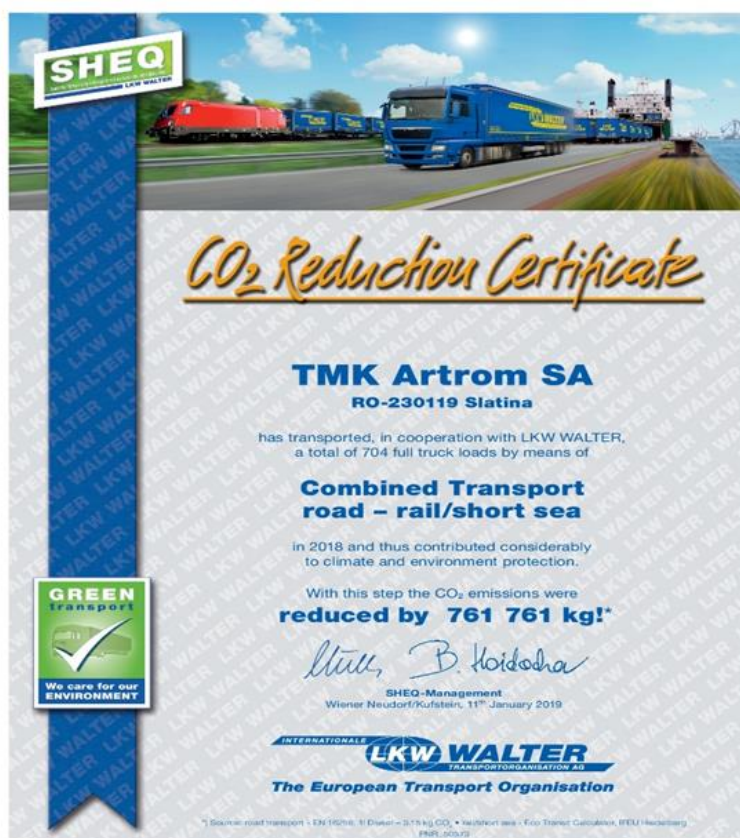
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periodically checked and if it is found not to work in normal conditions, it is removed from circulation until the problem is remedied.

TMK ARTROM is actively working to reduce indirect CO<sub>2</sub> emissions from shipments made with other companies. In this respect, together with business partners, for a part of the products delivered in Europe, multimodal transport with the transport company LKW Walter Austria and Transport Arces Italy has been carried out by multimodal transport to the center of Europe. By multimodal transport we understand the combined transport on the road and on the platforms (the trucks are mounted on these platforms with the engines stopped, and they no longer emit CO<sub>2</sub>): In this way in 2016 the company reduced its CO<sub>2</sub> emissions by 458.60 tons of CO<sub>2</sub>, in 2017 by 773.30 tons of CO<sub>2</sub>, and in 2018 by 761,761 kg.

Starting 2015, TMK ARTOM has been awarded a CO<sub>2</sub> Transport Reduction Certificate from business partners for its involvement in reducing CO<sub>2</sub> emissions.



Emissions were calculated at TMK REȘIȚA using the GHG methodology, which distinguishes between direct emissions, indirect emissions from electricity and indirect emissions from other energy sources.

CO<sub>2</sub> emissions due to traffic within the company have no significant impact on indirect emissions for 2018 resulting in a calculation of 1362,8 t of CO<sub>2</sub>. However, in order to reduce the air emissions of vehicles and diesel equipment owned by the company, the company has implemented a program of their revisions and repairs. Thus, each vehicle is periodically checked, and if it is found not to work in normal conditions, it is removed from circulation until the problem is remedied.



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**305-4 CO2 intensity**

In 2018, TMK ARTROM generated direct and indirect CO2 emissions of 89438 tons from the combustion of natural gas from purchased electricity - used to convert raw material into finished products, including shipments made by the company.

Indirect CO2 intensity / ton of product = 0.097

Direct GHG emissions intensity / ton of product = 0.350



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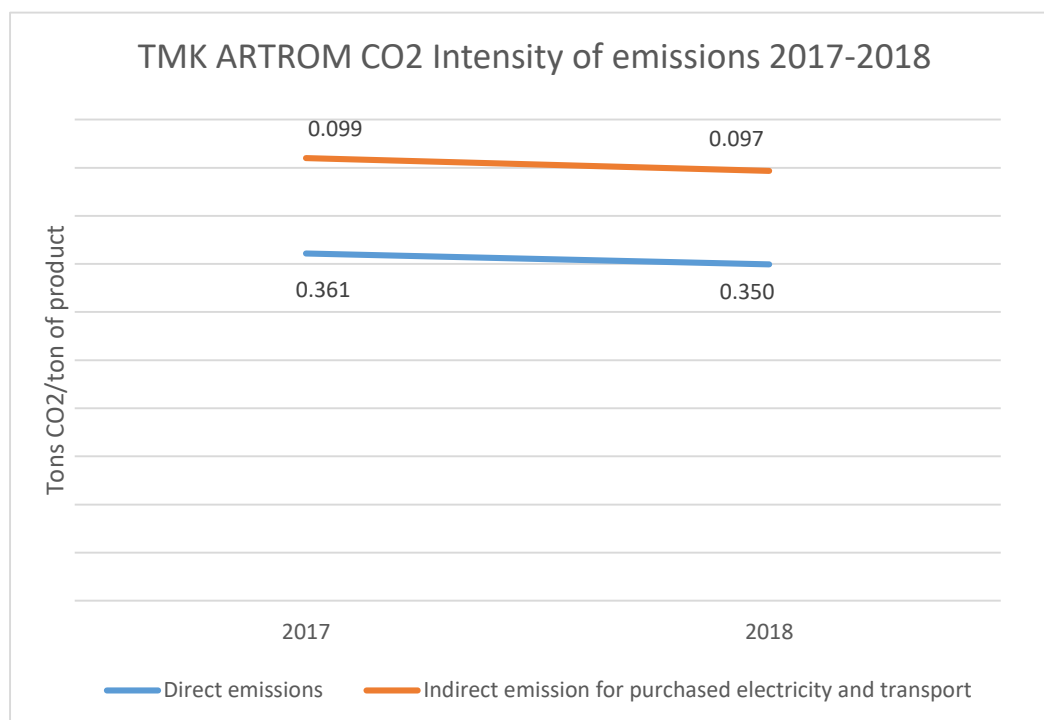
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In 2018, TMK REŞİTA generated 0.33397 t CO<sub>2</sub> / ton of liquid steel produced from: raw and auxiliary materials, direct energy (natural gas) and indirect (electricity) used to convert raw material into finished products, including fuel used to carry out internal shipments.

Indirect emissions intensity CO<sub>2</sub> = 0.2332 t CO<sub>2</sub> / t liquid steel produced

Direct emission intensity CO<sub>2</sub> = 0.1065 t CO<sub>2</sub> / t liquid steel produced

### 305-5 Reduction of GHG emissions

Every year, TMK ARTROM aims to reduce the consumption of natural gas per ton of pipe sold per year. Measures taken in order to reduce natural gas consumption in 2018 led to a specific consumption of 171.59 mc / ton of sold pipe, i.e. a specific consumption of CO<sub>2</sub> emissions of 350 kg of CO<sub>2</sub> per ton of sold pipe.

TMK REŞİTA intends to reduce the specific consumption of natural gas per ton of liquid steel. The measures taken to reduce natural gas consumption in 2018 led to a specific consumption of 16.3 Nm<sup>3</sup> of gas / ton of liquid steel, this consumption generating 32.3 kg CO<sub>2</sub> / ton of liquid steel produced.

### 305-6 Emissions of ozone - depleting substances(ODS)

TMK-ARTROM and TMK REŞİTA do not produce, do not import or not export ozone-depleting substances.

### 305-7 Nitrogen oxides (NOx), sulfur oxides (Sox) and other significant air emissions

TMK ARTROM SA's activity can lead to emissions of pollutants into the atmosphere through directed and diffuse emission sources.



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Reducing emissions into the air is a priority within the company. Conscious of its environmental impact, TMK-ARTROM tracks, controls and monitors emissions in the atmosphere.

Thus, in 2018, the following emission values were recorded:

NO<sub>x</sub> = 59.07 tons

SO<sub>x</sub> = 8.15 tons

Dust = 2.36 tons

The quantities were determined by monthly measurements at the treatment furnaces, made by our own laboratory, but also by annual measurements made by the accredited laboratory.

The "Heat Treatment Complex" investment through "low nox self-recovery" burner technology can be classified as a minor source of emissions and is the commitment of the company to use technology that reduces the impact of the activity on the environment but which at the same time improves the quality of the product and occupational safety conditions.

TMK-REȘIȚA's activity can lead to emissions of pollutants into the atmosphere through directed and diffuse emission sources.

TMK-REȘIȚA SA tracks, controls and monitors the level of emissions into the atmosphere. Thus, in 2018, the following emission values were recorded:

NO<sub>x</sub> = 64.2 tons

SO<sub>x</sub> = 6.5 tons

Dust = 1.9 tons

These quantities are well below the thresholds for air pollutant emissions set by environmental laws (for NO<sub>x</sub> = 100 tons / year, SO<sub>x</sub> = 150 tons / year and dust = 50 tons / year).

## GRI 306 EFFLUENTS AND WASTE

### 306-1 Water discharge by quality and destination

Within TMK ARTROM, the technological water supply is made by 6 capture installations, the risk of lack of water in the technological process being virtually zero even in very dry time. The emphasis is on reducing water consumption by recycling it, the percentage of industrial water recirculation in the year 2018 being 97.33%.

Compared to the average technological and pluvial waste water allowed through the water permit, namely 365 thousand cubic meters, last year the company evacuated a quantity of 290 thousand cubic meters of technological waste water.

Clean technological wastewater is discharged into the Milcov creek after being treated by decanting and neutralizing with lime milk.



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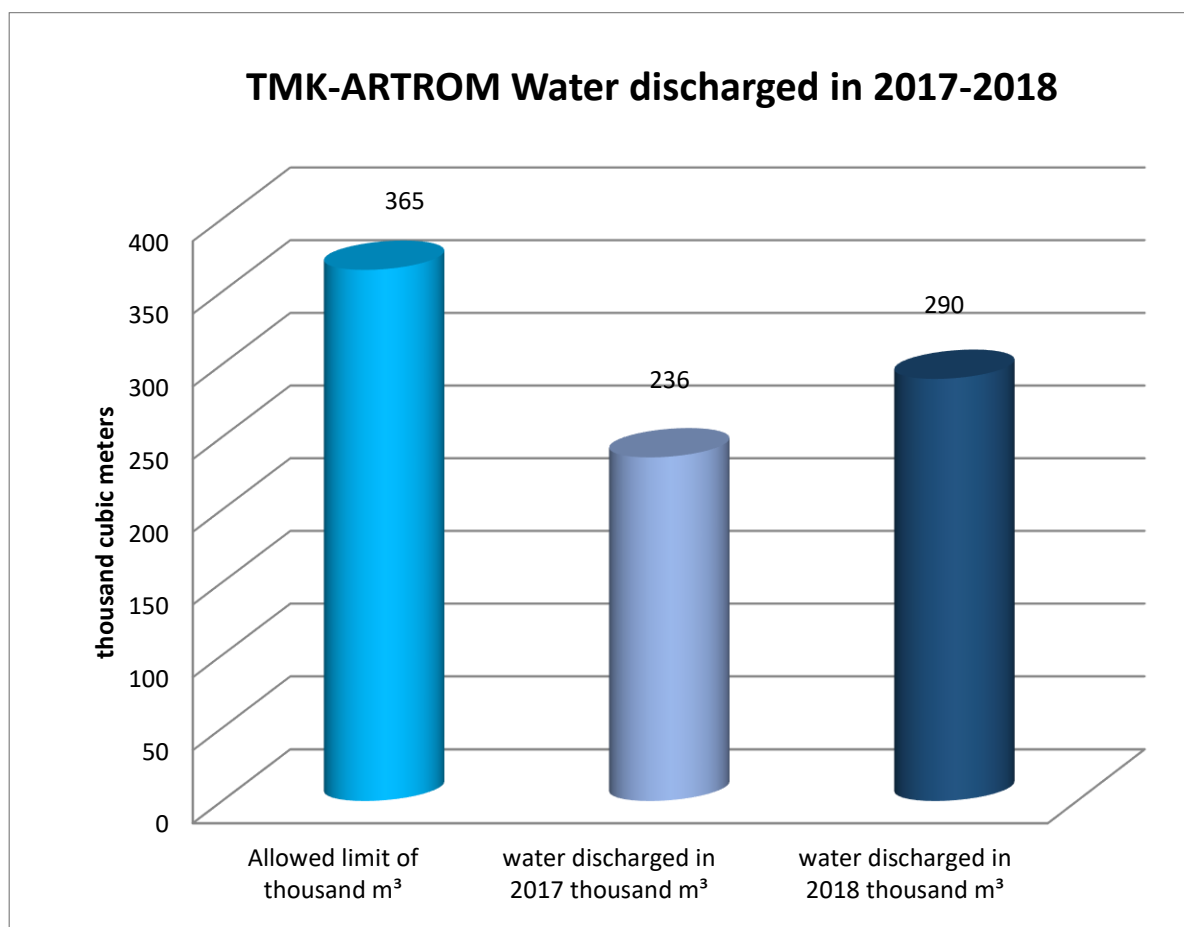
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In 2018, TMK REȘIȚA evacuated a quantity of 141427 m<sup>3</sup> of technological waste water compared to the average permissible volume through the water management permit, which is 524421 m<sup>3</sup>.

Industrial water is used for the technological purpose of cooling elements from the electric furnace, steel treatment in ladle, vacuuming installation and continuous casting machine, the direct cooling of steel bars continuously cast into closed circuits.

The focus is placed on reducing industrial water consumption by recirculating it; the total recirculation achieved in the company is approx. 98%.

The resulting wastewater is conventionally clean because it comes from closed cooling circuits, respectively from the cooling tower overflow, purges and emergency water. Water is evacuated in the natural emissary of river Bârzava, the TIMIȘ river basin, by ERUGA evacuation.

Wastewater monitoring is based on a monitoring program, observing the frequency, sampling points, indicators covered by the Integrated Environmental Authorization and relevant analysis methods in their own laboratory and in an accredited laboratory.

### 306-2 Waste by type and disposal methods

As a way of conserving resources, sustainability is not limited to production and process itself, but also to waste recycling and recovery activities.

TMK ARTROM and TMK REȘIȚA use the concept of circular economy based on the concept of increased recycling of steel scraps and any waste resulting from the production process, focusing also on emission control technologies. In a circular economy, the value of products and materials is



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TUV CPR:  
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EN 10255

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maintained as much as possible: waste and resource use are minimized and they do not leave the economic flow once they reach the end of their lifetime, but they are re-used to create value.

During the production process of the TMK ARTROM rolled pipe, besides the basic product result also pipe, pipe ends and dross. Both materials are considered by-products to meet all the requirements regarding the classification criteria as by-products according to the waste law 211/2011 law that is in line with the contemporary notion of waste.

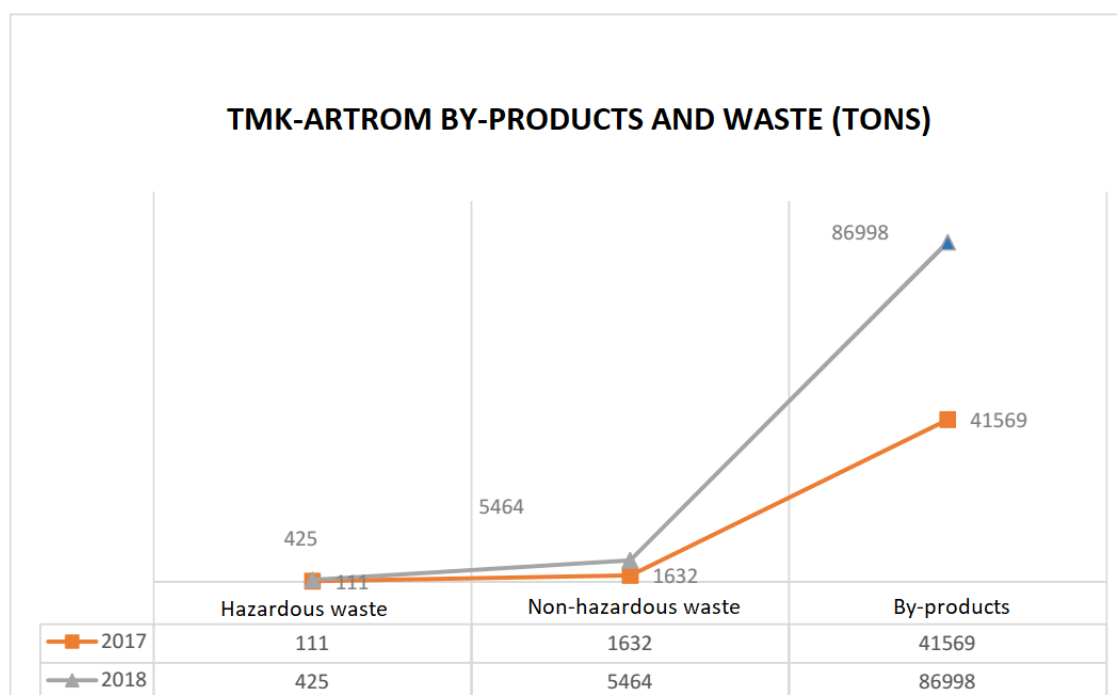
Pipe ends are collected in specially arranged warehouses and sent to recovery by recycling directly to TMK REŞİTİA SA.

Dross is considered to be a very rich material in iron oxides having a minimum of impurities. Therefore, it is sold for various applications in the industry and is considered a non-hazardous product and a valuable raw material. It is used in the steel industry for primary steel production, for the production of ferro-alloys, for the production of pellets, for the cement industry and for clinker, as a catalyst in the chemical industry, etc.

The by-products (dross and pipe ends) as well as generated waste are collected selectively at the site of generation and then temporarily stored for recovery in specially arranged warehouses.

In 2010 the company registered the dross in accordance with Regulation 1907/2006.

The quantity of by-products and waste generated in 2018 was 93069 tons (93.48% is represented by-products, 6.07% non-hazardous waste and 0.46% hazardous waste).



Of the 6071 tons of waste generated on site, 425 tons are hazardous waste and 5646 non-hazardous waste (7% hazardous waste and 93% non-hazardous waste).



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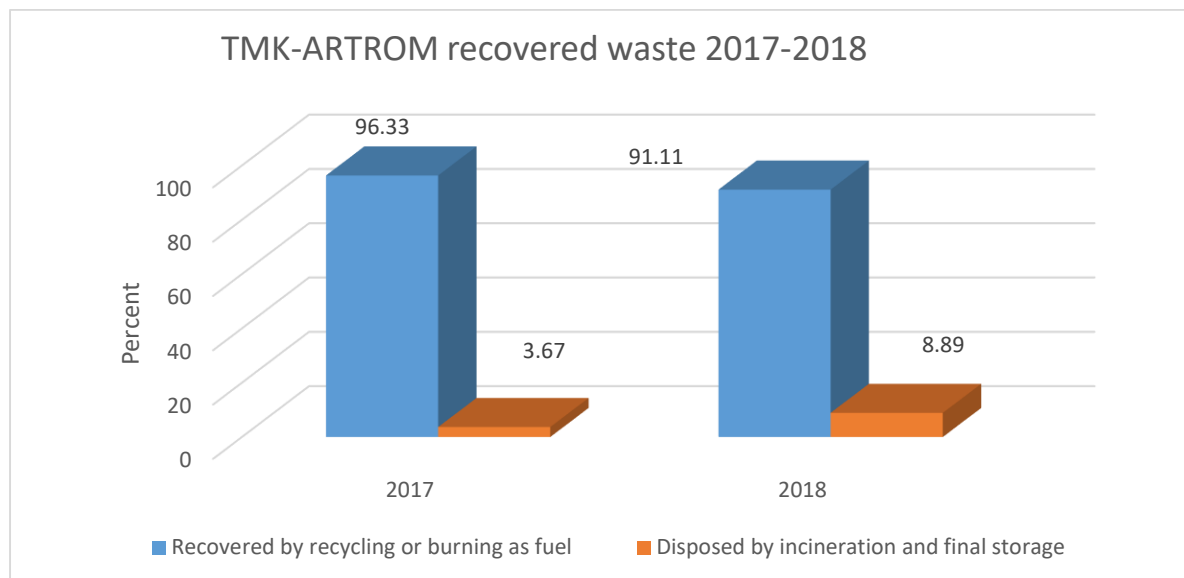
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Of the total amount of waste collected and exploited by authorized companies, 91.11% (3945 tons) were recovered by recycling or burning as fuels and 8.89% (385 tons) were eliminated by incineration and final disposal.



In 2018 in TMK REȘIȚA from the production process resulted: 41,240 tons of fresh slag and 1338,32 tons of dross.

In 2018, 4134.94 tons of dust resulted from the de-dusting of the combustion gases. The waste generated in TMK-REȘIȚA SA are collected selectively at the place of generation and then stored temporarily for recovery or disposal. An amount of 49.91 tons of hazardous waste resulted from the activity in 2018, representing 0.71% of the total hazardous and non-hazardous waste. Dross, dust and slag are recycled and hazardous waste is sent to treatment for disposal - 7%.

### 306-3 Significant spills

Annually, based on a monitoring program and in accordance with legal requirements, the company carries out monitoring of environmental factors through self-monitoring and monitoring with an accredited Laboratory for all indicators. In the reference year, TMK ARTROM and TMK REȘIȚA did not exceed the admissible limits for the measured indicators and there was no accidental environmental pollution.

### 306-4 Transport of hazardous waste

TMK ARTROM and TMK REȘIȚA have signed contracts with authorized companies for the collection, recovery and transportation of hazardous waste. For the transport of hazardous waste, the environmental authorities are asked to approve the transport of dangerous waste by filling in Appendix 2 - a form of shipment / transport of dangerous waste for quantities less than 1 ton / year and for quantities more than 1 ton / year annex 1.

In 2018, 420 tons of hazardous waste for recovery and disposal were transported from TMK ARTROM through authorized collectors.



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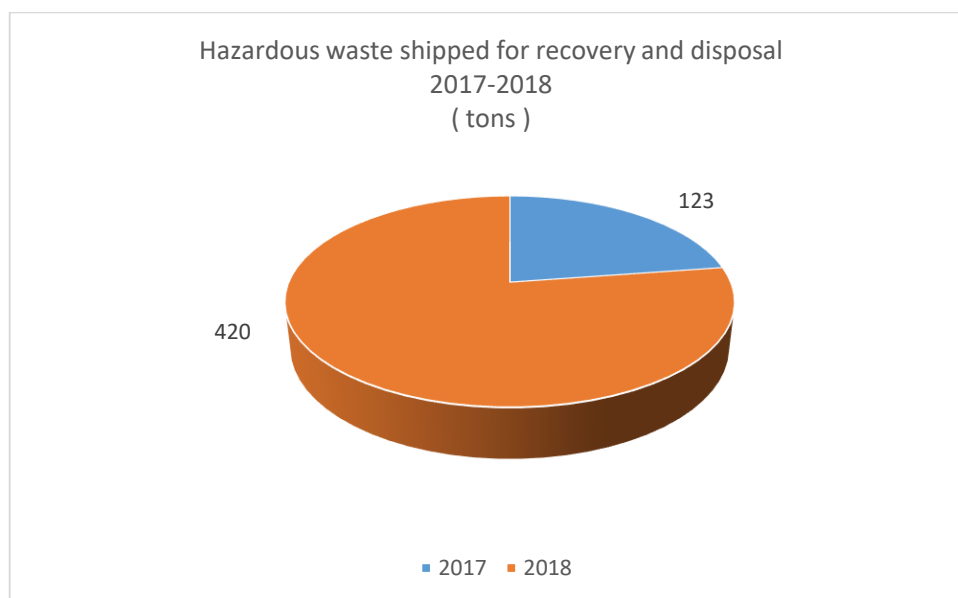
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EN 10255

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Of the 49.91 t of hazardous waste generated at TMK REȘIȚA, 49.64 t were sent for disposal, and 0.27 t were eliminated in the first quarter of 2019.

None of the companies have imported or exported hazardous waste.

### 306-5 Water bodies affected by water discharges and/or runoff

The waste water resulting from the technological process of etching, after neutralization and settling, is discharged into the emissary - the Milcov brook, which flows into the Olt river. The value of the technology waste water pH is continuously monitored at the source, and the pollutants emitted in the water are monitored weekly at the point of evacuation into the emissary.

In 2018 there was no exceeding of the limits allowed for the monitored indicators within the companies TMK ARTROM and TMK REȘIȚA.

There are no protected areas for historical or cultural reasons or protected plant species under current laws in the area or in the vicinity of the company.

## GRI 307 COMPLIANCE WITH THE ENVIRONMENT

### 307-1 Non-compliance with environmental laws and regulations

TMK ARTROM operates in accordance with legal requirements. Controls carried out by the control bodies on the company platform were not recorded and no fines were imposed on non-compliance with environmental requirements.



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**GRI 308 –SUPPLIERS, ENVIRONMENTAL ASSESSMENT****308-1 New suppliers that were screened using environmental criteria**

Suppliers evaluation within TMK ARTROM S.A and TMK REŞİTİA is performed annually. In the supplier evaluation procedure, one of the indicators analyzed (monitored) by the annual evaluation questionnaire is the "Environmental Responsibility" of the supplier.

Within this indicator, it is examined whether the supplier holds the legal environmental permits, if it has an environmental management system certificate in accordance with ISO 14001 and, as the case may be, if its products were registered with REACH. The evaluation questionnaire requires information on the supplier's availability to withdraw the packaging of the delivered goods or the waste resulting from the processing / use of the delivered goods / products.

Currently, the TMK ARTROM and TMK REŞİTİA suppliers have the obligation to implement the ISO 9001 quality management system, the ISO 14001 environmental certification being an advantage in order to obtain a higher score as a supplier.

In the absence of environmental management certification, auditors from TMK Artrom verify existing environmental authorizations and, where appropriate, perform an audit at the supplier's premises to assess it from the point of view of compliance with legal requirements.

**308-2 Negative environmental impacts in the supply chain and actions taken**

In the annual evaluation of the suppliers TMK ARTROM and TMK REŞİTİA, the supplier's impact on the supplier channel is assessed. Through policy, both companies support suppliers for lasting collaboration.

If the environmental impact was negative (identifiable suppliers with significant environmental problems), the supplier is required to provide a plan of measures to address the identified environmental problem.

If this action plan is not observed or fulfilled, TMK ARTROM may decide to interrupt the collaboration. In 2018 no cases of suppliers with significant environmental problems were identified. These issues were verified both on the basis of questionnaires and on the audits of the suppliers.

**Labeling**

From the point of view of the REACH Regulation 1907/2006, pipe and billtes are considered articles. No hazardous elements were identified in their composition. As a result, there are no labeling requirements.

However, both companies monitor suppliers and distributors of products covered by the REACH Regulation 1907/2006 so that the labeling of these products is made in accordance with Regulation 1272/2008 of the European Parliament and of the Council on classification, labeling and packaging of substances and mixtures.



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**GRI 400 Social****GRI 401 Human Resources****401-1 New employee hires and employee turnover**

Employees engaged in 2018 at TMK-ARTROM come from the local region, OLT County in a proportion of 99%.

The structure of employees in 2018 from the point of view of gender differentiation:

- 22 female employees, representing 8.7%;
- 231 male employees, representing 91.3%;

The structure of employees employed in TMK ARTROM in 2019 from the point of view of age differentiation:

- 79 people aged up to 30 years, accounting for 3.12%;
- 144 people aged 30 to 50, accounting for 56.91%;
- 30 people aged over 50, accounting for 39.97%;

The staff fluctuation is used to assess the performance of the organization and refers to the departure of employees in the company in a representative time frame. Staff fluctuation may have benefits in terms of employee rejuvenation, but also disadvantages related to productivity decline, resumption of training for new employees, and indirect costs (loss of employees who have accumulated a range of knowledge within the organization).

Over time, TMK-Artrom has run a staff policy that will keep specialty employees for as long as possible in the company. The technological flow of the plant has unique aspects, therefore the company has paid special attention in order to avoid departures from the personnel prepared for our technology. Training for new generations has become a priority as the average age of specialized staff has increased.

In this respect, the staff turnover rate in TMK ARTROM is below 1.7% per month and includes departures due to the parties' agreement or resignation and retirement at retirement age, and medical retirement. TMK Artrom developed a retention plan in 2018, the application of which hopes that will keep key and loyal employees in the company until retirement.



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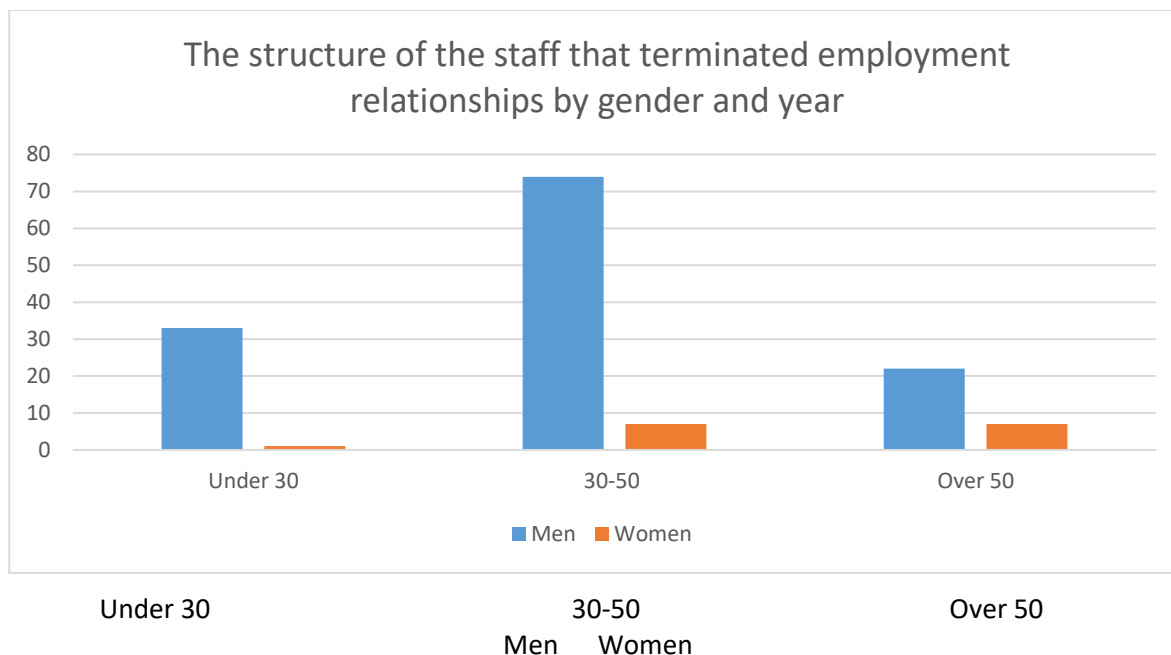
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## TMK-ARTROM S.A. Sustainability Report 2018

The structure by gender and age group within the company of the staff who ceased work relations in 2018 is the following:

	Men	Women
Under 30	33	1
30-50	74	7
Over 50	22	7



In 2018, a total of 73 people were employed in TMK Resita, and 100% of them came from Caraș Severin County. The staff entering and leaving the company on the age and gender structure are described in the table below:

	TOTAL	WOMEN			MEN		
		Under 30	30-50	Over 50	Under 30	30-50	Over 50
IN	73	2	2	1	14	33	21
OUT	73	1	1	4	6	18	43

By analyzing the table above, it can be noticed that most of the employed persons were aged between 30-50 years, while the highest number of departures was recorded among employees over the age of 50. In conclusion, we can say that during the year 2018 there was a rejuvenation of TMK Resita staff.

The staff turnover rate in TMK-REȘIȚA is low and includes departures due to the agreement of the parties or resignations and old-age retirements, medical retirements. Rate of fluctuation falls within acceptable limits. TMK Resita developed a retention plan in 2018, the application of which hopes that will keep key and loyal employees in the company until retirement.



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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

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DNV-GL Rules  
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#### 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees

There are no temporary employees within TMK ARTROM and TMK REȘIȚA. All salary and extra-salary rights are granted to all employees equally without discriminatory differentiation, according to the Collective Bargaining Agreement.

There are no provisions in the Collective Bargaining Agreement which provide additional rights for permanent employees to the detriment of temporary employees if the company also uses temporary workforce.

#### 401-3 Parental leave

The total number of employees who were entitled to parental leave and expressed their intention to benefit from this right to TMK ARTROM for 2018 is 1 person (female).

In TMK ARTROM there are currently 2 people on parental leave (2 women).

In TMK REȘIȚA, the total number of employees entitled to parental leave is 3 persons, 2 women and 1 male.

At the end of 2018 in TMK REȘIȚA there were also 2 persons on parental leave (2 women).

After ending parental leave, both companies reintegrate all the employees into the same job with the same salary rights. This is guaranteed by the Romanian laws and by the provisions of the Collective Bargaining Agreement. According to the Romanian laws, parental leave can last up to 2 years, depending on the employee's option. The return to work of persons on parental leave will be in 2019 or at the employee's request earlier than the 2-year term.

Both companies have accepted all employees' demands for granting parental leave.

The return to work rate is 100%.

The acceptance rate of requests to return to work is 100%.

TMK ARTROM provides money support to employees for the birth of the child in the amount of 2 average salary indexed per company and free days paid on the birth and baptism of the children born.

TMK REȘIȚA provides material support to the employees for the birth of the child in the amount of one average salary indexed per unit of the month of the event and offers free days paid on the birth of the child.

TMK ARTROM and TMK RESITA offer in exceptional cases also the reduction of working time with the maintenance of salary rights for breastfeeding mothers or in case of children's medical problems. Both companies also offer accommodation leave for adopted children.

### GRI 402 LABOR/ MANAGEMENT RELATIONS

#### 402-1 Minimum notice periods regarding operational changes



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5L-0352

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PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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EN 10255

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Significant changes in the company that could affect workers are discussed between employers' and trade union representatives. Bargaining of Employers' - Trade unions are held annually or whenever needed.

Management decisions that relate to individual issues are subject to confidentiality rules laid down in the Labor Code and national laws on the confidentiality of personal data. Management decisions dealing with collective issues are debated with existing trade unions in the company that have an active role in the company.

The active role of the Trade Unions in the company refers, on the one hand, to the representation of each employee in individual matters, solving individual employees' problems by assisting them and consulting, as well as to the collective negotiations on the Collective Bargaining Agreement.

Management decisions concerning matters to be brought to the attention of the Unions concern the following aspects:

1. The professional interests of the employees, including: the professional training plan, the evaluation of the employees, the possibilities of advancement, the internal rules of operation;

2. Economic aspects with impact on all employees regarding the following: the minimum salary level negotiated with the company, the level of existing salary increases, the level of overtime payment, the level of monthly and annual salary bonuses for attendance and performance existing in the Collective Bargaining Agreement.

3. Technical and production aspects: the level of production for the current and following year, the structure of production by product categories, technological flows, technological changes in the production flows due to investments in new machinery and technological lines.

4. Aspects of social, humanitarian, cultural - sporting aspects. All social, humanitarian, cultural and sporting actions are made in partnership with trade unions existing in the company.

In the event of unforeseen circumstances requiring changes in work schedules (operational) as accidental situations (missing orders, accidents, orders requiring work over normal work schedule, etc.) Management and Unions have a real-time dialogue as soon as the exceptional situation occurs and by mutual agreement, make the necessary changes so as not to affect the economic interest of the company, not to endanger the jobs and to protect the interests of the employees involved.

### GRI 403 Occupational Health and Safety

Occupational health and safety management is an integral part of TMK ARTROM and TMK REȘIȚA. Workplace security must be integrated from the early stages of the production process, ie from the design phase.

TMK ARTROM and TMK REȘIȚA are certified according to the standard of occupational health and safety ISO 54001: 2017 (see [www.tmk-artrom.eu](http://www.tmk-artrom.eu)).

In 2018 TMK ARTROM and TMK REȘIȚA participated in the International Campaign "Steel Safety Day". Together with World Day for Safety and Health at Work, this action promotes the prevention of occupational accidents and occupational illnesses globally by trying to create a safer work environment in the steel and metallurgical industry. This action at international level identifies each year the danger areas and analyzes the causes of these hazards and acts to eliminate the first five.



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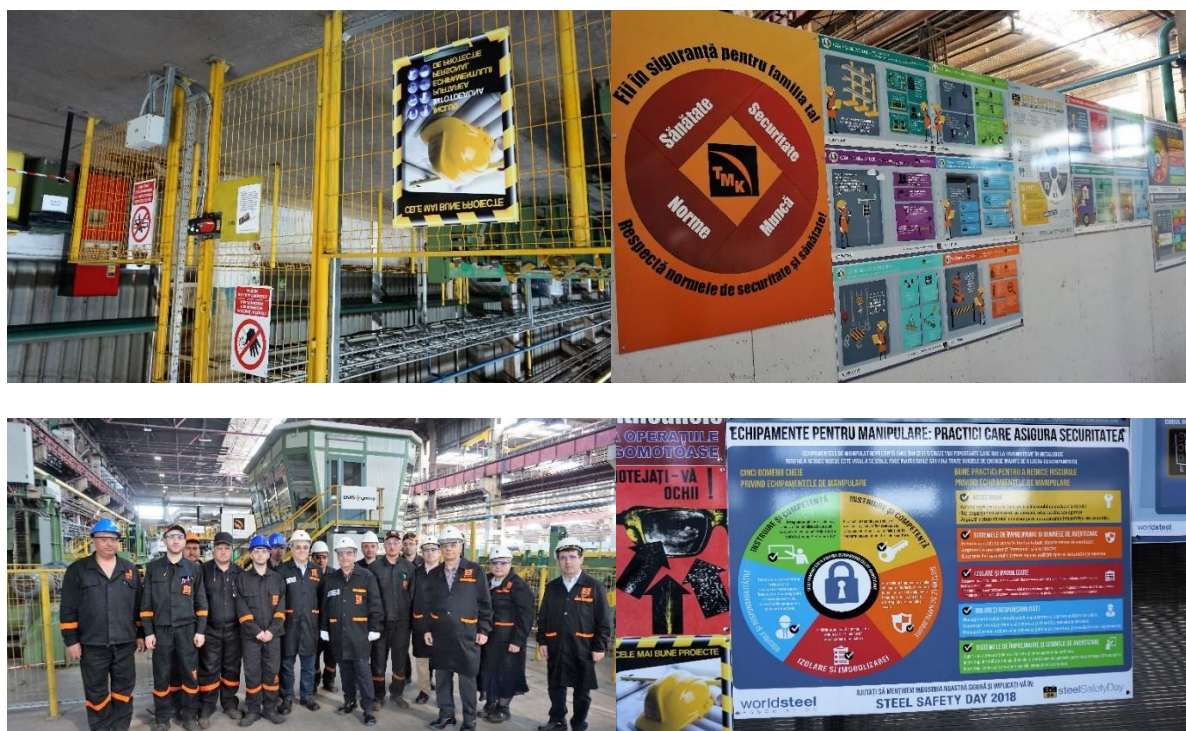
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EN 10255

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As nothing is more important than the safety and health of staff working in the company, performance in occupational health and safety is transposed into management objectives and programs related to reducing the level of occupational illness and reducing the number of accidents or incidents.

The management of TMK-ARTROM SA and TMK REȘIȚA takes all necessary measures to protect the life and health of employees, including occupational risk prevention activities, to ensure the safety and health of employees in all work aspects.

TMK-ARTROM SA and TMK REȘIȚA ensure that each worker is sufficiently and adequately trained in the field of occupational safety and health, in particular in the form of workplace information and instructions, specific to his / her place of work and job:

- a) to employment;
- b) to change jobs or to transfer between production facilities;
- c) to the introduction of new work equipment or modifications of the existing equipment;
- d) to the introduction of any new technology or working procedure;
- e) when performing special works.

TMK-ARTROM and TMK Reșița establish in the job description the duties and responsibilities of the employees in the field of health and safety at work, corresponding to the functions exercised.

In order to maintain the health of employees in periods of high external temperatures, both companies provide the work schedule and facilities according to the laws in force.

In 2018 the risk assessments for safety and health at work were carried out both in TMK ARTROM and in TMK REȘIȚA. Depending on the risks identified in each workplace, the technical, organizational and hygienic-sanitary measures included in the prevention and protection plan have been established. The organizational measures concern medical and psychological testing, personnel authorization, risk assessment, certification of technical equipment and protective equipment, manuals, work safety standards, and the purchase of protective equipment.



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ISO 14001  
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PED/AD-2000 W0/W4/  
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TUV CPR:  
EN 10210-1,2  
EN 10255

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DNV-GL Rules  
RINA

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## TMK-ARTROM S.A. Sustainability Report 2018

Protective food is provided free of charge by the employer to the persons working under conditions of work that require it and is established by the Collective Bargaining Agreement and / or the individual employment contract.

### 403-1 Workers representation in formal joint management - worker health and safety committees.

At the TMK ARTROM level, the Occupational Health and Safety Board is established, consisting of 14 management representatives and 14 employee representatives (union members). At TMK REȘIȚA the Occupational Health and Safety Board is made up of 9 representatives of the management and 9 representatives of the employees (union members).

### 403-2 Types of injury and rates of injury occupational diseases, lost days, and absenteeism , and number of work - related fatalities

In 2018, in TMK ARTROM 3 (three) accidents with temporary incapacity for work (ITM) took place: an accident with L1 lumbar spine injury, a left eye accident, a non-penetrated corneal plaque, a cut wound right hand finger III.

Of the three people who have suffered accidents, one is woman and the other two are men.

In TMK Resita in 2018 there was no work accident.

By age group the situation is as follows:

PLANT	Number of accidents					
	YEAR	< 18	18-30	31-40	41-50	>50
TMK ARTROM	2017	0	0	1	2	0
	2018	0	0	1	2	0
	2018	0	0	0	0	0



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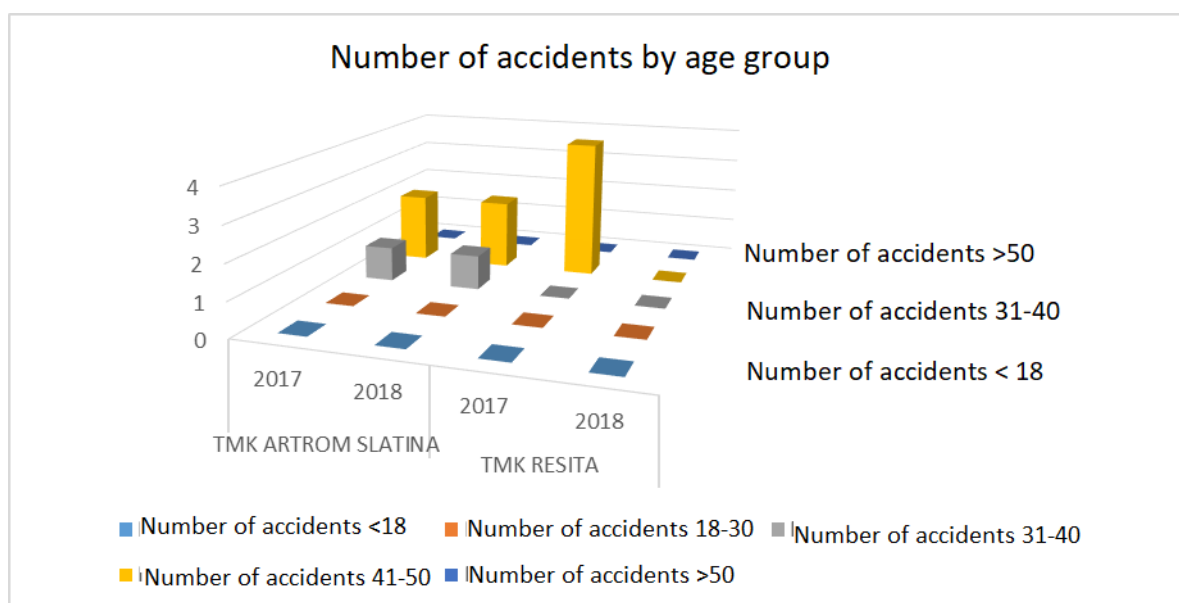
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TUV CPR:  
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EN 10255

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DNV-GL Rules  
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## ANALYSIS OF HEALTH STATUS FOR 2018

The calculation of health and safety indicators at the workplace was performed according to the GRI 403: OCCUPATIONAL HEALTH AND SAFETY standard, namely:

### 1. IR (Injury Rate)

$IR = \text{Number of recordable accidents} \times 200000 / \text{number of hours worked in the unit}$

TMK ARTROM:  $IR = (3 \times 200000) / 4108796 = 0,146$ ;

TMK REȘIȚA:  $IR = (0 \times 200000) / 1357843 = 0$ .

COMPANY	IR (injury rate)
TMK ARTROM 2017	0.201
TMK ARTROM 2018	0.146
TMK REȘIȚA 2018	0.000

It results that for every 100 employees of TMK ARTROM 0.146 employees were involved in an accident with temporary incapacity to work, which is an extremely low rate.

No fatal work accidents, labor fatalities = ZERO.

### 2. Rate of lost days due to accidents - LRDI

$LRDI = (\text{Number of days lost with accidents} \times 200000) / \text{number of hours worked in the unit}$

TMK ARTROM:  $LRDI = (213 \times 200000) / 4108796 = 10,368$ ;

TMK REȘIȚA :  $LRDI = (0 \times 200000) / 1357843 = 0$



API:  
5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
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PLANT	LDRI (last day rate due to injuries)
TMK ARTROM 2017	10.887
TMK ARTROM 2018	10.368
TMK REȘIȚA 2018	0.000

### 3. Rate of occupational diseases - ODR

ODR= total cases of occupational diseases per total hours worked

TMK-ARTROM: ODR = ZERO, there are no professional diseases.

TMK REȘIȚA: ODR = 0.00000368 (5 cases of occupational diseases / 1357843 = 0,00000368)

The five people were declared with the following occupational diseases:

- neuro-sensory hearing loss (1 case);
- pneumoconiosis in mixed powders (4 cases);
- cervical polidiscopathy (3 cases).

### 4. Rate of lost days - LDR

LDR= (total lost days / total hours worked) x 200000 / number of days lost with accidents

TMK ARTROM : LDR=14326 x 200000/4108796 x 213 = 3,27

TMK RESITA : LDR= 3354/1357843 x 200 000/0 = 0

COMPANY	LDR (last day rate )
TMK ARTROM 2017	4.980
TMK ARTROM 2018	3.270
TMK REȘIȚA 2018	0.000

### 5. Rate of absenteeism - AR

AR = (total days lost or with absence during in the period / total working days of the workforce that worked on the same period)

TMK ARTROM AR = (14326/513599)=0.027;

TMK RESITA AR = 3354 / 169730 = 0,019

COMPANY	AR (absenteism rate)
TMK ARTROM 2017	0.033
TMK ARTROM 2018	0.027
TMK REȘIȚA 2018	0.019

### Analysis of the health status of TMK ARTROM and TMK REȘIȚA staff

Year	TMK ARTROM - days of sick leave for 1486 employees	TMK REȘIȚA - days of sick leave for 783 employees.
2017	11996	2949



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5CT-0440  
5L-0352

LRQA:  
ISO 9001  
ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
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EN 10255

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ISO/TS 16949

2018	14745	3354
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#### 403-3 WHealth and safety topics covered in formal agreements with trade unions

In TMK-ARTROM, noxious (noise, vibration, gas-CO, CH<sub>4</sub>, HCl, O<sub>2</sub>) determinations have been carried out, suggesting that the only occupational disease risk relates to the noise level that exceeds the value of the admitted limit (87dB) in some jobs (8%, i.e. in 19 jobs out of 249, the noise value is above 85 dB).

In TMK-REȘIȚA, NO<sub>x</sub> measurements (noise, vibrations, respirable dust, lighting, microclimate and gases: CO, CO<sub>2</sub>, ferric oxide) made evidenced exceeding for noise, vibrations and dust in the OE-TC plant. As a result of these exceeding, workers in these areas are classified into special groups and receive monthly additional food under the collective bargaining contract.

To diminish and control the occupational diseases that may arise, TMK ARTROM and TMK REȘIȚA acquire for and supply all the personnel exposed with specific personal protective equipment.

In order to improve work safety and health, TMK ARTROM and TMK REȘIȚA have implemented various measures in 2018 (technical, organizational and hygienic-sanitary) that can be grouped as follows:

##### TMK ARTROM SLATINA

#### **1. Technical measures:**

- The lighting units inside and outside workshops were replaced with LED that provides adequate illumination of the work surfaces have been replaced and supplemented, thus reducing the blindness effect and the risk of injury;

- For the clearance of work areas and the storage of finished products, other overhead cranes were also installed and major repairs were made to the roofs of the production workshops.

- In order to reduce noise, the pipe circulation area (boxes, collector pockets) was protected with materials to reduce noise below the upper exposure value (85 dB);

- Soundproofing booths were built at operators' desks to protect them from noise and also for a better ambient environment (noxious or powdery steel);

- Battery accumulators have been installed for safety lighting and protection at electrical stations, and to reduce the level of vibrations transmitted to the whole body, the cabinets of overhead cranes were equipped with ergonomic chairs.



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5CT-0440  
5L-0352

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ISO 9001  
ISO 14001  
OHSAS 18001

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TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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EN 10255

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## 2. Organizational measures taken at both companies:

- In order to prevent work accidents and to increase the visual impact on workers, the number of security signposts - alerting, warning, banning and promoting work safety - was supplemented;

Every day at the beginning of the activity program the risks of injury are analyzed and measures taken for their elimination;

-For the flow of traffic in the access gates area, new parking spaces for workers' cars were arranged;

For the safe movement of workers within the company's premises, all areas from the work stations to the exit were identified, marked and signaled and acoustic and optical signaling devices were installed on all vehicles and transport equipment as well and on the access doors in the workshops;

All the staff exposed to noise was equipped with individual hearing protection equipment (internal hearing aids and external hearing aids);

-The staff was trained to wear headphones with earphones and earphones in places where increased noise risk (85dB) was identified.

## 3. Hygienic and sanitary measures taken at both companies:

In order to improve the hygiene conditions, the social areas of employees in the manufacturing and administrative buildings (dining rooms and sanitary groups) were rehabilitated.



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5CT-0440  
5L-0352

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ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
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ISO/TS 16949

- All workstations were equipped with first aid kits according to the new provisions of the laws in force.

#### 403-4 Health and security issues covered in the agreements with the trade unions

At the TMK ARTROM and TMK REŞİTA level, the Occupational Health and Safety Board consists of representatives of the management, representatives of the workers, as well as representatives of the trade union.

The Board reviews and monitors occupational health and safety and issues recommendations. It also analyzes the risks regarding safety, health and occupational illnesses, the board's reports being communicated to the authorities confidentially.

The manner in which workers' representatives are designated in the occupational safety and health boards shall be determined by collective employment agreement, internal regulation or regulation of organization and operation.

The workers' representatives in the occupational safety and health boards are designated by workers from workers' representatives with specific responsibilities in the field of workers' safety and health.

The minimum number of workers' representatives in the occupational safety and health boards is established by collective employment agreement, internal regulation or regulation of organization and operation.

### GRI 404 TRAINING AND EDUCATION

#### 404-1 Average number of training per year per employee

Within TMK ARTROM and TMK REŞİTA, the training program involves improving staff performance through continuous and dedicated training.

We are proud to offer our employees such an appropriate training in all areas: integrated management system, technical training courses, sales and marketing courses, human resources courses, statistical courses, technological changes, changes in laws. Trainings are conducted internally as well as externally.

Company	Hourly average of trained employees by gender	Hourly average of training per employee category
TMK ARTROM 528 trained employees	28.8 hours women 19.5 hours men	22.74 hours per employee - workers; 18.75 hours per employee - technical and economic staff; 15.1 hours per employee - officers;
TMK RESITA 339 Trained employees	6.1 hours women 21 hours men	23.4 hours per employee - workers; 1.8 hours per employee - technical and economic staff; 2.1 hours per employee-officers;



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5L-0352

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ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
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EN 10255

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#### 404-2 Programs for upgrading employee skills and transition assistance programs

Programs implemented to increase employees knowledge or programs that facilitate career management are provided annually in the Professional Training Plan. According to the training needs communicated by each department, the Human Resources Department prepares and submits to the management of the company the Professional Training Plan.

Employee improvement programs include:

- Refining national laws that is specific to each department / business sector in the company;
- Observing legislative changes in the field;
- Technology and modern technological change;
- Modern techniques that can be implemented in the current activity of each division;
- Methods and means that can be used in order to increase the efficiency of the activity;
- Re-qualifications and multidisciplinary qualifications of operators.

The type of employees knowledge improvement programs used in the company is varied and consists of:

- Seminars focused especially on the theoretical part of the activities;
- Workshops focused on practical aspects;
- Training to acquire new skills or improve the ones already in place;
- Team building, to strengthen the social and communication aspects of company employees;

#### Retirement

Retirement benefits, i.e. the amount of pension, represent information that is only available to persons who filed the retirement file at the date of the retirement decision. This information is confidential and the Territorial House of Pensions does not communicate it to the company. On the date of retirement, employees receive in writing the documents mentioning and certifying all the financial aspects related to the performance of the employment contract.

At the time of retirement, all company employees receive a substantial amount of money as a reward for the company's work.

The contract period ends according to the laws in force when the cumulative conditions for retirement are met, with the possibility of reducing the retirement age by 2 years due to the social protection laws for the persons in our company area due to historical pollution.

#### Termination of the employment contract

In case of termination of the employment contract on a voluntary basis, the employees benefit from the issuance of financial documents proving the activity within the company. In the event of termination of the employment contract on a voluntary basis, employees shall be entitled to the payment of all salary rights up to the day. The payment of salary rights also includes the payment of holiday entitlements not taken under national law.

#### 404-3 Percentage of employees receiving regular performance and career development reviews



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5L-0352

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PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

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Performance assessment in the company refers to the employee's performance in efforts to meet his or her goals. Performance assessment consists of analyzing the successes and failures of employees, as well as the prospects for promoting those assessed.

All employees of the company benefit from the Performance and Career Assessment. Internal procedures set out an annual frequency of employee performance assessment. The employee appraisal percentage is 100%, regardless of the professional or gender category.

Within this procedure, the senior hierarchical chiefs assess various aspects of the employee's activity, including:

- the quality of the works;
- return on labor;
- knowledge and skills;
- professional adaptation;
- creativity and spirit of initiative;
- discipline at work;
- integration into the collective, behavior;

#### GRI 405 DIVERSITY AND EQUAL OPPORTUNITIES



Within TMK ARTROM there are no ethnic groups or national minorities protected by special laws. There are also employees of non-Romanian citizenship. But regardless of citizenship, nationality or gender, all employees have the same rights as social and labor law, professional, economic, and social interests. Employees of other Romanian citizenship receive support and counseling from the company



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5CT-0440  
5L-0352

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ISO 14001  
OHSAS 18001

TUV:  
PED/AD-2000 W0/W4/  
TRD 100/102  
Vd TUV

**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949

in solving the problems related to the preparation of the necessary documents in order to obtain the residence permit and the work permit in relation to the state authorities.

#### 405-1 Diversity of governance bodies and employees

The management structure of the company includes the Board of Directors, the Management Board, the officers and managers of the company.

The percentage gender structure of the management is as follows:

- Men - 66%;
- Women - 34%;

II. Age group: under 30, 30-50 years, over 50 years old

The percentage age structure per group at the company level is as follows:

- under 30 years - 0%;
- 30-50 years - 30%;
- over 50 years - 70%;

III. Other indicators of diversity where relevant (e.g. minorities or disadvantaged categories).

There are no minority or vulnerable groups within the company's management.

At the company level, the staff structure is as follows:

I. Sex

- Men: 86.20%
- Women: 13.80%

II. Age group: under 30, 30-50 years, over 50 years old

- under 30 years - 11.65%; 178
- 30-50 years - 57.09%; 873
- over 50 years - 31.26%;

III. Other indicators of diversity where relevant (eg minorities or disadvantaged categories).

There are no minority or vulnerable groups within the company's management.

#### 405-2 Ratio of basic salary and remuneration of women to men

In our company there is no discrimination regarding gender differences in determining the basic salary or other remuneration related to salary. Professional promotion and pay policy does not take gender difference into account. This is strictly forbidden by the provisions of the Collective Bargaining Agreement applicable at company level and by national laws in the field of combating discrimination against women. The salary level is given by the importance of the work and the level of professional training of each employee.

The average basic salary divided by women and men for each category of employees is the following:



API:  
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5L-0352

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OHSAS 18001

TUV:  
PED/AD-2000 WO/W4/  
TRD 100/102  
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TUV CPR:  
EN 10210-1,2  
EN 10255

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Category	Men	Women
workers	3135 Ron	3187 Ron
Technical and economic personnel	4863 Ron	4197 Ron
Officers	4937 Ron	4616 Ron

Through significant locations, we have defined the locations where the production capacities of the company are located, the management and administration of the company.

The production facilities, the management and the entire administration are located in the same place, in the Municipality of Slatina, OLT County, Str. Drăgănești nr. 30 (at the headquarters).

## GRI 406 NONDISCRIMINATION

### 406-1 Incidents of discrimination and corrective actions taken

TMK ARTROM and TMK REȘIȚA pay special attention to discrimination of any kind and do not tolerate these practices. The principle of equal opportunities and the principle of tolerance are promoted.

Any discrimination based on race, nationality, ethnicity, language, religion, social category, beliefs, gender, sexual orientation, age, disability, chronic noncontact illness, HIV infection, affiliation to a disadvantaged category, and any other criterion or the effect of restricting, removing the recognition, use or exercise on an equal basis of human rights and fundamental freedoms or rights recognized by law in the political, economic, social, cultural or other spheres of public life is not tolerated in the company. Human dignity, citizens' rights and freedoms, the free development of human personality are supreme values for the company.

No complaints about discrimination actions within the company's business have been reported to management or law enforcement agencies.

## GRI 407 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

### 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk

Within TMK ARTROM there are 2 trade unions that together have a unionisation degree of 91% of the total number of employees. Within TMK RESITA there is a trade union, of which 99.5% of all staff are involved.

Thus, the trade unions benefit from living space for carrying out daily activities within the company, the office needed for the activity, personnel emanating from permanent and temporary production during one year, budget for training and training in the trade union field, budget for carrying out artistic cultural activities, budget for social and humanitarian activities.



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5CT-0440  
5L-0352

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## TMK-ARTROM S.A. Sustainability Report 2018

The management of the company responds to all of the Trade Unions' requests to initiate a negotiation dialogue on the rights and obligations of the employees.

Annually, Trade Unions and the Management meet and negotiate the provisions of the Collective Bargaining Agreement.

In 2018 the meeting between the Trade Unions and the Management resulted in the signing of the Protocol on the Transfer of Contributions and the Insurance of the Employees' Net Income as well as by an Addendum to the Collective Bargaining Agreement with regard to the collective wage increases starting January 1, 2018 and July 1, 2018.

The employees of the company benefit from the provisions of the Collective Bargaining Agreement (100%), even if they are not union members.

There have been no misunderstandings, strikes, stops of work or legal action between the Trade Union and company management over the past 16 years.

### GRI 408 CHILD LABOR

#### 408-1 Operations and suppliers at significant risk for incidents of child labor

Within TMK ARTROM and TMK REŞİTA there are no employees under the age of 18, the legal employment age. The youngest employee in the company is 19 years old.

Suppliers of both companies undergo a rigorous evaluation process. TMK ARTROM and TMK RESITA do not acquire materials from regions where there is a risk of using work with children. Additionally, there are laws to abolish child labor in the countries from where we purchase the materials

Most TMK ARTROM S.A. suppliers (over 97%) are ISO 9001 certified minimum and are therefore monitored by certification bodies.

No cases have been identified with providers who are at risk of using children or young workers at work.

### GRI 409 FORCED OR COMPULSORY LABOR

#### 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor

TMK ARTROM S.A.'s suppliers are undergoing a rigorous evaluation process. TMK ARTROM does not purchase materials from regions where there is a risk of using work with young children or young workers. Additionally, there are laws to abolish child labor in the countries from which TMK ARTROM S.A. acquires the materials (especially the countries of the European Union).

Most suppliers of TMK ARTROM S.A. (over 96%) are certified as minimum ISO 9001 and are therefore monitored by certification bodies.



API:  
5CT-0440  
5L-0352

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There were no cases with suppliers who are likely to use child labor or young workers.

## GRI 410 SECURITY PRACTICES

### 410-1 Security personnel trained in human rights policies or procedures

TMK ARTROM and TMK REȘIȚA have outsourced the guard and security services to a local company. The security company complies with national laws.

## GRI 411 RIGHT OF INDIGENOUS PEOPLES

### 411-1 Incidents of violations involving rights of indigenous peoples

In the geographic area in which the company operates the indigenous population is represented by the Romanian citizens, which make up 99.9% of the total number of employees. All employees, irrespective of nationality, religion, gender, age, enjoy the same rights without discrimination.

The rights of indigenous persons (of Romanian nationality) as well as the rights of persons of other nationality (e.g. Russian, Spanish) are the same according to the Romanian and European laws in force.

## GRI 412 HUMAN RIGHTS ASSESSMENT

### 412-1 Operations that have been subject to human rights reviews or impact assessments

Human rights in terms of labor law are complied with by TMK ARTROM and TMK REȘIȚA.

There were never recorded penalties for infringement of fundamental rights and freedoms for accredited inspection bodies in the field of human rights (Labor Inspectorate Agency Unemployment Territorial Council to combat discrimination, immigration offices, police and court structures).

Also, no internal complaints have been filed regarding the violation of fundamental human rights. Employees' rights and obligations are subject to collective debate annually on the basis of the Law on Social Dialogue between Employers and Trade Unions. The debates are concluded with the execution of the Employment Contract and the Internal Rules of Operation, which are then sent to the Territorial Labor Inspectorate for approval, which verifies these documents in terms of legality. The Collective Bargaining Agreement is brought to the attention of all existing Unions in the Company. The Collective Bargaining Agreement is valid for TMK ARTROM for 2019 - 2020.

According to the Constitution, Romania is a state of law, democratic and social, in which the dignity of man, citizens' rights and freedoms, the free development of human personality, justice and political pluralism are supreme values in the spirit of the democratic traditions of the Romanian people and the ideals of the Revolution of December 1989, and are guaranteed.



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**412-2 Employee training on human rights policies or procedures**

Within the company, the Code of Conduct also covers the assessment of human rights. In our companies (TMK ARTROM and TMK RESITA) all employees (100%) benefit from 16 hours of human rights training related to the contractual relationship between the employee and the employer.

**412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening**

There were not carried out any investments or trade contracts that underwent human rights screening.

**GRI 413 LOCAL COMMUNITIES**

TMK-ARTROM's local activity contributes directly to the socio-economic development of the local community by providing jobs, security and a decent living standard for employees. Through TMK-ARTROM's suppliers of raw materials, materials and spare parts or services, it supports thousands of local jobs in the horizontal industry. The company also supports a boxing club in which young people from the locality performs.

In 2018, TMK-ARTROM developed projects for students from disadvantaged backgrounds, media projects, socio-cultural activities, blood donation, help for elderly homes, equipment for the county hospital the new born ward.

Sponsorship expenses in 2018 were directed towards supporting TMK-ARTROM SA's traditional areas of involvement, such as art, culture and heritage preservation, education and sports, humanitarian cases, and health.

**413-1 Operations with local community engagement, impact assessments, and development programs.**

TMK ARTROM invested 30,000 lei in May 2018 by purchasing two pulse oximeters for the Neonatology Department of the Slatina County Emergency Hospital. These devices monitor the blood oxygen saturation of newborns with respiratory problems concurrently with pulse rate. A heated and humid high-flow oxygen delivery device has also been purchased which provides the possibility of setting parameters according to the medical directions of the newborn.

The project "A little hand and a school bag" is a project at the first edition where the company has donated over 330 school bags supplied with stationery in 11 villages of Olt County. Thus, a total of 166 class 0 (zero) and 173 primary (first) students benefited from this program.



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LR  
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The cultural events of the fall of 2018 were sponsored by TMK ARTROM on the days of Russian culture in Romania. On October 14th, at the Bucharest Radio Hall, the audience was glad to have Eduard Kunz, a renowned pianist, a project worth about 5,000 euros.



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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

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LR  
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The Russian Center for Culture and Science launched an exhibition of Russian objects, including a collection of historical photographs and documents dedicated to 140 years of diplomatic relations between Romania and Russia, a collection of poems written by Russian diplomats and last but not least books on Russia written in Romanian language.

According to tradition, TMK-Artrom, as a member of the Romanian-Russian Chamber of Commerce was the sponsor of the Russian military choir "the Red Army" in 2018. The concert was held at the Palace Hall in Bucharest and heard by thousands of spectators who applauded the professionalism and performance of the choir. The project value was approximately 10,000 euros.

The "Children's Books" project included over 1100 books of fiction, school readings, or dictionaries in Osica and Cileni villages, as well as books donated by TMK ARTROM employees. Through this project, it was desired to awaken the interest of young people for reading. Free discussions with the students of these villages on the subject of reading, the importance of books in their development as humans, the need for communication, and ways to find our vocation in life have stirred the children's desire to read even more.



TMK ARTROM loves gifts and continued the projects related to the coming of 'Santa Claus' by distributing presents to children in disadvantaged areas or carol singers. They enjoyed not only sweets specific to the holiday season, but also the coming of Santa Claus in person. The project had a value of over 11000 lei.

In the Christmas Eve a team of singers from TMK ARTROM sang carols and gave gifts to the elderly in the "Home of Elderly of Slatina". Emotional messages were sent to the elderly on this occasion.

At its first edition in 2018 the "Blood for Life" project developed in order to improve blood shortages existing both locally and nationally brought to the attention of employees important gestures generous to our neighbors who are in difficulty. The donation campaign was held in December with the Blood Transfusion Center in Slatina. More than 50 employees participated in the blood donation.



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5L-0352

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**TMK EUROPEAN DIVISION Cod: FCU-01, Ed. 3 Rev. 2/2017**

TUV CPR:  
EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
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#### 413-2 Operations with significant actual and potential negative impacts on local communities

No such actions have been identified that have a negative impact or have a potential negative impact on the local community

### GRI 414 SUPPLIER SOCIAL ASSESSMENT

#### 414 Supplier social assessment

##### 414-1 New suppliers that were screened using social criteria

In order to be registered the list of approved suppliers, in TMK ARTROM and TMK RESITA all suppliers are assessed on the basis of assessment questionnaires. Depending on the impact of the product supplied on the pipe, it may be decided to carry out an additional audit of the supplier. During audits, in addition to technological and quality aspects, environmental and occupational health and safety issues are audited.

Suppliers are selected on the basis of all the criteria listed above, following various evaluation criteria, such as: how to ensure the safety of employees, adequate working conditions, protective equipment specific to the type of activity, if the staff are trained and know their rights, if there are OSH and firefighting training, if environmental legislation, waste management, etc.

Thus we ensure that the provider we work with is a trustworthy one that complies with current environmental and health and safety laws. In accordance with ISO standards, job descriptions, employee contracts, trainings, hours worked are checked. In 2019, TMK ARTORM intends to extend its suppliers' assessment by placing more emphasis on social criteria.

##### 414-2 Negative social impacts in the supply chain and actions taken

In 2018, TMK ARTROM evaluated its suppliers as in the other years, but demanded more detailed information. Most assessments were based on the requirements for the assessment of occupational safety and health risks and compliance with legal requirements in the environmental field. Suppliers have demonstrated good practice in all these assessments. In turn, they also assess their own suppliers according to the same criteria. There was no negative social impact in the supply chain.

### GRI 415 Public Policy

As a defining practice, TMK ARTROM and TMK REȘIȚA are apolitical and do not engage in political activities. It has no deontology as political party sponsorship, has never interfered with political activities and did not exercise political influence. The members of the Board of Directors and the members of the Management Board do not engage in any active political activity.

#### 415-1 Political contributions



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5L-0352

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EN 10210-1,2  
EN 10255

LR  
DNV-GL Rules  
RINA

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ISO/TS 16949



TMK ARTROM did not contribute directly or indirectly, financially or non-financially to supporting or sponsoring political or political lobbying, and has no such practices in its activity and deontology.

## GRI 416 CUSTOMER HEALTH AND SAFETY

### 416-1 Assessment of the health and safety impacts of product and service categories

TMK ARTROM and TMK RESITA assess all raw materials and finished products in terms of human health and safety and environmental impact including impacts on transport, storage, production, distribution and use.

TMK ARTROM and TMK REȘIȚA verify on its suppliers chain whether chemical raw materials (acids, soda, oils) used in the manufacturing process are registered with REACH and their impact on population health and environmental safety.

In addition, TMK REȘIȚA requires suppliers to verify and declare for the raw material supplied a level of radioactivity that must not be higher than that of the environment. This aspect is also verified during audits to suppliers but also by checking the radioactivity of the products delivered by the company.

Through our work we aim to improve our health and safety impact continuously by:

1. Establishing internal working procedures and adherence to them for hazardous materials;
2. Informing and educating users of these products through safety data sheets and job protection requirements at each job;
3. Reduce hazardous chemicals, solvents or volatile substances where possible;
4. Safe working devices and equipment.

### 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services

There have been no incidents of non-compliance with legal requirements on the health and safety impact of the product and services over the reporting period. Regarding the REACH Regulation 1907/2006, the pipe is considered an article. The company has adopted the principles of circular economy. Steel is one of the most sustainable products and can be recycled indefinitely without losing its properties.

## GRI 417 Marketing and labeling

Pipe packaging and labeling is performed in accordance with the requirements of the standards in force as well as the requirements of the TMK brand. The plasticized label contains product-related information and is considered tertiary packaging. Packaging management is done on packaging types and for a number of them (returnable packaging: barrels, cans, IBCs) there is a contractual clause with return suppliers at their expense. The rest of the packaging is handed over to specialized companies for recycling or disposal (as appropriate).



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EN 10255

LR  
DNV-GL Rules  
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#### 417-1 Requirements for product and service information and labeling

Labeling of pipes is carried out in accordance with the requirements of the standards in force as well as the requirements of the TMK brand. The adhesive label contains product-related information.

Council Regulation (EC) no. 1272/2008 on classification, labelling and packaging (CLP) based on the United Nations Global Harmonized System (GHS) aims to ensure a high level of protection of health and the environment as well as the free movement of substances, mixtures and articles. The CLP Regulation requires manufacturers, importers or downstream users of substances or mixtures to classify, label and package their dangerous chemicals properly before placing them on the market.

Since pipe is considered an article, it is not covered by the EC Regulation 1272/2008. The same applies to the materials produced by TMK REȘIȚA.

#### 417-2 Incidents of non-compliance concerning product and service information and labeling

Not applicable.

#### 417-3 Incidents of non-compliance concerning marketing communications

TMK-ARTROM and TMK REȘIȚA did not record any incidents of non-compliance regarding marketing communications.

### GRI 418 CUSTOMER PRIVACY

#### 418-1 Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data

We understand that personal data are important things that need to be protected. Loss of information can lead to company reputational problems, financial problems and legal consequences as well as loss of trust to our partners. We understand to protect the privacy of our partners, customers, employees and other stakeholders. This responsibility includes limiting the collection of information (example: name, address or other information related to individual identification) to what is absolutely necessary for business. We understand the importance of protecting personal information and we are committed to continuously improving our security system.

The Code of Conduct and Personal Data Policy are in line with our national laws and social values

Like all companies managing personal data and / or customers, we have organized our work so that we comply with Regulation (EU) 2016/679 of the European Parliament and of the Council. The document has already been published in the Official Journal of the EU and applies, starting with May 25, 2018, directly in all EU countries without the need for authorities to transpose it into Romanian law.



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5L-0352

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OHSAS 18001

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PED/AD-2000 W0/W4/  
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EN 10255

LR  
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RINA

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## TMK-ARTROM S.A. Sustainability Report 2018

Within TMK ARTROM and TMK REȘIȚA data protection is done at the level of all services and departments that use confidential data in their current activity;

All persons who use personal data of employees, financial data or any other kind of information that is subject to confidentiality have signed individual data privacy agreements that provide for drastic sanctions for confidentiality violations.

Employees who manage confidential data have computers secured by passwords, antivirus and firewall. Access to software is restricted on the basis of passwords and hardware restriction systems (hardware access keys)

In 2018, no privacy complaint was received from clients, staff, or organizations with which the company came into contact.

### GRI 419 SOCIOECONOMIC COMPLIANCE

#### 419-1 Non-compliance with laws and regulations in the social and economic area

In 2018, TMK ARTROM SA did not record any significant monetary fine.

Chief Executive Officer

Chief Economical – Accountancy Officer

Popescu Adrian

Văduva Cristiana

Coordinated

Magdalena Popescu – Integrated Quality System-Environment-Health-Safety at Work Manager

Prepared,

Popescu Laura Cristina –certified in [GRI](#)



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5CT-0440  
5L-0352

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TMK Artrom SA

Report on the Audit of the Financial Statements

### Opinion

We have audited the consolidated and separate financial statements of TMK Atrom SA (the Company) with official head office in Slatina Draganesti, 30, Ilt County, identified by sole fiscal registration number 1510210, which comprise the consolidated and separate statement of financial position as at December 31, 2018, December 31, 2017 December 31, 2016, and the consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the separate and consolidated financial position of the Company as at December 31, 2018, December 31, 2017, December 31, 2016, and of its separate and consolidated financial performance and its separate and consolidated cash flows for the years then ended in accordance with the Order of the Minister of Public Finance no. 2844/2016, approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No. 537/2014") and Law 162/2017 („Law 162/2017"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, including Regulation (EU) No. 537/2014 and Law 162/2017 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

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

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

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated and separate financial statements" section of our report, including in relation to these

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matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Inventory allowances	
TMK Artroms's disclosure about inventories, including the related allowance, are included in Note 3 and 19.	
<p>As at 31 December 2018 the Company had recorded in the consolidated and separate financial statements, inventory of RON 325,869 thousand, and RON 214,092 thousand, net of allowances of RON 17,774 thousand and RON 9,075 thousand respectively as presented by the Company in Note 19 to the consolidated and separate financial statements.</p> <p>The identification and determination of the inventory allowance requires management to make judgements and assumptions and represents a process with a significant level of uncertainties. The main assumptions used by management in evaluating the level of the allowance for finished goods, semi-finished goods and work in progress include factors such as ageing of inventories, 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.</p> <p>For raw materials, specific analysis is made, considering the obsolescence and alternative future uses of the elements in the closing balance.</p> <p>Due to the significance of inventory balances and the related estimation uncertainty in determining the allowance, this is considered a key audit matter.</p>	<p>Our audit procedures included, among others, attending the annual stock count and observing the physical condition of inventories, analysis of stock movement during 2018 and review of the forecasts regarding the usage or sale of old inventories, evaluating the analysis made by the management on the assumptions underlying the calculation of the net realizable value, and testing the calculation of inventory allowance.</p> <p>In respect of testing the net realizable value of inventories, our audit procedures focused on analyzing the sales made in 2018 and the first month of 2019, evaluation of the budgets of the Company and the forecasts available regarding the market price evolution for raw materials and products corroborated with the relevant information about the market and business plans of the Company.</p> <p>We also reviewed the adequacy of disclosures included in the consolidated and separate financial statements.</p>

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Key audit matter	How our audit addressed the key audit matter
<b>Recoverability of the carrying value of property, plant and equipment held by TMK Resita</b>	
<p>TMK Artrom's Group's disclosures in the consolidated financial statements about recoverability of the carrying value of property, plant and equipment, are included in Note 15.</p>	
<p>The Group holds 99,99% of TMK Resita SA, a subsidiary which manufactures the main raw material for TMK Artrom SA.</p> <p>The carrying value of the TMK Resita property, plant and equipment included in the consolidated financial statements amounted to RON 484 million as at 31 December 2018.</p> <p>Under the International Financial Reporting Standards, an entity is required to assess whether triggers for potential impairment exist. The assessment of whether there is an indication that an asset may be impaired, and assumptions used in the impairment analysis require significant judgement.</p> <p>The management has carried out an impairment assessment of triggers for potential impairment and an assessment of the recoverability of TMK Resita SA non-current assets taking into account the recurring losses incurred in previous years and the cyclical nature of the industry, which resulted in no impairment adjustment to be recorded as at 31 December 2018.</p> <p>We focused on this matter because of the significance of carrying value of property, plant and equipment in the consolidated financial statements and significant judgements in relation to the assumptions used in the impairment assessment.</p>	<p>We evaluated and tested management's assessment of the triggers for potential impairment as well as assessment of the recoverability of the carrying value of property, plant and equipment recorded in TMK Resita subsidiary.</p> <p>Our work included, but was not limited to the following procedures:</p> <ul style="list-style-type: none"> <li>- obtained the business plans and budgets of TMK Resita SA and reconciled input data to supporting evidence</li> <li>- assessed the historical accuracy of management's budgets and forecasts (in terms of production volumes and operating costs) by comparing them to actual performance</li> <li>- compared the assumptions used within the future cash flow models to approved budgets and business plans</li> <li>- evaluated the key assumptions applied in the estimated future cash flows, such as expected sales prices, production/sales volumes, cost and expenses, working capital changes, by analysing their consistency with the general and industry-specific economic environment and relevant available market information</li> <li>- checked the mathematical accuracy of management's cash flow model and its conformity with the requirements of the International Financial Reporting Standards</li> <li>- reviewed the management's sensitivity analysis over key assumptions in the future cash flow model in order to assess the potential impact of a range of possible outcomes;</li> <li>- involved of our internal valuation specialist to assist us in the evaluation of key assumptions and methodology used for the determination of the discount rate and review of sensitivity analysis</li> <li>- assessed the adequacy of the disclosures included in the financial statements</li> </ul>

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## Other information

The other information comprises the Stand Alone and Consolidated Report of Administration which includes the Sustainability report - Consolidated Non-Financial Statement, but does not include the consolidated and separate financial statements and our auditors' report thereon. Management is responsible for the other information.

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

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

## Responsibilities of Management and Those Charged with Governance for the Consolidate and Separate Financial Statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

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error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters.

#### Report on Other Legal and Regulatory Requirements

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

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

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- a) in the Administrators' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying consolidated and separate financial statements as at December 31, 2018;
- b) the Administrators' Report identified above includes, in all material respects, the required information according to the provisions of the Ministry of Public Finance Order no. 2844/2016 approving the accounting regulations compliant with the International Financial Reporting Standards, with all subsequent modifications and clarifications, Annex 1 points 15 – 19;
- c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the consolidated and separate financial statements as at December 31, 2018, we have not identified information included in the Administrators' Report that contains a material misstatement of fact.

Other requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014 of the European Parliament and of the Council

#### Appointment and Approval of Auditor

We were appointed as auditors of the Company by the General Meeting of Shareholders on 25 April 2018 to audit the consolidated and separate financial statements for the financial year end December 31, 2018. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 8 years, covering the financial periods end December 31, 2011 till December 31, 2018.

#### Consistency with Additional Report to the Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 15 February 2019.

#### Provision of Non-audit Services

No prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided by us to the Company and we remain independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the annual report and in the financial statements, no other services which were provided by us to the Company, and its controlled undertakings

On behalf of,

Ernst & Young Assurance Services SRL  
15-17, Ion Mihalache Blvd., floor 21, Bucharest, Romania  
Registered in the electronic Public Register under No. 77

Name of the Auditor/ Partner: Sebastian Mocanu  
Registered in the electronic Public Register under No. 1603

Bucharest, Romania

4 March 2019

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