

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

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

**31 DECEMBER 2012**

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**TMK ARTROM SA**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**as at 31 December 2012**

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

	Note	2012 RON	2011 RON
Turnover	5	909,412,618	856,176,168
Sales of goods		908,619,493	855,375,737
Rendering of services		793,125	800,431
Cost of Sales	6	(751,962,464)	(687,000,841)
<b>Gross profit</b>		<b>157,450,154</b>	<b>169,175,327</b>
Selling and distribution expenses	7	(56,361,495)	(47,028,763)
Advertising and promotion expenses	8	(771,325)	-
General and Administrative expenses	9	(25,309,714)	(20,824,011)
Research and development expenses	10	(225,488)	(164,189)
Other operating expenses	11.2	(5,656,843)	(7,217,070)
Other operating income	11.1	358,743	343,668
<b>Income from operations</b>		<b>69,484,032</b>	<b>94,284,962</b>
Foreign exchange (loss) / gain, net		(6,634,805)	1,035,181
Finance Income	11.4	1,289,336	4,222,672
Finance Costs	11.3	(13,266,127)	(27,643,020)
Gains / (losses) on financial instruments	11.4	51,158	10,750
<b>Profit before tax</b>		<b>50,923,594</b>	<b>71,910,545</b>
Income Tax	12	(8,429,962)	(12,368,216)
<b>Profit for the year</b>		<b>42,493,632</b>	<b>59,542,329</b>
<b>Other comprehensive income</b>			
Net movement on cash flow hedges	16	(111,752)	-
Income tax effect	16	17,880	-
<b>Other comprehensive income (loss) for the year, net of tax</b>		<b>(93,872)</b>	<b>-</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>42,399,760</b>	<b>59,542,329</b>
Average number of shares		116,224,307	116,251,294
<b>Earnings per share</b>		<b>0.37</b>	<b>0.51</b>

**TMK ARTROM SA**  
**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2012**

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

	Notes	2012 RON	2011 RON	1 January 2011 RON
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	21	30,463,476	10,018,082	13,065,041
Trade and other receivables	19	184,505,121	200,145,923	180,708,445
Inventories	18	150,416,733	116,185,469	103,609,507
Prepayments	20	84,294,462	94,442,756	78,236,208
Derivative financial instrument	16.1	51,158	10,750	-
Other current assets	21	500,000	617,000	-
		<u>450,230,950</u>	<u>421,419,980</u>	<u>375,619,201</u>
<b>Non - current assets</b>				
Intangible assets	15	150,387	114,001	138,183
Property, plant and equipment	14	430,450,672	428,909,147	426,259,026
Financial assets	16.1	-	48,434,445	48,609,820
Deferred tax asset	12	-	-	-
Other non-current assets	17	5,035,531	7,693	316,117
		<u>435,636,590</u>	<u>477,465,286</u>	<u>475,323,146</u>
<b>Total assets</b>		<u><b>885,867,540</b></u>	<u><b>898,885,266</b></u>	<u><b>850,942,347</b></u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	24	64,416,095	82,952,701	70,147,008
Advances from customers	24	1,002,696	2,271,899	1,463,404
Provisions and accruals	26	4,048,876	2,926,059	2,813,322
Interest-bearing loans and borrowings	16.2	40,148,998	77,963,167	345,181,022
Financial leasing	16.2	651,423	491,577	162,489
Derivative financial instrument	16.2	101,002	-	-
Income tax payable	12	2,545,168	-	-
<b>Total current liabilities</b>		<u>112,914,258</u>	<u>166,605,403</u>	<u>419,767,245</u>
<b>Non - current liabilities</b>				
Interest-bearing loans and borrowings	16.2	295,470,273	301,768,602	73,221,322
Financial leasing	16.2	696,577	743,523	85,439
Deferred tax liability	12	42,886,145	38,962,716	26,594,500
Provisions and accruals	26	210,122	-	-
Post-employment benefits	23	2,750,264	2,012,076	2,258,889
Other long - term liabilities	16.2	234,257	293,409	57,743
<b>Total Non - Current Liabilities</b>		<u>342,247,638</u>	<u>343,780,326</u>	<u>102,217,893</u>
<b>Total liabilities</b>		<u><b>455,161,896</b></u>	<u><b>510,385,729</b></u>	<u><b>521,985,138</b></u>
<b>EQUITY</b>				
<b>Capital and reserves</b>				
<b>Share capital, from which:</b>		<b>899,681,339</b>	<b>899,884,549</b>	<b>899,884,549</b>
- Subscribed and paid share capital	22	291,587,538	291,476,491	291,476,491
- Subscribed and not paid share capital	22	-	314,257	314,257
- Adjustments of share capital	22	608,093,801	608,093,801	608,093,801
Reserve of hedge instruments	22	(93,872)	-	-
Other reserves	22	12,778,207	10,222,471	6,847,308
Retained earnings / (Accumulated Losses)	22	(524,153,662)	(581,149,812)	(566,877,312)
		<u>42,493,632</u>	<u>59,542,329</u>	<u>(10,897,336)</u>
<b>Total equity</b>		<u><b>430,705,644</b></u>	<u><b>388,499,537</b></u>	<u><b>328,957,209</b></u>
<b>Total liabilities and equity</b>		<u><b>885,867,540</b></u>	<u><b>898,885,266</b></u>	<u><b>850,942,347</b></u>

**TMK ARTROM SA**  
**STATEMENT OF CHANGES IN EQUITY**  
**as at 31 December 2012**

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

	Issued capital	Legal reserves	Other reserves	Retained earnings	Cash flow hedge reserve	Total equity
	RON	RON	RON	RON	RON	RON

**For the year ended 31 December 2012**

<b>As at 1 January 2012</b>	<b>899,884,549</b>	<b>9,374,474</b>	<b>847,998</b>	<b>(521,607,483)</b>	<b>-</b>	<b>388,499,537</b>
Profit of the year	-	-	-	42,493,632	-	42,493,632
Other comprehensive income / (loss) for the year, net of tax	-	-	-	-	(93,872)	(93,872)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,493,632</b>	<b>(93,872)</b>	<b>42,399,760</b>
Share capital decrease	(203,210)	-	9,556	-	-	(193,654)
Increase of reserves from profit of the year	-	2,546,180	-	(2,546,180)	-	-
<b>At 31 December 2012</b>	<b>899,681,339</b>	<b>11,920,654</b>	<b>857,554</b>	<b>(481,660,030)</b>	<b>(93,872)</b>	<b>430,705,644</b>

**For the year ended 31 December 2011**

<b>As at 1 January 2011</b>	<b>899,884,549</b>	<b>5,999,311</b>	<b>847,997</b>	<b>(577,774,648)</b>	<b>-</b>	<b>328,957,209</b>
Profit of the year	-	-	-	59,542,329	-	59,542,329
Other comprehensive income / (loss) for the year, net of tax	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,542,329</b>	<b>-</b>	<b>59,542,329</b>
Increase of reserves from profit of the year	-	3,375,163	-	(3,375,163)	-	-
<b>At 31 December 2011</b>	<b>899,884,549</b>	<b>9,374,474</b>	<b>847,998</b>	<b>(521,607,483)</b>	<b>-</b>	<b>388,499,537</b>

**TMK ARTROM SA**  
**CASH FLOW STATEMENT**  
**as at 31 December 2012**

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

Indirect method	01 January - 31 December 2012 RON	01 January - 31 December 2011 RON
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit / (Loss) before tax</b>	<b>50,923,594</b>	<b>71,910,545</b>
<b>Plus / minus adjustments for:</b>		
Depreciation	27,388,970	25,005,876
Registration / annulment of provisions	1,332,939	112,737
Registration / annulment of value adjustment of current assets	5,430,147	108,108
Exchange rate differences	7,429,755	(2,578,728)
Variation of retirement benefits	738,188	(246,813)
Result from disposal of non-current assets	3,354,740	3,375,564
Interest and related expenses, net	11,070,732	21,851,942
Other non-monetary elements from hedge	(51,157)	(10,750)
<b>Plus / minus adjustments for changes in working capital related to operating activities:</b>	<b>-</b>	<b>-</b>
Decrease / (increase) in inventories	(40,866,165)	(12,597,002)
Decrease / (increase) in receivables	24,069,309	(36,133,153)
(Decrease) / increase in payables (except banks)	(25,147,103)	11,864,927
less:	-	-
Interest and similar expenses	(12,425,404)	(29,708,482)
Income tax paid	-	-
<b>Total inflows / (outflows) from operating activities (a)</b>	<b>53,248,545</b>	<b>52,954,771</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Amount received from disposal of non-current assets	2,913	253,300
Purchase of tangible and intangible assets	(31,127,764)	(25,812,045)
Repayment of given loans	48,434,445	175,375
Interest received	1,281,361	4,218,593
<b>Total inflows / (outflows) from investing activities (b)</b>	<b>18,590,955</b>	<b>(21,164,777)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans received	-	236,189,500
Repayment of loans	(50,698,327)	(270,495,900)
Repayment of finance leases (amortization)	(695,779)	(530,553)
<b>Total inflows / (outflows) from financing activities (c)</b>	<b>(51,394,106)</b>	<b>(34,836,953)</b>
<b>Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c)</b>	<b>20,445,394</b>	<b>(3,046,959)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>10,018,082</b>	<b>13,065,041</b>
<b>Cash and cash equivalents at end of period</b>	<b>30,463,476</b>	<b>10,018,082</b>

**TMK ARTROM SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**as at 31 December 2012**

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

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## **1. CORPORATE INFORMATION**

These financial statements of TMK ARTROM S.A. (the "Society") for the year ended at 31 December 2012 has prepared in accordance with Order no. 1286/2012 for approving the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent amendments and clarifications and authorised for issue in accordance with the resolution of the Administrators dated 22 march 2013.

The Society has no subsidiaries or associates, and, therefore, it prepares only stand alone financial statements. Stand alone financial statements are consolidated at the parent entity, OAO TMK, headquartered in Moscow, Russian Federation. TMK Group's consolidated financial statements are available for inspection by the public at [www.tmk-group.com](http://www.tmk-group.com).

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

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

## **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, except for derivative financial instruments that were measured at fair value.

For all periods up to and including the year ended 31 December 2011, the entity prepared its financial statements in accordance with Romanian generally accepted accounting practice (Romanian GAAP). These financial statements, for the year ended 31 December 2012, are the first the entity has prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Accordingly, the entity has prepared financial statements in accordance with IFRS beginning January 1, 2012, following the methods of accounting policies.

In preparing these financial statements, the entity's opening statement of financial position was prepared as at 1 January 2011, the date of the entity's transition to IFRS. Note 2.3 explains the principal adjustments made by the entity in restating its Romanian GAAP financial statements for the year ended 31 December 2010, for first time adoption of IFRS.

### **Statement of Compliance**

Stand alone financial statements of the entity have been prepared in accordance with Order no. 1286/2012 for approving the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent amendments and clarifications. These provisions are in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), except as provided in IAS 21 The Effects of Changes in Foreign Exchange Rates on functional currency.

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

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

### **a) Basis of preparation and statement of compliance**

Starting the year ended 31 December 2012, the financial statements of the Company are prepared in accordance with the provisions of Order of the Minister of Public Finance no. 1286/2012 approving the accounting regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent modifications and clarifications. These provisions are aligned with the requirements of the International Financial Reporting Standards as endorsed by the European Union, with the exception of the provisions of IAS 21 The Effects of Changes in Foreign Exchange Rates regarding the functional currency.

For the purposes of the preparation of these financial statements, in accordance to Romanian legislative requirements, the functional currency of the Company is deemed to be the Romanian Leu (RON).

### **b) Going concern**

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

### **c) Transactions in foreign currencies**

For the purposes of the preparation of these financial statements, in accordance to Romanian legislative requirements, the functional currency of the Company is deemed to be the Romanian Leu (RON).

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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.

Exchange rate for 1 unit of foreign currency:

	1 Jan 2011	31 Dec 2011	31 Dec 2012
1 EUR	4,2848	4,3197	4,4287
1 USD	3,2045	3,3393	3,3575

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

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of the assets or liabilities affected in the future periods.

The estimates and underlying assumptions are reviewed on an ongoing 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.



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

### **e) Financial instruments**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Company's financial assets include cash and cash equivalents, trade and other receivables (including loans granted to related parties) and derivative instruments. Financial liabilities include trade and other payables, interest bearing borrowings, finance lease obligations and derivative instruments.

For financial assets at fair value through profit and loss, gains and losses arising from changes in fair value are included in net profit or loss for the period.

Derivative financial instruments include forward contracts for foreign currencies; their use is made in connection with risk management defined by the Company.. These derivative financial instruments are designated as cash flow hedges. The hedged risk is fluctuation of the foreign currency in which external sales are denominated. The Company evaluates the hedge effectiveness at the commencement of the cash flow hedge transaction and performs a quarterly assessment, testing prospectively or retrospectively. The effective portion of the changes in the fair value of such cash flow hedge instruments is recognized in other comprehensive income, while the ineffective portion is recognized in profit and loss. When the transaction will no longer occur, the gain or loss is recycled through profit or loss. If the hedging instrument expires or is sold and it is not replaced with another hedging instrument, or if its designation as a cash flow hedge is revoked, any gain or loss previously recognized in other comprehensive income, is kept in elements of equity, until the transaction will reach profit or loss. When forecasted transaction occurs, the gains or losses previously recognized in other comprehensive income are transferred to the income statement.

### **f) Impairment of financial assets**

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets than can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter in bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

### **g) Property, plant and equipment**

Since these financial statements are the first set prepared by Company in accordance to IFRS requirements, the Company has elected to apply the deemed cost exemption for the first application of IFRS:

- Land and buildings were carried in the statement of financial position prepared in accordance with local GAAP at revalued cost; the fair value was derived from revaluation performed as of 31 December 2011 and next rolled back to December 31, 2010, taking into account PPE movements and depreciation during the year ended 31 December 2011. The Company has elected to regard those values as deemed cost at the date of the revaluation since they were broadly comparable to fair value.
- Equipment was carried in the statement of financial position prepared in accordance with local GAAP on the basis of valuation performed on 31 December 2011 and next rolled back to December 31, 2010, taking into account PPE movements and depreciation during the year ended 31 December 2011 (as indicated above). The Company has elected to regard those values as deemed cost at the date of the revaluation since they were broadly comparable to fair value.

Going forward, property, plant and equipment are stated at cost less accumulated depreciation and impairment in the financial statements of the Company.

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

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

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
Motor vehicles	4 to 20 years

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

### **h) 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 the best estimate of their useful lives.

Intangible assets have the following useful lives:

Software and licenses	1-5 years
Trademarks	20 years
Other intangible assets (development costs)	3 years

### **Research and development costs**

Research is recognized as an expense; development costs are recognized either as expenses, when they are incurred, or capitalized if they meet the definition of an intangible asset.

Development costs for a project are recognized as intangible assets, if such expenditure satisfies the criteria in IAS 38 for recognizing it as an intangible asset.

The Company requires:

- (a) recognized as an expense when incurred, if it is research expenditure;
- (b) recognized as an expense when incurred, if it is development expenditure that does not satisfy the criteria in IAS 38 for recognizing such expenditure as an intangible asset; and
- (c) recognized as an intangible asset, if it is development expenditure that satisfies the criteria in IAS 38 for recognizing such expenditure as an intangible asset

After the initial recognition of the development expense, for the respective intangible assets it is used cost model – measure the intangible asset at cost, less any accumulated amortization and impairment loss. The amortization of the intangible asset begins when the development activity is finalized and the asset is available for use. The useful life is the period in which the asset will generate economic benefits.

The amortization is recognized either under cost of sales, general and administrative, selling and distribution (other operating expense), depending on the usage of the respective asset.

Carrying value of each intangible asset is revised annually and it is impaired if necessary by the Company, in accordance with the information from note i) below. External and internal costs associated with maintenance of software programs already existing are registered as incurred.

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

At each reporting date the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

### **j) Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense related to any provision is presented in the

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

Provisions are not recognized for future operating losses.

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

### **k) Leases**

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

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

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

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

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

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

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

### **m) Inventories**

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost comprises the acquisition cost and other costs that have been incurred in bringing the inventories to their present location and condition and is determined by weighted average method for all the inventories.

Finished goods and work in progress comprise of cost of direct materials and labour and a proportion of manufacturing overheads, allocated based on the quantity produced.

### **n) Trade and other receivables**

Trade receivables, which generally are short term, are carried at original invoice amount less an allowance for doubtful debts. Allowances for doubtful debts is established in case of objective evidence that the Company will not be able to collect amounts due according to the original terms of contract. The Company periodically analyses trade receivables and makes adjustments to the amount of the allowance. The amount of the allowance is the difference between the carrying amount and recoverable amount. The amount of the doubtful debts expense is recognized in the income statement.

### **o) 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.

### **p) Revenue recognition**

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Revenues from sales of inventory are recognized when significant risks and rewards of ownership of goods have passed to the buyer. Revenues arising from rendering of services are recognized in the same period when the services are provided.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, revenue is measured at the fair value of goods or services provided.

### **q) Post employment benefits and other long term employee benefits**

#### **Short-Term Employee Benefits**

Short-term employee benefits paid by the Company include wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits (such as medical care). Such employee benefits are accrued in the year in which the associated services are rendered by employees of the Company.

#### **Defined Benefit Obligations**

The Company provides post-employment and other long-term benefits to their employees (lump-sum post-employment payments, payments in case of death, etc.). 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

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

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 fully recognize in profit and loss as of 31 December 2012 and starting 1 January 2013, according to IAS 19 Revised, will be recognized in other comprehensive income in the period in which they will occur for all defined benefit plans.

### **r) 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 the countries where the Company operates and generates taxable income.

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.

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

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **► Sales tax**

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### **s) Dividends**

Dividends are recorded in the year in which they are approved by the shareholders.

### **t) 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.

## **2.3. ADOPTING IFRS FOR THE FIRST TIME**

The society has prepared the financial information which are consistent with IFRS applicable for periods ended on or after December 31, 2012, together with comparative data for the period and for the year ended December 31, 2011. To prepare these financial disclosures, the initial situation of the financial position of the Company was prepared to January 1, 2011, the date of transition to IFRS the Company.

This note explains the principal adjustments made by the Company to restate financial information prepared in accordance with accounting principles Romanian (Ministry of Public Finance Order no. 3055/2009, with subsequent amendments).

### **Applicable exemption**

IFRS 1 to entities that adopt standards for the first time certain exemptions from retrospective application of certain requirements laid down in IFRS.

The company applied the following exceptions :

- The land and property, plant and equipment owned, except of the real estate investments, were carried in the statement of financial position prepared under the accounting principles generally accepted on local level based on the assessment made as at 31 december 2010 ( using the report of a independent appraiser as at 31 december 2011 and recalculated for 31 december 2010, considering that the assumptions are not significant differences between those two periods, so it can be obtained fair values appropriate to the transition date to IFRS). The company decided to use these values as deemed costs on the reevaluation date, because are comparable with the fair value.
- Society has applied the transitional provisions in IFRIC 4 "Determining whether an arrangement contains a lease" and assessed all commitments based on conditions existing at the transition date. No such cases have been identified.
- Society has applied the transitional provisions of IAS 23 "Borrowing Costs" and capitalized borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Society has not restated borrowing costs capitalized under generally accepted accounting principles previously used for qualifying assets prior to the date of transition to IFRS implementation.



### **2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

#### **Estimates**

The estimates at 1 January 2011 and at December 31, 2012 are mostly consistent with those made for the same dates in accordance with Romanian GAAP (after adjustments to reflect any differences in accounting policies).

Estimarile la 1 ianuarie 2011, 31 decembrie 2011 si 31 decembrie 2012 sunt consecvente cu cele efectuate pentru aceleasi date conform principiilor contabile general acceptate la nivel local (dupa ajustarile efectuate pentru a reflecta orice diferente ale politicilor contabile), cu exceptia de mai jos:

- La data tranzitiei, Societatea a reevaluat duratele de viata utile pentru anumite active, astfel a contabilizat aceste schimbari in estimari prospectiv, incepand cu data tranzitiei.

Estimarile utilizate de Companie pentru a prezenta aceste sume conform IFRS reflecta conditiile la 1 ianuarie 2011, data tranzitiei la IFRS, 31 decembrie 2011 si 31 decembrie 2012.

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**2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

**Reconciliation of equity at 1 January 2011 (date of transition to IFRS)**

	Note	Romanian GAAP	Adjustments	IFRS
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	G	3,911,109	9,153,932	13,065,041
Trade and other receivables	D	180,738,850	(30,405)	180,708,445
Inventories	C	186,371,548	(82,762,041)	103,609,507
Prepayments		637,577	77,598,631	78,236,208
Derivative Financial instrument	E	-	-	-
Other current assets	F	9,153,932	(9,153,932)	-
		380,813,016	(5,193,815)	375,619,201
<b>Non-current assets</b>				
Intangible assets	B	93,192	44,991	138,183
Property, plant and equipment	A	360,768,495	65,490,531	426,259,026
Financial assets		48,609,820	-	48,609,820
Deferred tax asset		-	-	-
Other non - current assets		316,117	-	316,117
		409,787,624	65,535,522	475,323,146
<b>Total assets</b>		<b>790,600,640</b>	<b>60,341,707</b>	<b>850,942,347</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		70,147,008	-	70,147,008
Advances from customers		1,469,431	(6,027)	1,463,404
Short-term provisions and accruals	K	2,813,322	-	2,813,322
Interest-bearing loans and borrowings		345,181,022	-	345,181,022
Short-term leasing		162,489	-	162,489
Derivative financial instrument		-	-	-
Income tax payable		-	-	-
		419,773,272	(6,027)	419,767,245
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings		73,221,322	-	73,221,322
Long-term leasing		85,439	-	85,439
Deferred tax liability	J	-	26,594,500	26,594,500
Provisions and accruals		-	-	-
Post-employment benefits		2,258,889	-	2,258,889
Other long - term liabilities		57,743	-	57,743
		75,623,393	26,594,500	102,217,893
<b>Total liabilities</b>		<b>495,396,665</b>	<b>26,588,473</b>	<b>521,985,138</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
<b>Share capital, from which:</b>		<b>291,790,748</b>	<b>608,093,801</b>	<b>899,884,549</b>
- Subscribed and not paid share capital		291,476,491	-	291,476,491
- Subscribed and paid share capital		314,257	-	314,257
- Adjustments of share capital	H	-	608,093,801	608,093,801
Reserve of hedge instruments		-	-	-
Reserves	I	122,149,233	(115,301,925)	6,847,308

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Retained earnings / (Accumulated Losses)	I	(107,838,670)	(459,038,642)	(566,877,312)
Profit of the year	I	(10,897,336)	-	(10,897,336)
<b>Total equity</b>		<b>295,203,975</b>	<b>33,753,234</b>	<b>328,957,209</b>
<b>Total equity and liabilities</b>		<b>790,600,640</b>	<b>60,341,707</b>	<b>850,942,347</b>

**Reconciliation of equity at december 2011**

	Note	Romanian GAAP	Adjustments	IFRS
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	G	9,535,257	482,825	10,018,082
Trade and other receivables	D	200,159,424	(13,501)	200,145,923
Inventories	C	215,065,772	(98,880,303)	116,185,469
Prepayments		863,015	93,579,741	94,442,756
Derivative Financial instrument	E	-	10,750	10,750
Other current assets	F	1,099,825	(482,825)	617,000
		426,723,293	(5,303,313)	421,419,980
<b>Non-current assets</b>				
Intangible assets	B	75,364	38,637	114,001
Property, plant and equipment	A	424,960,169	3,948,978	428,909,147
Financial assets		48,434,445	-	48,434,445
Deferred tax asset		-	-	-
Other non - current assets		7,758	(65)	7,693
		473,477,736	3,987,550	477,465,286
<b>Total assets</b>		<b>900,201,029</b>	<b>(1,315,763)</b>	<b>898,885,266</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		82,952,701	-	82,952,701
Advances from customers		2,270,183	1,716	2,271,899
Short-term provisions and accruals	K	2,926,059	-	2,926,059
Interest-bearing loans and borrowings		77,963,167	-	77,963,167
Short-term leasing		491,577	-	491,577
Derivative financial instrument		-	-	-
Income tax payable		-	-	-
		166,603,687	1,716	166,605,403
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings		301,768,602	-	301,768,602
Long-term leasing		743,523	-	743,523
Deferred tax liability	J	-	38,962,716	38,962,716
Provisions and accruals		-	-	-
Post-employment benefits		2,012,076	-	2,012,076
Other long - term liabilities		293,409	-	293,409
		304,817,610	38,962,716	343,780,326
<b>Total liabilities</b>		<b>471,421,297</b>	<b>38,964,432</b>	<b>510,385,729</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
<b>Share capital, from which:</b>		<b>291,790,748</b>	<b>608,093,801</b>	<b>899,884,549</b>
- Subscribed and not paid share capital		291,476,491	-	291,476,491
- Subscribed and paid share capital		314,257	-	314,257
- Adjustments of share capital	H	-	608,093,801	608,093,801
Reserve of hedge instruments		-	-	-
Reserves	I	193,796,076	(183,573,605)	10,222,471
Retained earnings / (Accumulated Losses)	I	(124,310,353)	(456,839,459)	(581,149,812)
Profit of the year	I	67,503,261	(7,960,932)	59,542,329
<b>Total equity</b>		<b>428,779,732</b>	<b>(40,280,195)</b>	<b>388,499,537</b>
<b>Total equity and liabilities</b>		<b>900,201,029</b>	<b>(1,315,763)</b>	<b>898,885,266</b>

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**2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

**Reconciliation of equity at 31 december 2012**

	Note	Romanian GAAP	Adjustments	IFRS
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	G	30,358,845	104,631	30,463,476
Trade and other receivables	D	184,516,121	(11,000)	184,505,121
Inventories	C	237,005,203	(86,588,470)	150,416,733
Prepayments		1,112,023	83,182,439	84,294,462
Derivative Financial instrument	E	-	51,158	51,158
Other current assets	F	604,631	(104,631)	500,000
		<u>453,596,823</u>	<u>(3,365,873)</u>	<u>450,230,950</u>
<b>Non-current assets</b>				
Intangible assets	B	118,103	32,284	150,387
Property, plant and equipment	A	422,550,645	7,900,027	430,450,672
Financial assets		-	-	-
Deferred tax asset		-	-	-
Other non - current assets		5,013,555	21,976	5,035,531
		<u>427,682,303</u>	<u>7,954,287</u>	<u>435,636,590</u>
<b>Total assets</b>		<b>881,279,126</b>	<b>4,588,414</b>	<b>885,867,540</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		64,416,095	-	64,416,095
Advances from customers		991,883	10,813	1,002,696
Short-term provisions and accruals	K	4,048,876	-	4,048,876
Interest-bearing loans and borrowings		40,148,998	-	40,148,998
Short-term leasing		651,423	-	651,423
Derivative financial instrument		-	101,002	101,002
Income tax payable		1,807,950	737,218	2,545,168
		<u>112,065,225</u>	<u>849,033</u>	<u>112,914,258</u>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings		295,470,273	-	295,470,273
Long-term leasing		696,577	-	696,577
Deferred tax liability	J	-	42,886,145	42,886,145
Provisions and accruals		210,122	-	210,122
Post-employment benefits		2,750,264	-	2,750,264
Other long - term liabilities		234,257	-	234,257
		<u>299,361,493</u>	<u>42,886,145</u>	<u>342,247,638</u>
<b>Total liabilities</b>		<b>411,426,718</b>	<b>43,735,178</b>	<b>455,161,896</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
<b>Share capital, from which:</b>		<b>291,587,538</b>	<b>608,093,801</b>	<b>899,681,339</b>
- Subscribed and not paid share capital		291,587,538	-	291,587,538
- Subscribed and paid share capital		-	-	-
- Adjustments of share capital	H	-	608,093,801	608,093,801
Reserve of hedge instruments		-	(93,872)	(93,872)
Reserves	I	196,293,200	(183,514,993)	12,778,207
Retained earnings / (Accumulated Losses)	I	(60,725,823)	(463,427,839)	(524,153,662)
Profit of the year	I	42,697,493	(203,861)	42,493,632
<b>Total equity</b>		<b>469,852,408</b>	<b>(39,146,764)</b>	<b>430,705,644</b>
<b>Total equity and liabilities</b>		<b>881,279,126</b>	<b>4,588,414</b>	<b>885,867,540</b>

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**2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

**Reconciliation of total comprehensive income for year ended at 31 december 2011**

	Note	Romanian GAAP	Adjustments	IFRS
<b>Turnover</b>	5	<b>856,313,579</b>	<b>(137,411)</b>	<b>856,176,168</b>
Sales of goods		855,513,148	(137,411)	855,375,737
Rendering of services		800,431	-	800,431
Cost of Sales	6	(698,081,827)	11,080,986	(687,000,841)
<b>Gross profit</b>		<b>158,231,752</b>	<b>10,943,575</b>	<b>169,175,327</b>
Selling and distribution expenses	7	(46,698,672)	(330,091)	(47,028,763)
Advertising and promotion expenses	8	-	-	-
General and Administrative expenses	9	(21,686,181)	862,170	(20,824,011)
Research and development expenses	10	(164,189)	-	(164,189)
Other operating expenses	11.2	(509,761)	(6,707,309)	(4,233,422)
Other operating income	11.1	650,582	(306,914)	343,668
<b>Income from operations</b>		<b>89,823,531</b>	<b>4,461,431</b>	<b>94,284,962</b>
Foreign exchange (loss)/ gain, net		1,100,078	(64,897)	1,035,181
Finance Income	11.4	4,222,672	-	4,222,672
Finance Costs	11.3	(27,643,020)	-	(27,643,020)
Gains / (losses) on financial instruments	11.4	-	10,750	10,750
<b>Profit before tax</b>		<b>67,503,261</b>	<b>4,407,284</b>	<b>71,910,545</b>
Income tax	12	-	(12,368,216)	(12,368,216)
<b>Profit for the year</b>		<b>67,503,261</b>	<b>(7,960,932)</b>	<b>59,542,329</b>
<b>Other comprehensive income</b>				
Net movement on cash flow hedges		-	-	-
Income tax effect		-	-	-
<b>Other comprehensive income (loss) for the year, net of tax</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>67,503,261</b>	<b>(7,960,932)</b>	<b>59,542,329</b>

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**2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

**Reconciliation of total comprehensive income for year ended at 31 december 2012**

	Note	Romanian GAAP	Adjustments	IFRS
<b>Turnover</b>	5	<b>911,603,008</b>	<b>(2,190,390)</b>	<b>909,412,618</b>
Sales of goods		910,809,883	(2,190,390)	908,619,493
Rendering of services		793,125	-	793,125
Cost of Sales	6	(759,387,012)	7,424,548	(751,962,464)
<b>Gross profit</b>		<b>152,215,996</b>	<b>5,210,524</b>	<b>157,450,154</b>
Selling and distribution expenses	7	(56,377,917)	16,422	(56,361,495)
Advertising and promotion expenses	8	(771,325)	-	(771,325)
General and Administrative expenses	9	(25,877,437)	567,723	(25,309,714)
Research and development expenses	10	(225,488)	-	(225,488)
Other operating expenses	11.2	(3,425,996)	(2,230,847)	(5,656,843)
Other operating income	11.1	1,064,449	(705,706)	358,743
<b>Income from operations</b>		<b>66,602,282</b>	<b>2,346,750</b>	<b>69,484,032</b>
Foreign exchange (loss)/ gain, net		(8,176,562)	1,541,757	(6,634,805)
Finance Income	11.4	1,289,336	-	1,289,336
Finance Costs	11.3	(13,266,127)	-	(13,266,127)
Gains / (losses) on financial instruments	11.4	-	51,158	51,158
<b>Profit before tax</b>		<b>46,448,929</b>	<b>4,474,665</b>	<b>50,923,594</b>
Income tax	12	(3,751,436)	(4,678,526)	(8,429,962)
<b>Profit for the year</b>		<b>42,697,493</b>	<b>(203,861)</b>	<b>42,493,632</b>
<b>Other comprehensive income</b>				
Net movement on cash flow hedges		-	(111,752)	(111,752)
Income tax effect		-	17,880	17,880
<b>Other comprehensive income (loss) for the year, net of tax</b>		-	<b>(93,872)</b>	<b>(93,872)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>42,697,493</b>	<b>(297,733)</b>	<b>42,399,760</b>

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**2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

**Notes to the reconciliation of equity as at 1<sup>st</sup> January 2011, December 31, 2011 and December 31, 2012 and total comprehensive income for the year ended 31 December 2011 and year ended 31 December 2012**

**A Property, plant and equipment**

The Society has elected to measure items of property, plant and equipment at deemed cost, being the fair value at the date of transition to IFRS. At the date of transition to IFRS, an increase of RON 58.231.549.

This amount has been recognized against retained earnings

Society must recognize as property, plant and equipment also those assets that are used for periods longer than one year.

On transition, the Society consider a different treatment of certain items treat as inventories , but which in substance can be regarded as components of fixed assets, which are used for a period longer than 1 year. Thus, were made reclassifications between elements nature of inventories and of fixed assets (rolling tools in use) amounting to RON 2,065,167 and property, plant and equipment in progress (rolling tools in stock) amounting to RON 1,876,175. Also was transferred as at 01 January 2011 an inventory (rolling mill mandrels) from account "Material and metal related to the net realizable value of fixed assets" to property, plant and equipment in progress, according to IAS 16 worth RON 3,317,639. The operation was performed under previous regulations in 2012, but for a comparable presentation was treated at the date of transition to IFRS.

It was reclassified from prepayments for exiting property, plant and equipment as ta 1 January 2011 in property, plant and equipment in accordance with the previous romanian accounting standards (OMFP no. 3055/2009) the amount of 316.116 RON in prepayments under OMFP no. 1286/2012.

As at 31 December 2011, the Society capitalized a series of expenses related to repairs with fixed assets, which qualify for recognition as component of fixed assets, for which were removed the size criteria, in amount of 4.655.167 RON, not depreciated value of replaced components being of 1.250.465 RON and depreciated value of 42.337 RON.

As result of restatement of property, plant and equipment on deemed cost, for the capitalised repairs during year 2011, registered in accordance with the previous romanian accounting standards in amount of 8.126.732 RON was recognized a remained difference of value of repalced components in amount of 946.207 RON and a decrease of depreciated value of 252.101 RON. Also, for disposal and sales of property, plant and equipment during year 2011, registered in accordance with the previous accounting standards, the society recognized a difference in not depreciated remained value of 17.083 RON and a decrease of depreciated value of 579.250 RON.

As at 31 December 2011 were made reclassification between elements in nature of inventories and fixed assets ( rolling tools in use) in value of 124.691 RON and property, plant and equipment in progress (rolling tools in inventory) in value of 120.064 RON. For inventories restated as property, plant and equipment was caluclated depreciation related to year 2011 in amount of 622.966 RON.

As at 31 December 2011 were classified the transactions made during year 2011 from prepayments for property, planr and equipment in accordance with previous romanian accounting standards ( OMFP no. 3055/2009) in prepayments in accordance with OMFP no. 1286/2012 in amount of 7.758 RON. Were reversed the unfavorable exchange rate differences registered during year 2011 in amount of 20.023 RON, for prepayments in foreign currency for purchaing the property, plant and equipments. In accordance with IAS 21 the non monetary elements are not assess, the treatment being different over the previous romanian accounting standards (OMFP no. 3055/2009).

As result of restatement of property, plant and equipment on deemed cost the expenses related to the depreciation of property, plant and equipment in 2011 were increased 21.857.298 RON (under OMFP no. 3.055/2009) to 24.960.651 RON.

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**2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

As at 31 December 2012, the Society capitalised a series of expenses related to repairs with fixed assets, which qualify for recognition as component of fixed assets, for which were removed the size criteria, in amount of 5.507.471 RON, the not depreciated value of replaced components being of 869.638 RON and depreciated value of 44.533 RON.

For disposal and sales of property, plant and equipment during year 2012, registered in accordance with previous Romanian accounting standards, the company recognized a decrease in not depreciated remained value of 13.766 RON and an increase of depreciated value with 42.428 RON.

As at 31 December 2012 were made reclassification between items in nature of inventories and property, plant and equipment in progress (rolling tools in inventory) in value of 1.420.970 RON. For inventories restated as property, plant and equipment was calculated depreciation for the year 2012 in amount of 654.138 RON.

As at 31 December 2012 were reclassified the operations made during year 2012 in prepayments for property, plant and equipment under previous Romanian accounting standards (OMFP no. 3055/2009) in prepayments under OMFP no. 1286/2012 in amount of 5.013.555 RON. Were reversed the unfavorable exchange rate differences registered during year 2012 in amount of 368.583 RON, for prepayments in foreign currency for purchasing of property, plant and equipments. In accordance with IAS 21 non-monetary items are not assessed, the treatment being different over the previous Romanian accounting standards (OMFP no. 3055/2009).

Because of restatement of property, plant and equipment on deemed cost the expenses with depreciation of property, plant and equipment in 2012 decreased from 28.588.774 RON (under OMFP no. 3055/2009) to 26.691.518 RON.

**B Intangible assets**

The society updated to inflation, under IAS 29, the intangible assets existent as at 1 January 2011, from the previous years before 2003, applying inflation index from period 1990-2003, period when Romania had hyperinflation. The adjustments were made based on the retained earnings related to the adoption for the first time of IAS 29 in amount of 44.991 RON.

As at 31 December 2011 the updating to inflation of intangible assets generated an additional expense with depreciation with 6.354 RON.

As at 31 December 2012 the updating to inflation of intangible assets generated an additional expense with depreciation with 6.354 RON.

**C Inventories**

On the transition date, the Society considered a different treatment over some elements generated to inventories but which in substance can be considered as component in nature of inventories in use and fixed assets (rolling tools in use) in value of 2.065.167 RON (correction which affected also the result of the year, the total amount being recognized under OMFP no. 3055/2009 as an expense of the year) and property, plant and equipment in progress (rolling tools in inventory) in value of 1.876.175 RON. Also, on 1 January 2011 was transferred an inventory (rolling tools mandrels) from account „Material and metal related to the net realizable value of fixed assets” to property, plant and equipment in progress, under IAS 16 in value of 3.317.639 RON. The operation was performed in accordance with the previous regulations in 2012, but for a comparable presentation was treated on the transition date to IFRS.

Was reclassified from prepayments for purchase of existing goods as at 1 January 2011 in inventories under previous Romanian accounting standards (OMFP no. 3055/2009) the amount of 77.568.226 RON, in prepayments under OMFP no. 1286/2012 (31 December 2012: 83.171.261 RON and 31 December 2011: 93.566.435 RON).



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**2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

As at 31 December 2011 were made reclassification between elements in nature of inventories and fixed assets (rolling tools in use) in value of 124.691 RON and property, plant and equipment in progress (rolling tools in inventory) in value of 1.996.239 RON (2011: 120.064 RON, 2010: 1.876.175 RON).

As at 31 December 2012 were made reclassification between the items in nature of inventories and property, plant and equipment in progress (rolling tools in inventory) in value of 3.417.209 RON (2012: 1.420.970 RON, 2011: 120.064 RON, 2010: 1.876.175 RON).

Were reversed the favorable exchange rate differences registered during year 2011 in amount of 184 RON, for prepayments in foreign currency for purchasing of goods. Under IAS 21 the non monetary elements are not assessed, the treatment being different over the previous romanian accounting standards (OMFP no. 3055/2009).

Were reversed the favorable exchange rate differences registered in 2012 in amount of 361 RON, for prepayments in foreign currency for goods acquisition. Under IAS 21 the non monetary items are not assessed, the treatment being different over the previous romanian accounting standards (OMFP no 3055/2009).

**D Trade receivables**

On the transition date, the Society reclassified the prepayments for services, through the transfer of trade receivables in prepayments paid in amount of 30.405 RON.

As at 31 December 2011, the Society classified the prepayments for services, through the transfer of trade receivables in prepayments paid in amount of 13.500 RON.

As at 31 December 2012, the Society reclassified the prepayments for services, through the transfer of trade receivables in prepayments paid in amount of 11.000 RON.

**E Derivative financial instruments**

As at 31 December 2011 the Society register a fair value of hedging instruments against risks for forward contracts in euros under IAS 39 in amount of 10.750 RON.

As at 31 December 2012 the Society registered the ineffective part on the fair value of hedging instruments against risks for forward contracts in USD / RON under IAS 39 in amount of 51.158 RON.

**F Other current assets ( short-term investments)**

At date of transition, the Society reclassified the promissory notes, in amount of 9.153.932 RON, registered according to previous romanian standards from short-term investments in cash and cash equivalents, according to IFRS regulations.

At 31.12.2011, the Society reclassified the promissory notes, in amount of 1.099.825 RON, registered according to previous romanian standards from short-term investments in cash and cash equivalents, according to IFRS regulations.

At 31.12.2012, the Society reclassified the promissory notes, in amount of 604.631 RON, registered according to previous romanian standards from short-term investments in cash and cash equivalents, according to IFRS regulations.

**G Cash and cash equivalents**

At 31.12.2011, the Society reclassified bank deposits for letters of bank guarantee, in amount of 617.000 RON, registered according to previous romanian standards from cash and cash equivalents in other

### **2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

current assets – short-term investments, according to IFRS regulations given the fact that they have a due date longer than 3 months.

At 31.12.2012, the Society reclassified bank deposits for letters of bank guarantee, in amount of 500.000 RON, registered according to previous romanian standards from cash and cash equivalents in other current assets – short-term investments, according to IFRS regulations given the fact that they have a due date longer than 3 months.

#### **H Share capital**

The Society update to inflation the share capital under IAS 29 applying the inflation index from period 1990-2003, period in care Romania a avut hiperinflatie. Ajustarile s-au efectuat pe seama rezultatului reportat provenit din adoptarea pentru prima data IAS 29.

On the transition date to IFRS were registered differences related to share capital from updating to inflation under IAS 29 in amount of 621.834.073 RON. Was adjusted the equity with amounts derived from the reevaluations enclosed in equity and capital reduction in amount of 13.740.272 RON.

#### **I Retained earnings**

At date of transition, the Society has registered operations from restatement according to OMFP nr. 1286/2012 on retained earnings in amount of 459.038.642 RON. These operations include:

- ▶ The transfer of revaluation reserves in retained earnings as a result of using deemed cost (58.231.549 RON);
- ▶ Share capital adjustment for hyperinflation (-608.048.810 RON);
- ▶ Other restated elements according to IFRS (90.778.619 RON).

At 31 december 2011, in addition to the above elements, operations of year 2011 according to OMFP no. 1286/2012 had generated a loss of 7.960.932 RON.

At 31 december 2012, in addition to the above elements, operations of year 2012 according to OMFP no. 1286/2012 had generated a loss 2.546.179 RON.

#### **J Deferred tax**

The different transition adjustments led to different temporary differences. According to accounting policies from note 2.2, the Society has to register these differences. The deferred tax adjustments are recognized in correlation with the transaction from the base, either in retained earnings, or as a separate component of equity.

The Society has calculated deferred tax generated by the different temporary differences calculated for fixed assets, existing recoverable fiscal loss from previous years and other elements.

At date of transition the Society has recognized in retained earnings a net liability of 26.594.500 RON (see note 12).

At 31 december 2011 were registered expenses with deferred tax in amount of 39.728.503 RON and income from deferred tax in amount of 27.360.287 RON, resulting a total liability of 38.962.716 RON.

At 31 december 2012 were registered expenses with deferred tax in amount of 8.546.945 RON and income from deferred tax in amount of 4.605.637 RON, resulting a total liability of 42.886.145 RON, the difference toward balance sheet balances it is given by the adjustments of deferred tax of effective part from hedging transactions, registered in other elements of comprehensive income.

### **2.3. ADOPTING IFRS FOR THE FIRST TIME (continue)**

#### **K Financial derivative instruments liabilities**

At 31 december 2012 the Society registers the effective part at fair value of hedge instruments of forward contracts in EUR / RON according to IAS 39 in amount of 101.002 RON.

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

The preparation of the Society's financial statements requires management to make judgements, 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.

#### **Judgements**

The management of the Company decided that its functional currency is the RON considering the following aspects:

- The Society records costs mostly in the national currency RON;
- The Society records revenues mostly in the national currency in RON, though, some revenues are based on USD prices.

#### **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.

##### **➤ Impairment of non-financial assets**

An 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 to sell and its value in use. The fair value less costs to sell 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 discounted cash flow model.

##### **➤ Taxes**

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. The Society does not establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates.

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 (that 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 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

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

valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

#### **➤ Fair value of financial instruments**

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments

### **4. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The standards and interpretations that are issued but not yet effective up to the date of issuance of The Society's financial statements are disclosed below. The Society intends to adopt these standards, if applicable, when they become effective.

#### **A) 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 Society as of 1 January 2012:

##### **▶ IFRS 1 First Time Adoption of IFRS (Amended) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters of IFRS**

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The management has estimated that this change does not have a significant impact on financial statements.

##### **▶ IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amendment)**

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with such involvement. The management has estimated that this change does not have a significant impact on financial statements.

##### **▶ IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets**

The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The management has estimated that this change does not have a significant impact on financial statements.

#### **B) Standards issued but not yet effective and not early adopted**

##### **▶ IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income**

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented

#### **4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continue)**

separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Society's financial position or performance.

▶ **IAS 19 Employee Benefits (Revised)**

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Management, at present, it is in the process to evaluate the impact of this amendment over the financial position or the performance of the Society.

▶ **IAS 27 Separate Financial Statements (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. The management has estimated that this change does not have a significant impact on financial statements.

▶ **IAS 28 Investments in Associates and Joint Ventures (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The management has estimated that this change does not have a significant impact on financial statements.

▶ **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2014. These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The management has estimated that this change does not have a significant impact on financial statements.

▶ **IFRS 1 First Time Adoption of IFRS (Amended) - Government loans**

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. This amendment has not yet been endorsed by the EU. The management has estimated that this change does not have a significant impact on financial statements.

▶ **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in

evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The management has estimated that this change does not have a significant impact on financial statements.

#### **4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continue)**

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

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9, as issued, reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets, but will not have an impact on classification and measurements of financial liabilities. The Society will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. This standard has not yet been endorsed by the EU.

▶ **IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The management has estimated that this change does not have a significant impact on financial statements.

▶ **IFRS 11 Joint Arrangements**

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The management has estimated that this change does not have a significant impact on financial statements.

▶ **IFRS 12 Disclosures of Interests in Other Entities**

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The management has estimated that this change does not have a significant impact on financial statements.

▶ **IFRS 13 Fair Value Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The management has estimated that this change does not have a significant impact on financial statements.

▶ **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation applies to waste removal (stripping costs) incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The management has estimated that this change does not have a significant impact on financial statements.

#### 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continue)

► **The IASB has issued the Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions.**

The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effective date for the amendments is for annual periods beginning on or after 1 January 2013. Earlier application is permitted in all cases, provided that fact is disclosed. This project has not yet been endorsed by the EU. The management has estimated that this change does not have a significant impact on financial statements.

- **IFRS 1 First-time adoption of IFRS:** This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- **IAS 1 Presentation of Financial Statements:** This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- **IAS 16 Property, Plant and Equipment:** This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- **IAS 32 Financial Instruments, Presentation:** This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- **IAS 34 Interim Financial Reporting:** The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

► **Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)**

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. This guidance has not yet been endorsed by the EU. The management has estimated that this change does not have a significant impact on financial statements.

► **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**

The amendment is effective for annual periods beginning on or after 1 January 2014. The amendment applies to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The Investment Entities amendment provides an exception to the consolidation requirements in IFRS 10 and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendment also sets out disclosure requirements for investment entities. This amendment has not yet been endorsed by the EU. The management has estimated that this change does not have a significant impact on financial statements.

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**5. TURNOVER**

For management, the Society is organized by the products sold. The Society does not have any reportable segment. The Society monitors the sales on geographical areas.

	01.01- 31.12.2012 RON	%	01.01- 31.12.2011 RON	%
Domestic sales	191,602,258	21	189,540,434	22
Sales abroad	717,810,360	79	666,635,734	78
<b>Total</b>	<b>909,412,618</b>	<b>100</b>	<b>856,176,168</b>	<b>100</b>

	Year 2012 RON	Year 2011 RON
<b>Sales of pipes from which:</b>		
Internal market	158,679,496	152,075,096
Europe	541,906,711	525,934,149
North America	140,552,846	126,655,704
Other areas	6,913,009	13,451,993
<b>Total sales of pipes</b>	<b>848,052,062</b>	<b>818,116,942</b>
<b>Sales of other goods and services from which:</b>		
Sales of other goods on internal market	32,254,398	36,749,763
Sales of other goods on external market	28,313,033	509,032
Redering of services on internal market	668,364	715,575
Redering of services on external market	124,761	84,856
<b>Total sales of other goods and services</b>	<b>61,360,556</b>	<b>38,059,226</b>
<b>Total turnover</b>	<b>909,412,618</b>	<b>856,176,168</b>

Turnover has increased with 6% in 2012 toward 2011 as a result of the increase of average sales price with 3%, of increase of the production volume sold from 174.440 tones to 176.150 tones (an increase with 1%), but also as a result of the increase of merchandise sales. The merchandise sales volume has increased in 2012 with 365%, because of the external sales of 9.955 tones of profiles (billets).

The sales in 2012 were made directly and by traders related companies as follows:

- In Romania and East Europe area directly;
- In North Europe by TMK Europe from Dusseldorf, major shareholder;
- In South Europe and West Europe by TMK Italia from Lecco, which acts as agent;
- In USA and Orient by TMK Ipsco from Chicago, respectively TMK Middle East Dubai, as well as directly to customers.

In 2011, sales were made in the same way, with mention that for USA and Orient were made by TMK Global Geneva, which was reselling to the other two related locale societies (according to d) from above).

Beginning with octomber 2011 TMK ARTROM dropped the sales by traders TMK Italia and TMK Global. TMK ARTROM signed a agent contract with TMK ITALIA and it sales directly to customers from South and West areas from Europe (which in previous years were customers of TMK ITALIA).



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**5. TURNOVER (continue)**

**Geographical information**

*Gross margin on geographical areas*

1 january - 31 december 2012	Romania RON	European Union RON	North America RON	Other countries RON	Total RON
Turnover (Sales)	191,602,257	542,669,407	140,552,846	34,588,108	<b>909,412,618</b>
Cost of Sales	(178,814,033)	(448,333,769)	(94,779,773)	(30,034,889)	<b>(751,962,464)</b>
<b>Gross Margin</b>	<b>12,788,224</b>	<b>94,335,638</b>	<b>45,773,073</b>	<b>4,553,219</b>	<b>157,450,154</b>

1 january - 31 december 2011	Romania RON	European Union RON	North America RON	Other countries RON	Total RON
Turnover (Sales)	189,540,434	526,528,037	126,655,704	13,451,993	<b>856,176,168</b>
Cost of Sales	(157,778,694)	(418,019,404)	(100,525,966)	(10,676,777)	<b>(687,000,841)</b>
<b>Gross Margin</b>	<b>31,761,740</b>	<b>108,508,633</b>	<b>26,129,738</b>	<b>2,775,216</b>	<b>169,175,327</b>

**6. COST OF SALES**

Cost of sales in 2012 and 2011 include the next elements:

	2012 RON	2011 RON
Raw materials	551,009,835	527,540,138
Energy and utilities	56,885,847	47,924,714
Consumables	41,117,512	35,909,056
Staff cost	41,568,375	36,527,407
Depreciation and amortisation	26,135,661	23,928,663
Social security expenses	11,687,461	10,293,097
Repairs and maintenance	3,127,547	2,010,688
Other compensations for employees	4,220,696	3,134,420
Freight	1,795,994	1,574,623
Taxes	1,110,720	2,015,512
Professional fees and services	1,075,719	555,660
Travel	301,581	318,021
Rent	104,369	77,539
Insurance	91,399	33,852
Communications	46,759	42,938
Other expenses	5,682	8,499
<b>Total production cost</b>	<b>740,285,158</b>	<b>691,894,828</b>
Change in own finished goods and work in progress	(9,065,185)	1,481,876
Cost of sales of externally purchased goods	26,134,934	5,806,259
Capitalized production costs	(10,606,374)	(11,958,407)
Obsolete stock, write-offs / (reversal of write-offs)	5,213,931	(223,715)
<b>Cost of sales</b>	<b>751,962,464</b>	<b>687,000,841</b>

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## 7. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses in 2012 and 2011 include the next elements:

	2012 RON	2011 RON
Freight	40,621,734	39,445,379
Professional fees and services	9,912,322	2,516,450
Staff cost	2,656,168	2,374,752
Consumables	895,390	703,290
Social security expenses	747,551	668,603
Depreciation and amortisation	281,378	168,717
Insurance	277,278	137,606
Utilities and maintenance	261,575	172,258
Bad debt expense	230,122	331,823
Other compensations for employees	211,869	352,588
Communications	113,509	91,463
Taxes	69,661	24,510
Travel	66,351	33,572
Other expenses	16,587	7,752
<b>Selling and distribution expenses</b>	<b>56,361,495</b>	<b>47,028,763</b>

## 8. PROMOTION AND ADVERTISING EXPENSES

Promotion and advertising expenses in 2012 and 2011 consists of the following:

	2012 RON	2011 RON
Services	539,990	-
Materials	231,335	-
<b>Promotion and advertising expenses</b>	<b>771,325</b>	<b>-</b>

## 9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses in 2012 and 2011 consist of the following:

	2012 RON	2011 RON
Staff cost	11,106,297	7,851,800
Professional fees and services	3,926,351	3,349,210
Social security expenses	3,156,752	2,212,721
Rent	1,601,433	1,500,602
Depreciation and amortisation	971,929	908,496
Consumables	968,265	737,170
Utilities and maintenance	936,713	876,540
Travel	747,118	682,817
Taxes	564,884	558,233
Communications	465,757	323,999
Other compensations for employees	444,424	1,492,973
Other expenses	308,265	219,284
Insurance	111,525	110,166
<b>General and administrative expenses</b>	<b>25,309,714</b>	<b>20,824,011</b>

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## 10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses in 2012 and 2011 consists of the following:

	2012 RON	2011 RON
Consumables	86,061	15,254
Staff cost	66,746	63,418
Professional fees and services	51,475	65,296
Social security expenses	18,797	17,857
Other compensations for employees	2,409	2,364
<b>Research and development expenses</b>	<b>225,488</b>	<b>164,189</b>

## 11. OTHER INCOME/EXPENSES AND ADJUSTMENTS

### 11.1 Other operating income

	2012 RON	2011 RON
Gains (loss) on sales of property, plant and equipment	231	31,867
Income from undue taxes	195,973	181,184
Damages, trial expenses	143,250	83,847
Special grants - subsidies	15,675	15,675
Other income	3,614	31,095
<b>Other operating income</b>	<b>358,743</b>	<b>343,668</b>

### 11.2 Other operating expenses

	2012 RON	2011 RON
Losses from disposal of tangible assets	3,354,971	3,407,432
Tax fines	1,500	394,073
Travel non-deductible expenses	152,148	119,486
Penalties to legal entities	12,459	284,986
Sponsoring	121,553	5,000
Environment protection expenses	23,634	2,419,611
Other expenses	1,990,578	586,482
<b>Other operating expenses</b>	<b>5,656,843</b>	<b>7,217,070</b>

In losses from disposal of tangible assets are included costs with undepreciated replaced components, in amount of 3.174.301 RON (2011: 3.389.170 RON) and costs from disposal of assets, in amount of 180.670 RON (2011 : 18.262 RON).

### 11.3 Financial costs

	2012 RON	2011 RON
Interest on long term loans and borrowings	12,235,430	21,576,559
Interest on short term borrowings	46,035	4,459,925
Interest on financial leasing	70,628	34,051
Discount fees and charges of promissory note	443,227	708,860
Expenses with depreciation of upfront fee	470,806	843,056
Other financial expenses	-	20,567
<b>Total financial costs</b>	<b>13,266,127</b>	<b>27,643,020</b>

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

**11.4 Financial income**

	<b>2012 RON</b>	<b>2011 RON</b>
Interest on deposits	122,676	22,101
Interest from granted borrowing	1,158,685	4,196,492
Other financial income	7,975	4,079
<b>Total financial income</b>	<b>1,289,336</b>	<b>4,222,672</b>

**11.5 Employee benefits expenses**

	<b>2012 RON</b>	<b>2011 RON</b>
Wages and salaries	55,397,586	46,817,377
Meal tickets	2,327,247	2,263,584
Social security costs	15,610,561	13,192,278
Other salary compensations	2,552,151	2,718,761
<b>Total employee benefits expense</b>	<b>75,887,545</b>	<b>64,992,000</b>

	<b>2012</b>	<b>2011</b>
Average number of employees	1,183	1,141
The actual number of employees at the end of financial year	1,207	1,166

**12. INCOME TAX**

For year 2012, the Society has calculated a current income tax of 4.488.654 RON, after fully recovering the fiscal losses from previous years.

	<b>2012</b>	<b>2011</b>
Current income tax	(4,488,654)	-
Deferred income tax	(3,941,308)	(12,368,216)
<b>Income tax</b>	<b>(8,429,962)</b>	<b>(12,368,216)</b>

A reconciliation between tax expense and the accounting profit multiplied by Romania domestic tax rate for the years ended 31 December 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
<b>Profit before income tax</b>	<b>42,493,632</b>	<b>59,542,329</b>
Income taxes calculated at the nominal applicable tax rate (16%)	6,798,981	9,526,773
Tax effect of deductible / non-taxable elements	(5,481,531)	(2,281,229)
Tax effect of taxable / non-deductible elements	10,308,538	5,586,629
Tax loss to be recovered	(7,015,781)	(12,832,173)
Internal tax credit (sponsoring expenses)	(121,553)	-
<b>Computed income tax</b>	<b>4,488,654</b>	<b>-</b>
<b>Income tax reported in the statement of income</b>	<b>4,488,654</b>	<b>0</b>

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**12. INCOME TAX (continue)**

	2012	2011
<b>Statement of comprehensive income</b>		
Deferred tax related to items charged or credited directly to other comprehensive income during the year:	-	-
Net gain/(loss) on revaluation of cash flow hedges	17,880	-
<b>Income tax charged directly to other comprehensive income</b>	<b>17,880</b>	<b>-</b>

The Society calculated deferred tax from different temporary differences for fixed assets, recovering fiscal loss from previous years and other items. Thus, at 1.01.2011 it was recognized in retained earnings a net liability of RON 26,594,500, in 2011 were registered deferred tax expenses of RON 39,728,503 and deferred tax income of RON 27,360,287 and in 2012 it was registered deferred tax income of RON 4,605,637 and deferred tax expenses of RON 8,546,945.

Deferred tax relates to the following:

**Statement of financial position**

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
<b><u>- Deferred income tax assets</u></b>			
Allowance for doubtful accounts receivable	35,084	489	489
Staff retirement indemnities	440,042	321,932	361,422
Provisions for management bonuses	482,836	389,418	90,099
Provisions for quality complaints	17,006	3,064	31,573
Adjustments of inventories	863,983	29,754	65,549
Tax losses carried forward		7,015,781	19,847,954
<b><u>Recognized in other elements of comprehensive income</u></b>			
Hedge instruments	7,975	-	-
<b>Total (a)</b>	<b>1,846,926</b>	<b>7,760,438</b>	<b>20,397,086</b>
<b><u>- Deferred income tax liabilities</u></b>			
Difference between carrying amount and fiscal amount of tangible and intangible assets	44,733,071	46,721,434	46,991,586
Hedge instruments	-	1,720	-
<b>Total (b)</b>	<b>44,733,071</b>	<b>46,723,154</b>	<b>46,991,586</b>
<b>Net deferred tax income (a) - (b)</b>	<b>(42,886,145)</b>	<b>(38,962,716)</b>	<b>(26,594,500)</b>

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**12. INCOME TAX (continue)**

**Statement of comprehensive income**

	31 december 2012 RON	31 december 2011 RON
<b>- Deferred income tax assets</b>		
Allowance for doubtful accounts receivable	34,594	-
Staff retirement indemnities	118,110	(39,490)
Provisions for management bonuses	93,418	299,319
Provisions for quality complaints	13,942	(28,509)
Adjustments of inventories	834,229	(35,795)
Tax losses carried forward	(7,015,781)	(12,832,173)
<b><u>Recognized in other elements of comprehensive income</u></b>		
Hedge instruments	9,695	-
<b>Total (a)</b>	<b><u>(5,911,793)</u></b>	<b><u>(12,636,648)</u></b>
<b>- Deferred income tax liabilities</b>		
-		
Difference between carrying amount and fiscal amount of tangible and intangible assets	(1,988,365)	(270,152)
Hedge instruments	-	1,720
<b>Total (b)</b>	<b><u>(1,988,365)</u></b>	<b><u>(268,432)</u></b>
<b>Net deferred tax income (a) - (b)</b>	<b><u>(3,923,429)</u></b>	<b><u>(12,368,216)</u></b>

**13. EARNINGS PER SHARE**

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

Earnings per share Amounts in RON	01.01-31 december 2012	01.01-31 december 2011
<b><u>Earnings</u></b>		
Net profit	42,493,632	59,542,329
Average number of shares	116,224,307	116,251,294
<b>Earning per average number of shares</b>	<b><u>0.37</u></b>	<b><u>0.51</u></b>

During the year 2012 the share capital reduction was ended according to the General Extraordinary Shareholders of 04.26.2012 with 80,960 shares.

There were no other business involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

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**14. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists of the following:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Construction in progress	Total
	RON	RON	RON	RON	RON	RON
<b>At 1 January 2011</b>	<b>92,384,035</b>	<b>315,969,137</b>	<b>7,397,778</b>	<b>700,323</b>	<b>9,807,753</b>	<b>426,259,026</b>
Additions	939,551	11,706,053	136,295	-	18,212,982	30,994,881
Disposals	(104,231)	(3,516,096)	(238,161)	-	-	(3,858,488)
Transfers	365,860	10,030,283	1,453,908	60,663	(11,910,714)	(0)
Transfers from inventories	-	124,691	-	-	120,064	244,755
Reversal impairment	-	-	-	-	-	-
<b>At 31 December 2011</b>	<b>93,585,215</b>	<b>334,314,068</b>	<b>8,749,820</b>	<b>760,986</b>	<b>16,230,085</b>	<b>453,640,174</b>
Additions	2,585,923	13,497,817	-	-	14,740,126	30,823,866
Disposals	(273,504)	(3,958,163)	-	(11,658)	(33,438)	(4,276,763)
Revaluations	-	-	-	-	-	-
Transfers	10,127,436	1,226,586	1,589,633	684,299	(13,627,954)	-
Transfers from inventories	-	-	-	-	1,420,970	1,420,970
<b>At 31 December 2012</b>	<b>106,025,070</b>	<b>345,080,308</b>	<b>10,339,453</b>	<b>1,433,627</b>	<b>18,729,789</b>	<b>481,608,247</b>
<b>Depreciation and impairment</b>						
<b>At 1 January 2011</b>	-	-	-	-	-	-
Depreciation charge for the year	(3,266,023)	(20,636,971)	(887,677)	(169,980)	-	(24,960,651)
Disposals	1,923	210,972	16,729	-	-	229,624
<b>At 31 December 2011</b>	<b>(3,264,100)</b>	<b>(20,425,999)</b>	<b>(870,948)</b>	<b>(169,980)</b>	-	<b>(24,731,027)</b>
Depreciation charge for the year	(3,410,429)	(22,615,565)	(1,137,322)	(182,342)	-	(27,345,658)
Disposals	25,791	888,603	-	4,716	-	919,110
<b>At 31 December 2012</b>	<b>(6,648,738)</b>	<b>(42,152,961)</b>	<b>(2,008,270)</b>	<b>(347,606)</b>	-	<b>(51,157,575)</b>
<b>Net book value</b>						
At 1 January 2011	92,384,035	315,969,137	7,397,778	700,323	9,807,753	426,259,026
At 31 December 2011	90,321,115	313,888,069	7,878,872	591,006	16,230,085	428,909,147
At 31 December 2012	99,376,332	302,927,347	8,331,183	1,086,021	18,729,789	430,450,672

Depreciation is calculated using the straight-line method throughout the useful life of the asset as follows:

- Buildings : useful life between 9 - 60 years
- Machines and equipment: useful life between 2 - 42 years
- Furniture and office equipments: useful life between 4 - 20 years

#### **14. PROPERTY, PLANT AND EQUIPMANT (contiune)**

Lands owned by the Society are located in Slatina city, with an area of 416,081.03 square meters.

Fixed assets increases were achieved in 2012 by acquisitions of independent fixed assets, by putting into operation the contracting or self made investments, by making capital repairs for equipments and constructions which were recognized in the carrying amount of property, plant and equipment in value of RON

16,083,740 (2011: RON 12,781,899) and by inputs of mandrel TPA as fixed assets in amount of RON 124.691. Repairs capitalized in the carrying amount of tangible assets have been restated in 2011 and 2012 eliminating size criteria.

Non-depreciated value of parts replaced for capital repairs made during 2012, which were recognized in the carrying amount of property, plant and equipment was of RON 3,174,301 (2011: RON 3,389,170), their depreciated value was of RON 854.798 (2011: RON 205,470).

During 2012 there were registered investment expenses of RON 14,740,126 (2011: RON 18,212,982).

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

The carrying amount of property, plant and equipment owned in financial leasing at 31 december 2012 was of RON 1,926,565 (2011: RON 2,018,574, 1 January 2011: RON 630,038).

Inputs during the year include an amount of RON 798,656 (2011: RON 1,514,224) representing vehicles owned in financial leasing. Assets held under lease are pledged as guarantees for financial leasing.



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**15. INTANGIBLE ASSETS**

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

	Licenses and trademarks	Other intangible assets	Total
	RON	RON	RON
<b>Cost</b>			
<b>At 1 January 2011</b>	<b>328,106</b>	<b>70,512</b>	<b>398,618</b>
Additions	21,043	-	21,043
Disposals	-	-	-
<b>At 31 December 2011</b>	<b>349,149</b>	<b>70,512</b>	<b>419,661</b>
			-
Additions	79,698	-	79,698
Disposals	-	-	-
<b>At 31 December 2012</b>	<b>428,847</b>	<b>70,512</b>	<b>499,359</b>
			-
<b>Amortisation and impairment</b>			
<b>At 1 January 2011</b>	<b>(226,291)</b>	<b>(34,144)</b>	<b>(260,435)</b>
Amortisation	(34,623)	(10,602)	(45,225)
Impairment	-	-	-
<b>At 31 December 2011</b>	<b>(260,914)</b>	<b>(44,746)</b>	<b>(305,660)</b>
			-
Amortisation	(33,411)	(9,901)	(43,312)
Impairment	-	-	-
<b>At 31 December 2012</b>	<b>(294,325)</b>	<b>(54,647)</b>	<b>(348,972)</b>
			-
<b>Net book value</b>			
At 1 January 2011	101,815	36,368	138,183
At 31 December 2011	88,235	25,766	114,001
At 31 December 2012	134,522	15,865	150,387

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

**16.1. Financial assets**

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
<b>Financial instruments at fair value through other comprehensive income</b>			
Cash flow hedges	51,158	10,750	-
- Foreign exchange forward contracts	51,158	10,750	-
<b>Total financial instruments at fair value</b>	<b>51,158</b>	<b>10,750</b>	<b>-</b>
<b>Loans and receivables</b>			
- Loan to related parties	-	48,434,445	48,609,820
<b>Total loans and receivables</b>	<b>-</b>	<b>48,434,445</b>	<b>48,609,820</b>
<b>Total other financial assets</b>	<b>51,158</b>	<b>48,445,195</b>	<b>48,609,820</b>

In 2012 the loan given according to contract 3100 from 25.05.2004 to TMK Resita in value of 48.194.809 Ron at 31.12.2011 was cashed.

**16.2. Other financial liabilities**

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
<b>Financial liabilities at fair value through other comprehensive income</b>			
Cash flow hedges	101,002	-	-
- Foreign exchange forward contracts	101,002	-	-
<b>Total financial liabilities at fair value through other comprehensive income</b>	<b>101,002</b>	<b>-</b>	<b>-</b>
<b>Total other financial liabilities</b>	<b>101,002</b>	<b>-</b>	<b>-</b>
<b>Total current</b>	<b>101,002</b>	<b>-</b>	<b>-</b>

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

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Long-term interest-bearing bank loans	219,737,155	226,334,281	0
Long-term interest-bearing borrowing – related parties	76,715,466	76,299,823	73,221,322
Un-amortized long-term cost	(982,348)	(865,502)	0
<b>Balance of long - term loans</b>	<b>295,470,273</b>	<b>301,768,602</b>	<b>73,221,322</b>

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

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

Future repayments	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
<b>Long and short term loans and borrowings-principals, from which:</b>			
Within 1 year <3 month	9,687,781	-	7,320,356
Within 1 year between 3 and 12 month	29,554,609	12,406,477	331,925,845
2 - 5 years	284,239,581	338,110,861	30,801,624
After 5 years	12,213,041	28,175,477	42,419,697
<b>Total</b>	<b>335,695,012</b>	<b>378,692,815</b>	<b>412,467,522</b>
<b>Long and short term loans and borrowings-interests, from which:</b>			
Within 1 year <3 month	2,476,077	4,346,134	1,632,614
Within 1 year between 3 and 12 month	7,387,521	11,780,147	30,467,841
2 - 5 years	18,438,464	38,918,172	2,001,326
After 5 years	39,507	199,676	457,938
<b>Total</b>	<b>28,341,569</b>	<b>55,244,129</b>	<b>34,559,719</b>
Loans and borrowings-principals	335,695,012	378,692,815	412,467,522
Total interest, including future interest, from which:	28,341,569	55,244,129	34,559,719
- Future interests	26,967,560	52,947,255	28,624,897
- Interest at reporting date	1,374,009	2,296,874	5,934,822
Un-amortized cost	(1,449,750)	(1,257,920)	-
<b>Total interest-bearing loans and borrowings</b>	<b>335,619,271</b>	<b>379,731,769</b>	<b>418,402,344</b>

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

31 december 2012							
Bank	Type of loan	Currency	Amount given	Due	Interest rate	Amount repayable RON	Amount repayable EUR
VTB BANK AUSTRIA	Loan on 5 years - long part	EUR	20,000,000	08/08/2016	EURIBOR 1M+margin	59,049,333	13,333,333
UNICREDIT TIRIAC BANK	Loan on 5 years - long part	EUR	15,000,000	11/16/2016	EURIBOR 1M+margin	66,430,500	15,000,000
BCR ERSTE	Loan on 5 years - long part	EUR	20,000,000	10/03/2016	EURIBOR 3M+margin	67,814,469	15,312,500
BCR ERSTE	Loan line overdraft	EUR	20,000,000	10/03/2016	EURIBOR 3M+margin	26,442,854	5,970,794
Total long-term bank loans						219,737,155	
TMK EUROPE GmbH	Long-term borrowing	USD	22,837,540			76,677,041	22,837,540
		RON	38,425	09/25/2018	Libor+0.5%	38,425	
Total						296,452,621	

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

31 december 2011							
Bank	Type of loan	Currency	Amount given	Due	Interest rate	Amount repayable RON	Amount repayable EUR
VTB BANK AUSTRIA	Loan on 5 years - long part	EUR	20,000,000	08/08/2016	EURIBOR 1M+margin	79,194,500	18,333,333
BCR ERSTE	Loan on 5 years - long part	EUR	20,000,000	10/03/2016	EURIBOR 3M+margin	82,344,281	19,062,500
UNICREDIT TIRIAC BANK	Loan on 5 years - long part	EUR	15,000,000	11/16/2016	EURIBOR 1M+margin	64,795,500	15,000,000
Total long-term bank loans						226,334,281	
TMK EUROPE GmbH	Long-term borrowing	USD	22,837,540			76,261,397	22,837,540
		RON	38,425	09/25/2018	Libor+0.5%	38,425	
Total						302,634,104	

1 january 2011							
Bank	Type of loan	Currency	Amount given	Due	Interest rate	Amount repayable RON	Amount repayable EUR
TMK EUROPE GmbH	Long-term borrowing	USD	22,837,540			73,182,897	22,837,540
		RON	38,425	09/25/2018	Libor+0.5%	38,425	
Total						73,221,322	

**Leasing**

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Less than one year	651,423	491,577	162,489
Between one and five years	696,577	743,523	85,439
After 5 years	-	-	-
	<b>1,348,000</b>	<b>1,235,100</b>	<b>247,928</b>

The entire amount presented above it refers to the principal owed and it does not include interest.

At 1 january 2011, TMK-ARTROM SA Slatina had ongoing with Raiffeisen Leasing SRL Bucharest a financial leasing contract for the purchase of a vehicle, at 31 december 2011, nine financial leasing contracts for the purchase of a spectrometer and eight vehicles, and at 31 december 2012, 14 financial leasing contracts for the purchase of a spectrometer and eight vehicles.

The interest of leasing contract is a contingent liability (31 december 2012: 90.682 RON, 31 december 2011: 111.302 RON).

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

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

	31 december 2012	31 december 2011	1 january 2011
	RON	RON	RON
Long-term interest-bearing bank loans, current portion	38,751,125	11,249,219	-
Bank short term loan	491,265	64,809,492	86,090,700
Long-term interest-bearing borrowing, current portion	-	-	253,155,500
Interest outstanding short-term bank loans	-	849,554	327,071
Interest outstanding long-term bank loans	1,326,994	1,395,000	-
Interest outstanding long-term borrowings	47,015	52,319	5,607,751
Un-amortized short-term cost	(467,401)	(392,417)	-
<b>Total</b>	<b>40,148,998</b>	<b>77,963,167</b>	<b>345,181,022</b>

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

Bank	Type of loan	Currency	Amount given	31 december 2012		Amount repayable RON	Amount repayable EUR
				Due	Interest rate		
CREDIT EUROPE BANK	Loan limit on instruments	RON	4,000,000	10/18/2013	ROBOR 6M+3%	250,000	
BANCA TRANSILVANIA	Loan limit on instruments	RON	5,000,000	11/19/2013	ROBOR 6M+3%	241,265	
<b>Total short-term bank loans</b>						<b>491,265</b>	
BCR ERSTE	Loan on 5 years – current portion	EUR	20,000,000	10/03/2016	EURIBOR 3M+3.5%	16,607,625	3,750,000
VTB BANK AUSTRIA	Loan on 5 years - current portion	EUR	20,000,000	08/08/2016	EURIBOR 1M+4%	22,143,500	5,000,000
<b>Total short part of long-term bank loans</b>						<b>38,751,125</b>	
<b>Total</b>						<b>39,242,390</b>	

Bank	Type of loan	Currency	Amount given	31 december 2011		Amount repayable RON	Amount repayable EUR
				Due	Interest rate		
CREDIT EUROPE BANK	Loan limit on instruments	RON	4,000,000	10/13/2012	ROBOR 6M+3%	445,178	
BANCA TRANSILVANIA	Loan limit on instruments	RON	5,000,000	11/22/2012	ROBOR 6M+3%	712,080	
BCR ERSTE	Loan line overdraft	EUR	20,000,000	10/03/2014	EURIBOR 3M+3.5%	63,652,234	14,735,337
<b>Total short-term bank loans</b>						<b>64,809,492</b>	
BCR ERSTE	Loan on 5 years - current portion	EUR	20,000,000	10/03/2016	EURIBOR 3M+3.5%	4,049,719	937,500
VTB BANK AUSTRIA	Loan on 5 years - current portion	EUR	20,000,000	08/08/2016	EURIBOR 1M+4%	7,199,500	1,666,667
<b>Total short part of long-term bank loans</b>						<b>11,249,219</b>	
<b>Total</b>						<b>76,058,711</b>	

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

Bank	Type of loan	Currency	Amount given	1 January 2012		Amount repayable RON	Amount repayable EUR/USD
				Due	Interest rate		
CREDIT EUROPE BANK	Loan limit on instruments	RON	3,000,000	04/01/2011	11%	2,727,421	
BANCA TRANSILVANIA	Loan limit on instruments	RON	5,000,000	02/09/2011	10.50%	4,592,935	
BCR ERSTE	Loan line overdraft	EUR	18,400,000	07/29/2011	EURIBOR 3M+4%	78,770,344	18,383,669
<b>Total short-term bank loans</b>						<b>86,090,700</b>	
IPSCO TUBULARS Inc	Borrowing on 3 years - current portion	USD	79,000,000	11/20/2011	10%	253,155,500	79,000,000
<b>Total</b>						<b>339,246,200</b>	

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

- Loans granted by BCR in total amount of 40 million euro are guaranteed with:
  - Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK-ARTROM S.A.
  - Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK RESITA S.A.
  - Company warranty issued by OAO TMK, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract.
- Loans granted by VTB BANK AUSTRIA in amount of 20 million euro guaranteed with:
  - Pledge without dispossession on credit balance of current bank accounts opened at VTB BANK AUSTRIA by TMK-ARTROM S.A.
  - Company warranty issued by OAO TMK, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower to Bank based on the Contract.
- Loans granted by UNICREDIT TIRIAC BANK in amount of 15 million euro guaranteed with:
  - Pledge without dispossession on credit balance of current bank accounts opened at UNICREDIT TIRIAC BANK by TMK-ARTROM S.A.
  - Company warranty issued by OAO 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.
- Limit of discounts in amount of 4,000,000 RON contracted from Credit Europe Bank guaranteed with:
  - Pledge without dispossession on current accounts opened at Credit Europe Bank by TMK-ARTROM S.A.
- Limit of discounts in amount of 5,000,000 RON contracted from Banca Transilvania guaranteed with:
  - Pledge without dispossession on current accounts opened at BANCA TRANSILVANIA by TMK-ARTROM S.A.
  - Two promissory notes in white in favour of Banca Transilvania up to limit of 5.644.375 RON.

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

**Other long-term liabilities**

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Investment subsidy	26,027	41,702	57,376
Long-term sundry creditors	86,234	138,799	367
Long-term guarantees	121,996	112,907	-
<b>Balance of other long - term liabilities</b>	<b>234,257</b>	<b>293,409</b>	<b>57,743</b>

Government grants received for the acquisition of certain tangible items. There are no unfulfilled conditions or contingent attached to these grants.

**16.3. Hedging activities and derivatives**

**Foreign currency risk**

Hedging activity's objective is to protect the value in RON of future sales of TMK-ARTROM, in foreign currency, respective in EUR and USD, against unfavourable movements in currency exchange EUR/RON and USD/RON.

Foreign exchange forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of forecast sales in USD and EUR. These forecast transactions are highly probable and they comprise about 36% of the total expected sales in USD and about 9.8% of its total expected sales in EUR.

TMK-ARTROM signed with BCR a framework contract "Master Agreement ISDA / 17.11.2011" through which are carried forward transactions but also other transactions with BCR with a limit of 3.000.000 EUR – treasury line. On December 2011, 12 agreements for forward transactions were signed, each was of 500.000 EURO, on a fixed exchange rate of 4.4165 EUR/RON (RON 2.208.250). The 12 agreements cumulate 6.000.000 EUR ( RON 26.499.000).

In 2012, the Society signed other three sets of agreements for forward transactions, as follows:

- on January 2012, 12 agreements were signed, each of 1.000.000 USD, on a fixed exchange rate of 3.3875 USD/RON. The agreements cumulate 12.000.000 USD (RON 40.650.000).
- on February 2012, another set of 12 monthly USD transactions was signed, each of 500.000 USD, but this time on a variable exchange rate, with values between 3.4232 and 3.4760 USD/RON. The agreements cumulated the amount of 6.000.000 USD (RON 20.694.950).
- on April 2012, 12 agreements were signed, each of 500.000 EURO, on a fixed exchange rate of 4.427 EUR/RON. The agreements cumulate 6.000.000 EURO (RON 26.562.000).

Balances of forward contract vary according to the level of estimated sales in foreign currency and to changes of forward exchange rates.

	31 december 2012		31 december 2011		1 january 2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RON	RON	RON	RON	RON	RON
Forward contracts on exchange rate	51,158	101,002	10,750	-	-	-

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

**16.4. Fair values**

The terms of foreign currency forward contracts were negotiated in order to be identical with the terms of commitments.

At the end of December 2011, hedging operations against cash flow risks of forecast sales expected in 2012 were evaluated as being effective, the fair value of financial instrument being of 10.750 RON, having an income tax of 1.720 RON.

In 2011, as a result of the effective reimbursement of forward operations, the turn-over was increased with 56.906 RON through reclassification from earnings resulted from exchange.

At the end of December 2012, hedging operations of cash flows of future sales forecast in euro expected in the first quarter of 2013 were evaluated as being efficient and an unrealized loss of 111.752 RON was included in other elements of comprehensive income concerning these forward contracts in EUR, as well as an account receivable with a deferred tax of 16.160 RON, fact which led to a corresponding increase of other elements of comprehensive income.

In 2012, as a result of the effective reimbursement of forward operations in EUR, the turn-over was decreased with 674.300 RON through reclassification from losses resulted from exchange.

At the end of December 2012, hedging operations of cash flows of future sales forecasted in January 2013 in USD were evaluated as being inefficient and an unrealized gain of 51.158 RON which was included in income statement concerning these forward contract in USD, as well as an expense with deferred tax of 8.185 RON.

In 2012, as a result of the effective reimbursement of forward operations in USD, the turn-over decreased with 854.150 RON as a result of reclassification of exchange differences.

The value resulted from other elements of comprehensive income, during the financial year and included in carrying value of hedging elements as a main adjustment was insignificant also for 2012.

It is anticipated that the values kept among other elements of comprehensive income at 31 December 2012 will reach maturity date and they will affect the profit and loss account in 2013.

The Society is using the determination and presentation of fair value of financial instruments only through techniques of evaluation which use hypothesis which have a significant effect on recorded fair value and which do not rely on observable market data, but are using data extrapolations issued by Bloomberg agency.

**17. OTHER NON-CURRENT ASSETS**

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Avansuri pentru imobilizari corporale, from which:	5,035,531	7,693	316,117
- Avansuri pentru imobilizari - parti afiliate (note 25)	304,165	-	-
<b>Total</b>	<b>5,035,531</b>	<b>7,693</b>	<b>316,117</b>



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**18. INVENTORIES**

Inventories consist of the following:

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Raw materials	39,768,886	40,711,001	30,430,459
Consumables	13,097,920	12,261,731	7,174,979
Materials to be purchased	3,255	-	460,251
Other materials	11,066,978	7,739,924	7,291,312
Work in progress	30,495,960	20,063,350	33,047,975
Finished goods	34,406,212	27,784,589	23,552,297
Goods at third parties	26,867,336	7,699,411	1,886,886
Merchandise and packing	110,082	111,429	175,030
<b>Total inventories at the lower of cost and net realisable value</b>	<b>155,816,629</b>	<b>116,371,434</b>	<b>104,019,187</b>

TMK-Resita SA is the exclusive supplier of raw material (billets) of TMK-ARTROM.

In 2012 were made value adjustments for inventories of finished goods and work in progress with slow moving in the amount of RON 5,399,896 – the movement of the adjustments is presented below:

	31 december 2012 RON	31 december 2011 RON
<b>Balance Jan 1st</b>	<b>185,965</b>	<b>409,680</b>
Additions	5,399,896	-
Release of provisions	185,965	223,715
<b>Balance Dec 31th</b>	<b>5,399,896</b>	<b>185,965</b>

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

Trade receivables consist of the following:

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Trade receivables, from which:	157,826,399	179,725,654	165,325,179
- Receivables from other related parties (note 25)	48,438,722	113,529,109	133,967,750
Employee claims	484,132	571,280	608,230
Sundry debtors, from which:	663,747	672,685	576,676
- Sundry debtors - related parties (note 25)	296,457	297,954	314,136
Subscribed and unpaid share capital	-	193,633	312,839
Other receivables - VAT	25,356,058	17,160,509	11,731,535
Other Receivables - Penalty and fines	725,881	2,157,043	2,157,043
<b>Less:</b>			
Allowance for doubtful accounts receivable	551,096	334,881	3,057
<b>Total</b>	<b>184,505,121</b>	<b>200,145,923</b>	<b>180,708,445</b>

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

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

	RON
<b>At 1 January 2011</b>	<b>3,057</b>
Charge for the year	334,487
Used	2,663
<b>At 31 December 2011</b>	<b>334,881</b>
Charge for the year	219,215
Used	3,000
<b>At 31 December 2012</b>	<b>551,096</b>

**The ageing analysis of trade receivables**

	Neither past due nor impaired	Past due but not impaired				
		< 30 days	30–60 days	61–90 days	91–120 days	> 120 days
	RON	RON	RON	RON	RON	RON
<b>31 december 2012</b>	146,839,816	7,753,803	1,368,827	755,076	0	1,108,877
<b>31 december 2011</b>	148,122,895	30,135,029	124,240	211	1,722	1,341,557
<b>1 january 2011</b>	162,037,091	3,165,162	92,490	1,309	0	29,126

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

Receivables	Currency	31 December 2012		31 December 2011		1 January 2011	
		RON	Foreign currency	RON	Foreign currency	RON	Foreign currency
Internal customers	RON	48,875,809	48,875,809	42,113,569	42,113,569	42,198,090	42,198,090
External customers	EUR	107,373,914	21,225,428	134,521,299	21,938,591	120,295,902	20,311,828
	USD		3,982,851		11,904,641		11,004,456
Doubtful customers	RON	1,101,371	1,101,371	1,111,371	1,111,371	5,293	5,293
Notes issued by customers	RON	475,305	0	1,979,415	0	825,894	0

At 31 december 2012 the society registers doubtful clients receivables in amount of RON 1.101.371 (2011: RON 1.111.371), from which the amount of RON 1.096.078 (2011: 1.106.078 RON) represent receivables not collected from DADI 93 PROD COM SRL Bucharest for which were made adjustments of value of RON 548.039 (2011: RON 331.823).

**20. PREPAYMENTS**

Prepayments consist of the following:

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Prepayments for services, inventories, from which:	83,182,439	93,579,742	77,598,632
- Prepayments for services, inventories - related parties (note 25)	82,652,053	93,538,563	76,760,066
Prepaid Expenses	1,112,022	863,014	637,577
<b>Total</b>	<b>84,294,462</b>	<b>94,442,756</b>	<b>78,236,209</b>

The amount of RON 82,652,053 (without VAT) (2011: RON 93,538,563 ) represents advances given to TMK Resita SA.

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**21. CASH AND SHORT-TERM DEPOSITS**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Cash on hand	10,192	18,217	7,314
Cash at banks in RON	507,992	2,771,816	3,730,180
Cash at banks in foreign currency	3,217,681	5,929,286	63,224
Other values	253,214	198,939	110,391
Promissory notes	604,632	1,099,824	9,153,932
Short-term deposits	25,869,765	-	-
<b>Total</b>	<b>30,463,476</b>	<b>10,018,082</b>	<b>13,065,041</b>

The cash includes cash on hand and cash cash at banks, in RON and in foreign currency, and also other values.

TMK-ARTROM constituted also short-term deposits for periods which vary from one day to three months, depending on the need of cash, interest-bearing.

Short-term deposits	31 december 2012	31 december 2011	1 january 2011
in RON	925,248	-	-
in USD	23,502,500	-	-
in EURO	1,442,017	-	-

The amount of 1.442.017 RON related to euro deposits represents collateral deposit for letter of credit issued in favour of suppliers.

**Other current assets**

	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Deposit of letter of bank quarantine Romgaz	-	117,000	-
Deposit of letter of bank quarantine for custom duties	500,000	500,000	-
<b>Total</b>	<b>500,000</b>	<b>617,000</b>	<b>-</b>

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## 22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS

### Share capital

Subscribed and paid share capital	Number of shares	Nominal Value RON / share	Subscribed and paid share Capital RON	Share premium RON	Total RON
Balance January 1st, 2011	116,251,294	2.51	291,790,748	-	291,790,748
Balance December 31th, 2011	<u>116,251,294</u>	<u>2.51</u>	<u>291,790,748</u>	<u>-</u>	<u>291,790,748</u>
Balance January 1st, 2012	116,251,294	2.51	291,790,748	-	291,790,748
Share capital decrease through annulment of shares	(77,153)	-	(193,654)	-	(193,654)
Share capital decrease through capitalization of reserves	<u>(3,807)</u>	<u>-</u>	<u>(9,556)</u>	<u>-</u>	<u>(9,556)</u>
Balance December 31th, 2012	<u>116,170,334</u>	<u>2.51</u>	<u>291,587,538</u>	<u>-</u>	<u>291,587,538</u>

In 2012 was registered the decrease of share capital with amounts remained unpaid by non-controlling shareholders according to the Decision of Extraordinary General Meeting of Shareholders from 26.04.2012.

Because a part of share capital was subscribed before 2003 (period in which Romania was a hyperinflationary economy), the Society registered value differences for share capital from the adjustments for hyperinflation of RON 608.093.801. These adjustments does not have impact over subscribed share capital registered at Trade Register.

### Legal and other reserves

	Legal reserve RON	Other reserves RON	Total RON
Balance at January 1st, 2011	5,999,311	847,998	6,847,308
Increase from profit of the year	3,375,163	-	3,375,163
Balance at December 31th, 2011	<u>9,374,474</u>	<u>847,998</u>	<u>10,222,471</u>
Balance at January 1st, 2012	9,374,474	847,998	10,222,471
Increase from profit of the year	2,546,180	-	2,546,180
Capitalisation of reserves	-	9,556	9,556
Balance at December 31th, 2012	<u>11,920,654</u>	<u>857,554</u>	<u>12,778,207</u>

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

**Retained earnings**

The structure of retained earnings at 31 december 2012

Account name	Balance at 31 december 2012	Nature
Retained earnings concerning uncovered losses	(62,580,295)	It has to be covered before distributing dividends
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	14,455	Distributable
Retained earnings from the correction of accounting errors	(3,000)	It has to be covered before distributing dividends
Retained earnings representing the surplus realized from revaluation reserves from which:	22,395,000	
- Retained earnings representing the surplus realized from revaluation reserves made after 01.01.2004, taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – elements of taxable revenue (8 months 2009+2010)	5,930,180	Distributable
- Retained earnings representing the surplus realized from revaluation reserves which will be taxed in the moment of change of destination of reserves (use of reserves)	11,225,077	Distributable, it is taxable at use of reserve
- Retained earnings representing the surplus realized from revaluation reserves in years 2004-2006 which weren't fiscally recognized	5,239,743	Distributable
Retained earnings from transition to IFRS, less IAS 29	(17,639,092)	It has to be covered before distributing dividends
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost	137,948,206	It has to be made 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, from which:	20,046,326	
- 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 taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – elements of taxable revenue year 2011	2,116,629	Distributable
- 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 taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – elements of taxable revenue year 2012	5,775,989	Distributable
- 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	12,153,708	Distributable, it is taxable at use of reserve
Retained earnings from adopting for the first time of IAS 29	(621,789,082)	It has to be covered before distributing dividends
Distribution from profit of the year 2012 to legal reserve	(2,546,180)	
<b>Total retained earnings</b>	<b>(524,153,662)</b>	

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

**The structure of retained earnings at 31 december 2011**

Account name	Balance at 31 december 2011	Nature
Retained earnings concerning uncovered losses	(118,747,461)	It has to be covered before distributing dividends
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	14,455	Distributable
Retained earnings from the correction of accounting errors	(3,000)	It has to be covered before distributing dividends
Retained earnings representing the surplus realized from revaluation reserves from which:	22,395,000	
- Retained earnings representing the surplus realized from revaluation reserves made after 01.01.2004, taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – elements of taxable revenue (8 months 2009+2010)	5,930,180	Distributable
- Retained earnings representing the surplus realized from revaluation reserves which will be taxed in the moment of change of destination of reserves (use of reserves)	11,225,077	Distributable, it is taxable at use of reserve
- Retained earnings representing the surplus realized from revaluation reserves in years 2004-2006 which weren't fiscally recognized (at the change of destination of untaxable revenue elements)	5,239,743	Distributable
Retained earnings from transition to IFRS, less IAS 29	(17,639,092)	It has to be covered before distributing dividends
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost	147,527,384	It has to be made 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, from which:	10,467,147	
- 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 taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – elements of taxable revenue year 2011	2,116,629	Distributable
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	8,350,518	Distributable, it is taxable at use of reserve
Retained earnings from adopting for the first time of IAS 29	(621,789,082)	It has to be covered before distributing dividends
Distribution from profit of the year 2012 to legal reserve	(3,375,163)	
<b>Total retained earnings</b>	<b>(581,149,812)</b>	

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

The structure of retained earnings at 1 January 2011

Account name	Balance at 1 January 2011	Nature
Retained earnings concerning uncovered losses	(107,850,129)	It has to be covered before distributing dividends
Retained earnings from adopting IAS for the first time (OMFP 94/2001)	14,455	Distributable
Retained earnings from the correction of accounting errors	(3,000)	It has to be covered before distributing dividends
Retained earnings representing the surplus realized from revaluation reserves from which:	22,395,000	
- Retained earnings representing the surplus realized from revaluation reserves made after 01.01.2004, taxed in the income tax statement according to OUG 34/2009 beginning with 01.05.2009 – elements of taxable revenue (8 months 2009+2010)	5,930,180	Distributable
- Retained earnings representing the surplus realized from revaluation reserves which will be taxed in the moment of change of destination of reserves (use of reserves)	11,225,077	Distributable, it is taxable at use of reserve
- Retained earnings representing the surplus realized from revaluation reserves in years 2004-2006 which weren't fiscally recognized (at the change of destination of untaxable revenue elements)	5,239,743	Distributable
Retained earnings from transition to IFRS, less IAS 29	(17,639,092)	It has to be covered before distributing dividends
Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost	157,994,536	It has to be made before distributing dividends
Retained earnings from adopting for the first time of IAS 29	(621,789,082)	It has to be covered before distributing dividends
<b>Total retained earnings</b>	<b>(566,877,312)</b>	

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

The Society applies a defined employees benefits plan. The plan requires contributions to be made for employees, to the Public State Pension Fund.

	2012 RON	2011 RON	2010 RON
<b>Net liability at the beginning of the year</b>	<b>2,012,077</b>	<b>2,258,889</b>	<b>1,728,225</b>
Expense recognized in statement of income	858,392	(150,616)	623,142
Benefits paid	(120,205)	(96,197)	(92,478)
<b>Net liability at the end of the year</b>	<b>2,750,264</b>	<b>2,012,076</b>	<b>2,258,889</b>
Short-term liabilities	168,455	101,625	104,645
Long-term liabilities	2,581,809	1,910,451	2,154,244

Net benefit expense (recognized in cost of sales, general and administrative expenses, and selling and distribution expenses):

	2012 RON	2011 RON	2010 RON
Interest cost	180,696	192,754	167,906
Current services cost	100,730	113,196	88,819
Actual payments for post-employment benefits	(120,205)	(96,196)	(92,478)
Actuarial gain / (loss) of obligations of the period	458,311	(456,567)	366,417
Past services cost	118,656	-	-
<b>Net benefit (expense) / income</b>	<b>738,189</b>	<b>(246,813)</b>	<b>530,664</b>

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**23. PENSIONS PLANS AND OTHER POST-EMPLOYMENT BENEFITS (continue)**

The principal assumptions used in determining pension and post-employment benefit obligations for the Society's plans are shown below:

	2012	2011	2010
Discount rate	9,21%	8,74%	9,98%
Future salaries increase	3,10%	10,30%	4,00%

	2012		2011	
	increase / decrease		increase / decrease	
Updated value at 31 december	2.750.264	-	2.012.076	-
Discount rate +1%	2.453.215	-297.05	1.795.885	-216.191
Discount rate -1%	3.102.143	351.878	2.267.022	254.946
Salary increase rate +1%	3.104.193	353.928	2.271.942	259.866
Salary increase rate -1%	2.446.262	-304.003	1.788.368	-223.708

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

Trade and other payables consists of the following:

	31 december 2012	31 december 2011	1 january 2011
	RON	RON	RON
Current trade payables, from which:	39,329,539	48,386,816	38,159,831
- Intercompany trade payables (note 25)	7,722,292	19,118,229	10,208,714
Advances from customers, from which:	1,002,696	2,271,899	1,463,404
- Intercompany advances from customers (note 25)	-	1,064,798	141,760
Company issued notes to other entities	12,954,442	27,045,301	21,403,220
Payables for non-current assets, from which:	4,004,982	188,973	1,311,894
- Intercompany payables for non-current assets (note 25)	771,186	-	-
Salaries and Wages	1,629,141	1,295,914	1,059,654
Accrued and withheld taxes on payroll	5,518,248	4,999,053	4,257,591
Liabilities for other taxes	161,390	383,793	1,433,702
Accrued and other liabilities	485,432	147,604	2,227,881
Short-term guarantees	332,921	505,247	293,235
<b>Total</b>	<b>65,418,791</b>	<b>85,224,600</b>	<b>71,610,412</b>

Other short-term liabilities include the short-term guarantees received, which at 31 december 2012 are in amount of RON 332.921 (31 december 2011: RON 505.247, 1 january 2011: RON 293.236).

Concerning the Society's debts to the fiscal authorities, at 31 december 2012, the Company has the debt of RON 5.679.638 (2011: RON 5.382.846; 2010: RON 5.691.293), which represents the current debts of taxes and social debts of salaries, income tax of legal nonresident person which were required for compensation with input VAT from fiscal authorities. Current tax income as at 31 december 2012 is RON 2.545.168.

Trade payables are non-interest bearing and are, normally, settled on an average of 35 day terms.



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## 25. TRANSACTIONS WITH RELATED PARTIES

TMK EUROPE GmbH Germania, part of din OAO TMK is the major shareholder of TMK - ARTROM SA Slatina and of TMK - Resita SA.

The Society is a part of OAO TMK group. OAO TMK is a producer of steel pipes in top 3 at worldwide level and it has 24 units of productin in United States, Rusia, Romania and Kazahstan and 2 R&D centre (Research and Development) in Rusia and United States. The biggest part of TMK sales is of steel pipes for oil and natural gas industry and pipes for industrial purposes with high margin in 85 countries.

TMK delivers it's products, togheter with an large package of services esspecially on heat treatment, tubes coated with corrosion protection systems for large depths, premium threaded connections, and other. OAO TMK is a public company registered in Russian Federation. TMK shares are listed on the biggest stock exchange from Rusia – MICEX-TRS. GRD's sale are traded at London Stock Exchange and ADR's – at OTCQX International Trading Premier in USA.

The Society has relations with the followingrelated parties from TMK group:

Society	Country home	Relationship
- OAO TMK Rusia;	Rusia	final parent
- TMK Europe GmbH Koln, Germania (fosta TMK SINARA HANDEL GmbH)	Germany	parent (major shareholder)
- TMK IPSCO INTERNATIONAL, L.L.C., USA;	USA	related
- TMK Middle East, Dubai, United Arab Emirates	United Arab Emirates	related
- S.C. TMK-RESITA S.A. Resita;	Romania	related
- TMK GLOBAL AG Zurich, Elvetia;	Switzerland	related
- TMK Italia s.r.l. Lecco, Italia	Italy	related
- Sinarsky pipe plant RUSIA	Rusia	related
- Seversky pipe plant RUSIA	Rusia	related
- Taganrog metallurgical Works RUSIA	Rusia	related
- OJSC Volzsky Pipe Plant RUSIA	Rusia	related
- RosNITI JSC RUSIA	Rusia	related
- TMK-Inox RUSIA	Rusia	related
- Sinara Imobiliare SRL	Romania	related
- Sinara BG Eood	Bulgaria	related

### The balances of transactions with related parties

Trade Receivables	31 december 2012	31 december 2011	1 january 2011
	RON	RON	RON
TMK Europe GmbH	28,182,978	31,863,130	30,659,887
TMK - RESITA S.A.	6,864,558	9,357,238	12,576,304
TMK GLOBAL AG Zurich	-	33,305,915	35,263,781
TMK Italia s.r.l. Italia	-	32,548,253	55,453,254
TMK Middle East	384,817	-	-
Seversky Pipe Plant	11,259	7,322	7,262
Taganrog metallurgical Works	3,753	-	7,262
OJSC Volzsky Pipe Plant	3,753	-	-
IPSCO International	12,987,604	6,447,251	-
<b>Total</b>	<b>48,438,722</b>	<b>113,529,109</b>	<b>133,967,750</b>

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

<b>Other Assets</b>	<b>31 december 2012</b>	<b>31 december 2011</b>	<b>1 january 2011</b>
	<b>RON</b>	<b>RON</b>	<b>RON</b>
TMK Europe GmbH (advances for purchase of goods)	304,165	-	-
TMK Europe GmbH (sundry debtors)	-	864	-
OAOTM (sundry debtors)	-	-	808
TMK - RESITA S.A. (advances for purchase of goods)	82,652,053	93,538,563	76,760,066
TMK - RESITA S.A. (sundry debtors)	84,388	90,240	99,648
TMK - RESITA S.A. (financial assets)	-	48,434,445	48,609,820
Sinara Imobiliare (sundry debtors)	212,069	206,850	205,178
Trade House (sundry debtors)	-	-	8,502
<b>Total</b>	<b>83,252,675</b>	<b>142,270,962</b>	<b>125,684,022</b>

<b>Trade Payables</b>	<b>31 december 2012</b>	<b>31 december 2011</b>	<b>1 january 2011</b>
	<b>RON</b>	<b>RON</b>	<b>RON</b>
TMK Europe GmbH	7,081,173	17,079,778	8,972,507
OAOTM	82,421	88,562	48,068
TMK Italia s.r.l.	1,102,888	1,655,214	-
RosNITI JSC RUSIA	-	53,295	-
Sinara Imobiliare	215,197	204,811	1,188,139
Sinara Bulgaria	11,799	36,569	-
<b>Total</b>	<b>8,493,478</b>	<b>19,118,229</b>	<b>10,208,714</b>

<b>Other liabilities</b>	<b>31 december 2012</b>	<b>31 december 2011</b>	<b>1 january 2011</b>
	<b>RON</b>	<b>RON</b>	<b>RON</b>
TMK Europe GmbH (loan)	76,715,466	76,299,823	73,221,322
TMK Europe GmbH (interest owed at reporting date)	47,015	52,319	47,680
TMK Europe GmbH (sundry creditors)	-	-	1,797,121
TMK - RESITA S.A. (advances received)	-	1,041,528	-
TMK GLOBAL AG Zurich (advances received)	-	-	141,760
IPSCO International (advances received)	-	8,511	-
IPSCO International (long-term liabilities and interest)	-	-	258,715,571
TMK-Inox RUSIA (advances received)	-	14,759	-
<b>Total</b>	<b>76,762,481</b>	<b>77,416,940</b>	<b>333,923,454</b>

**Transactions with related parties**

<b>Sales (Turnover)</b>	<b>31 december 2012</b>	<b>31 december 2011</b>
	<b>RON</b>	<b>RON</b>
TMK Europe GmbH	234,505,041	268,949,188
TMK IPSCO International	140,272,358	6,468,786
TMK-RESITA S.A.	33,388,084	31,862,445
TMK Middle East	6,153,885	-
TMK GLOBAL	935,698	132,243,349
TMK Italia s.r.l.	312,120	199,937,102
OJSC Volzsky Pipe Plant	22,639	10,716
Sinarsky pipe plant	18,886	10,716
Seversky pipe plant	18,886	10,716
Taganrog metallurgical Works	18,886	10,716
TMK-Inox RUSIA	14,874	-
<b>Total</b>	<b>415,661,357</b>	<b>639,503,734</b>

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

Purchases	31 december 2012 RON	31 december 2011 RON
SC TMK RESITA S.A.	592,016,880	529,809,103
TMK Europe GmbH	73,154,940	106,753,417
TMK Italia s.r.l.	9,189,652	2,103,854
Sinara Imobiliare	2,151,818	2,071,786
Sinara BG	320,239	313,386
OAO TMK	297,867	415,542
RosNITI JSC	51,475	65,296
TMK GLOBAL	23,804	63,842
	<b>677,206,675</b>	<b>641,596,226</b>

**Loans within the Group**

TMK EUROPE GmbH Germany (old TMK SINARA HANDEL GMBH), the mother company, it is creditor with the amount of 76.715.466 RON (2011: 76.299.822 RON, 2010: 73.221.322 RON) representing 22.837.540 USD and 38.425 RON.

The amounts are related to the loan given by mother company, as a result of AGEA from 17.11.2008 when were approved the change of the nature and the delay from payment of the receivable owed by Society to TMK EUROPE GmbH in amount of 22.837.540 USD and 38.425 RON in the following conditions:

- the loan will be paid in 57 rates starting from 25 january 2014 to 25 september 2018 inclusively.

The debit in value of 38.425 RON of Society to TMK Europe GmbH from 25 january 2014 will be paid in USD at the official exchange rate RON/USD of National Bank of Romania from the last working day of year 2013. The receivable has an interest of LIBOR + 0.5% p.a. starting from 1 january 2009.

The interest owed by TMK-ARTROM S.A. at 31 december 2012 is of 14.003 USD (2011: 15,668 USD, 2010: 14.879 USD), respectively 47.015 RON (2011: 52.319 RON, 2010: 47.680 RON).

For the loan presented above the Society constituted guarantees in favour of TMK EUROPE GmbH Germany, as follows:

1. First rang mortgage on lands in surface of 203.651,82 square meters and build buildings.
2. Pledge without dispossession of goods of first rang on the hot rolling line, HPT 250 rolling mill, installation for non-destructive control with ultrasounds; Assel AWW250 mill, D 38-90 dressing mill; TTF furnace, Pilger SKW75 mill, induction heating system, normalizing heat treatment furnace and first-lien guarantee on the other assets of TMK ARTROM SA according to registration no. 2004-1080142242453-QJU/March 24, 2004.
3. First rang mortgage on lands in surface of 211.614,54 square meters and related buildings inside TMK-ARTROM SA according to agreement no. 1869/October 14.10.2003.
4. Real guarantee without dispossession of first rang goods on the other goods of TMK-ARTROM SA according to the registration at the Electronic Archive for Security Interests in Movable Property, no. 2002-1034612284359-IUD/October 14.10.2003.

**26. PROVISIONS**

Other short- term provisions	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Provisions for quality complaints material cost	937,296	473,047	2,052,875
Provisions for quality complaints additional cost	93,855	19,147	197,332
Provisions for managers bonuses	3,017,725	2,433,865	563,115
<b>Total</b>	<b>4,048,876</b>	<b>2,926,059</b>	<b>2.813.322</b>

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**26. PROVISIONS (continue)**

Other long - term provisions	31 december 2012 RON	31 december 2011 RON	1 january 2011 RON
Provisions for quality complaints material cost	197,691	-	-
Provisions for quality complaints additional cost	12,431	-	-
<b>Total</b>	<b>210,122</b>	<b>-</b>	<b>-</b>

**27. MANAGEMENT OF FINANCIAL RISK – OBJECTIVES AND POLICIES**

The main financial liabilities of TMK-ARTROM S.A. include bank loans, trade payables, loans from Group and leasing contracts. The main purpose of these financial liabilities is to increase the financing for company's operations. The company has also financial assets such as trade account receivables, cash and deposits, which result directly from its operations.

During its current activity, the Society is exposed to a number of financial risks: market risk (which includes interest rate risk, foreign currency risk and other price risk), liquidity risk and credit risk. The presentation of information shows the society'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 society 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 financial cash flows of instruments will fluctuate because of changes in market interest rates. The policy of minimizing this risk is supervised by Financial Management and it is coordinated also by Financial Department of OAO TMK Group.

TMK-ARTROM borrows mainly on variable interest rate. In 2012, all loans had variable interest rates, during 2011 and 2010 the company opened loans from Group on fixed rates. EURIBOR serves mainly as the basis for the calculation of interest rate. Loans which had LIBOR as calculation basis for the interest rate represented 22% of portfolio at the end of 2012 and 20% at the end of 2011; those which had ROBOR as calculation basis represented 0.14% of portfolio at the end of 2012 and 0.3% at the end of 2011 – therefor, insignificant. The market evolution in the last 3 years of EURIBOR and LIBOR made the company to do not consider necessary to use instruments to hedge, but the company monitors interest rates level and it is disposed to use hedging instruments if it considers that it is necessary.

At the end of 2012, the society 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.

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

<b>31 december 2012</b>	<b>Percentage points</b>	<b>Effect on profit before tax (mii RON)</b>
increase in EURIBOR	10	(147)
decrease in EURIBOR	(10)	147
increase in LIBOR	10	(19)
decrease in LIBOR	(10)	19
<b>31 december 2011</b>		(188)
increase in EURIBOR	10	188
decrease in EURIBOR	(10)	
increase in LIBOR	10	(16)
decrease in LIBOR	(10)	16

**Foreign Currency Risk**

The society'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 EURO and USD.

The society signed EUR/RON and USD/RON forward contracts in order to cover the exposure to foreign currency risk. The fair value of these forward contracts in the amount of 10.750 RON was included at the end of 2011 in other financial assets, and at the end of 2012 in other financial assets for USD/RON forward contracts in the amount of 51.158 RON and at other financial debts for EUR/RON forward contracts in the amount of 101.002 RON.

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

<b>31 december 2012</b>	<b>Percentage volatility</b>	<b>Effect on profit before tax (mii RON)</b>
EUR/RON	10%	(18.495)
EUR/RON	(10%)	18.495
USD/RON	10%	(3.908)
USD/RON	(10%)	3.908
<b>31 december 2011</b>		
EUR/RON	10%	(23.285)
EUR/RON	(10%)	23.285
USD/RON	10%	(3.833)
USD/RON	(10%)	3.833
<b>1 january 2011</b>		
EUR/RON	10%	(1.792)
EUR/RON	(10%)	1.792
USD/RON	10%	(29.859)
USD/RON	(10%)	29.859

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

**Liquidity Risk**

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

The society manages to target an optimal ration between equity and total debt and to maintain an appropriate level of liquidity and financial capacity as to minimize borrowings expenses and to have an optimal profile of composition and duration of liabilities.

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

<b>Liquidity risk</b>					
<b>Year ended</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>2 to 5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
<b>31.12.2012</b>					
Interest bearing loans (including future interest)	12,163,858	36,942,130	302,678,045	12,252,548	364,036,581
Leasing	-	715,339	723,328	-	1,438,667
Other non-current liabilities	26,028	121,995	86,234	2,750,264	2,984,521
Trade and other payables	64,416,095	-	-	-	64,416,095
Other current liabilities	2,545,168	101,002	-	-	2,646,170
<b>Total</b>	<b>79,151,149</b>	<b>37,880,466</b>	<b>303,487,607</b>	<b>15,002,812</b>	<b>435,522,034</b>
<b>31.12.2011</b>					
Interest bearing loans (including future interest)	4,346,134	24,186,624	377,029,033	28,375,153	433,936,944
Leasing	-	558,091	788,310	-	1,346,401
Other non-current liabilities	41,702	-	251,707	2,012,076	2,305,485
Trade and other payables	82,852,701	-	-	-	82,952,701
<b>Total</b>	<b>87,340,537</b>	<b>24,744,715</b>	<b>378,069,050</b>	<b>30,387,229</b>	<b>520,541,531</b>
<b>01.01.2011</b>					
Interest bearing loans (including future interest)	8,952,970	362,393,686	32,802,950	42,877,635	447,027,241
Leasing	-	174,258	87,129	-	261,387
Other non-current liabilities	57,376	-	367	2,258,889	2,316,632
Trade and other payables	70,147,008	-	-	-	70,147,008
<b>Total</b>	<b>79,157,354</b>	<b>362,567,944</b>	<b>32,890,446</b>	<b>45,136,524</b>	<b>519,752,268</b>

**Credit Risk**

Credit risk represents the potential exposure of the company to losses that would be recognized if counterparties failed to fulfill their commitments on due date, according to a financial instrument, to a contract, therefor leading to a financial loss.

The company is exposed to credit risk from its activities of exploitation (mainly for trade receivables) and from its financing activities, including deposits in banks and in financial institutions, currency exchange transactions and other financial instruments

Net cash from operating activities decreased in 2012 compared to prior periods as a result of payments made by TMK RESITA to purchase for resale export profiles.

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

Net Cash from operating activities increased in 2011 compared to prior periods as a result of increased revenues from customers due to increased turnover.

Net cash from investing activities decreased in 2012 compared to 2011 due to lower interest earned from loan repayment defaults TMK Resita.

Net cash from financing activities improved in 2012 compared to 2011 due to cashing loan from TMK Resita in the amount of 48,194,809 RON. Also decreased use of overdraft credit line from BCR to 5.9 million euros compared with 14.7 million euros in 2011.

In 2011 IPSCO Tubulars loan was repaid in the amount of 79 million U.S. dollars by contracting three long-term loans in euros respectively: EUR 20,000,000 from VTB Bank Austria, 20,000,000 Euro from BCR and 15,000. 000 euros from Unicredit Tiriac Bank. Overdraft line of credit from BCR was increased to 20 million euros and valid three years and the balance is used at the end of EUR 14,735,337 lower than previous periods.

### **Trade receivables**

Client's credit risk is monitored according to established policy, to procedures and to supervision regarding clients' credit risk management.

Starting from 1.07.2011 a Commercial Credit Committee was elected and its regulation started to take effect for a better coordination of financial discipline and for company's receivables security.

The provisions of this regulation are applied on sales done directly to third parties, on both internal and external parties, on sales for client with TMK ITALIA agent as well as for 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 csociety signed with COFACE S.A. on 1<sup>st</sup> of October 2012 a contract to secure the non-payment risk for almost the entire portfolio of sales to third parties with COFACE S.A. Credit limits granted by COFACE S.A covered externally 70% of requested limits, and on internal market 54% of requested limits, so that clients which are not covered by COFACE S.A 100% are carefully monitored in order to limit the possible losses from non-collection.

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

Credit risk which derives from cash and deposits from banks is coordinated by Financial Management according to company's and Group's policy. A part from the cash and deposit from banks are pledged in favour of banks for ensuring credits or for covering other collateral commitments (letter of credit or letter of credit opened in favour of providers).

**TMK ARTROM SA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**as at 31 December 2012**

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

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

The split of the balances of monetary receivables and liabilities by foreign currency:

**31 december 2012**

Financial position	RON	EUR	USD	GBP	TOTAL
Cash and cash equivalents	2,107,635	2,798,772	25,555,709	1,361	30,463,476
Other current assets	500,000	-	51,158	-	551,158
Trade and other receivables	76,809,173	94,394,018	13,301,930	-	184,505,121
<b>Total assets</b>	<b>79,416,808</b>	<b>97,192,790</b>	<b>38,908,797</b>	<b>1,361</b>	<b>215,519,755</b>
Interest-bearing loans and borrowings (including future interests)	531,005	284,723,252	78,782,324	-	364,036,581
Leasing	-	1,438,667	-	-	1,438,667
Other long - term liabilities	2,984,521	-	-	-	2,984,521
Trade and other payables	43,850,535	19,836,509	396,129	-	64,083,174
Other current liabilities	2,878,089	101,002	-	-	2,979,091
<b>Total liabilities</b>	<b>50,244,150</b>	<b>306,099,430</b>	<b>79,178,453</b>	<b>-</b>	<b>435,522,034</b>

**31 december 2011**

Financial position	RON	EUR	USD	GBP	TOTAL
Cash and cash equivalents	3,928,101	2,394,501	3,695,145	335	10,018,082
Other current assets	617,000	-	-	-	617,000
Trade and other receivables	64,551,445	95,036,723	40,557,755	-	200,145,924
Other long - term assets	48,434,445	-	-	-	48,434,445
<b>Total assets</b>	<b>117,530,991</b>	<b>97,431,224</b>	<b>44,252,900</b>	<b>335</b>	<b>259,215,450</b>
Interest-bearing loans and borrowings (including future interests)	1,287,297	353,739,529	78,910,118	-	433,936,944
Leasing	-	1,346,401	-	-	1,346,401
Other long - term liabilities	2,305,485	-	-	-	2,305,485
Trade and other payables	51,097,319	25,267,534	6,082,600	-	82,447,454
Other current liabilities	505,247	-	-	-	505,247
<b>Total liabilities</b>	<b>55,195,349</b>	<b>380,353,464</b>	<b>84,992,718</b>	<b>-</b>	<b>520,541,531</b>

**1 ianuarie 2011**

Financial position	RON	EUR	USD	GBP	TOTAL
Cash and cash equivalents	3,764,917	68,899	77,003	290	3,911,109
Other current assets	9,153,932	-	-	-	9,153,932
Trade and other receivables	58,136,861	87,303,438	35,268,147	-	180,708,445
Other long - term assets	48,609,820	-	-	-	48,609,820
<b>Total assets</b>	<b>119,665,529</b>	<b>87,372,337</b>	<b>35,345,150</b>	<b>290</b>	<b>242,383,306</b>
Interest-bearing loans and borrowings (including future interests)	7,514,162	81,345,258	358,167,822	-	447,027,241
Leasing	-	261,387	-	-	261,387
Other long - term liabilities	2,316,632	-	-	-	2,316,632
Trade and other payables	43,914,212	25,197,625	741,934	-	69,853,772
Other current liabilities	293,236	-	-	-	293,236
<b>Total liabilities</b>	<b>54,038,242</b>	<b>106,804,270</b>	<b>358,909,756</b>	<b>-</b>	<b>519,752,268</b>

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



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

The Board of Directors proposes accounting profit distribution of 2012 in amount of RON 42.493.632, to the reserve fund in the amount of RON 2.546.180, according to law 31/1990, annually 5% from gross profit (but not more than 20% of share capital) and the difference of RON 39.947.452 for covering the accounting losses from previous years.

Considering the regulations of OMFP 1690/12.12.2012 of addition and changing of OMPF 1286/2012 and the regulations of OMFP 213/15.02.2013 of addition to OMPF 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 Board of Directors proposes the covering of losses reported and losses from applying IFRS from:

- Adjustments of share capital (inflation period 1990-2003 and amounts unrecognized according to IFRS) account 1028 in amount of 608.093.801 RON and
- Retained earnings representing the surplus realized from revaluation reserves made after 1.01.2004 taxed in income tax statement according to OUG 34/2009 starting with 1 may 2009, elements of taxable revenues in amount of 8.046.809 RON.

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

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