

TMK-ARTROM S.A.

Half-year financial statements prepared in
accordance with regulations of OMFP no.
1286/2012, with following changes and
additions

30 JUNE 2015

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TMK ARTROM S.A.
STATEMENT OF COMPREHENSIVE INCOME
as of 30 June 2015

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

| | Note | 30.06.2015 RON | 30.06.2014 RON |
|---|------|--------------------|--------------------|
| Turnover | 5 | 503.052.762 | 530.581.731 |
| Sales of goods | 5 | 502.772.841 | 530.257.134 |
| Rendering of services | 5 | 279.921 | 324.597 |
| Cost of sales | 6 | (443.806.525) | (449.439.489) |
| Gross profit | | 59.246.237 | 81.142.242 |
| Selling and distribution expenses | 7 | (35.119.479) | (34.609.687) |
| Advertising and promotion expenses | 8 | (240.033) | - |
| General and administrative expenses | 9 | (13.618.567) | (14.961.576) |
| Research and development expenses | 10 | (330.530) | (98.117) |
| Other operating expenses | 11.2 | (961.315) | (1.039.195) |
| Other operating income | 11.1 | 218.644 | 297.754 |
| Income from operations | | 9.194.957 | 30.731.421 |
| Foreign exchange (loss) / gain, net | | (1.989.769) | 4.266.746 |
| Finance income | 11.4 | 2.787 | 4.857 |
| Finance costs | 11.3 | (3.475.061) | (4.465.969) |
| Profit before tax | | 3.732.914 | 30.537.055 |
| Income Tax | 12 | (494.955) | (4.497.432) |
| Profit for the year | | 3.237.959 | 26.039.623 |
| Other comprehensive income - which can not be reclassified in profit or loss | | | |
| Actuarial gains / (losses) | | - | - |
| Income tax effect | | (101.843) | - |
| Other comprehensive income (loss) for the year, net of tax | | (101.843) | - |
| Total comprehensive income for the year, net of tax | | 3.136.116 | 26.039.623 |
| Average number of shares | | 116.170.334 | 116.170.334 |
| Earnings per share | | 0,03 | 0,22 |

TMK ARTROM S.A.
STATEMENT OF FINANCIAL POSITION
as of 30 June 2015

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

| | Note | 30.06.2015 RON | 31.12.2014 RON |
|---------------------------------------|-------|--------------------|--------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 21 | 19.611.239 | 29.473.937 |
| Trade and other receivables | 19 | 260.636.145 | 203.310.913 |
| Inventories | 18 | 135.210.048 | 125.439.860 |
| Prepayments | 20 | 102.798.717 | 133.720.091 |
| | | 518.256.149 | 491.944.801 |
| Non-current assets | | | |
| Intangible assets | 15 | 895.708 | 141.141 |
| Property, plant and equipment | 14 | 458.288.636 | 446.089.606 |
| Financial assets | 16.1. | 76.923 | 288.350 |
| Other non-current assets | 17 | 781.040 | 11.371.656 |
| | | 460.042.307 | 457.890.753 |
| Total assets | | 978.298.456 | 949.835.554 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 24 | 140.118.562 | 80.297.342 |
| Advances from customers | 24 | 684.776 | 1.940.497 |
| Provisions and accruals | 26 | 1.110.307 | 4.476.010 |
| Interest-bearing loans and borrowings | 16.2. | 107.450.216 | 106.310.018 |
| Finance lease liability | 16.2. | 221.610 | 216.515 |
| Income tax payable | 24 | - | 1.386.460 |
| Total current liabilities | | 249.585.471 | 194.626.841 |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 16.2. | 199.829.285 | 230.297.552 |
| Finance lease liability | 16.2. | 219.645 | 75.453 |
| Deferred tax liability | 12 | 38.449.064 | 37.882.900 |
| Provisions and accruals | 26 | 429.472 | 429.472 |
| Employee benefits liability | 23 | 2.760.673 | 2.661.347 |
| Other long-term liabilities | 16.2. | 39.341 | 12.599 |
| Total Non-current liabilities | | 241.727.480 | 271.359.323 |
| Total liabilities | | 491.312.951 | 465.986.164 |
| EQUITY | | | |
| Capital and reserves | | | |
| Share capital, from which: | | 291.587.538 | 291.587.538 |
| - Subscribed and paid share capital | 22 | 291.587.538 | 291.587.538 |
| Other items of equity | 22 | (1.045.085) | (943.242) |
| Legal and other reserves | 22 | 17.159.099 | 17.159.099 |
| Retained earnings | 22 | 176.045.994 | 135.428.440 |
| Profit of the year | | 3.237.959 | 40.617.555 |
| Total equity | | 486.985.505 | 483.849.390 |
| Total liabilities and equity | | 978.298.456 | 949.835.554 |

TMK ARTROM S.A.
STATEMENT OF CHANGES IN EQUITY
as of 30 June 2015

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

| | Issued capital | Legal reserves | Other reserves | Retained earnings | Other elements of equity - from applying IAS 19R | Total equity |
|--|----------------|----------------|----------------|-------------------|---|--------------|
| | RON | RON | RON | RON | RON | RON |

For first semester ended at 30 June 2015

| | | | | | | |
|--|--------------------|-------------------|------------------|--------------------|--------------------|--------------------|
| As at 1 January 2015 | 291.587.538 | 14.962.653 | 2.196.447 | 176.045.994 | (943.242) | 483.849.390 |
| Profit of the year | - | - | - | 3.237.959 | - | 3.237.959 |
| Other comprehensive income / (loss) for the year, net of tax | - | - | - | - | (101.843) | (101.843) |
| Total comprehensive income | - | - | - | 3.237.959 | (101.843) | 3.136.116 |
| At 30 June 2015 | 291.587.538 | 14.962.653 | 2.196.447 | 179.283.953 | (1.045.085) | 486.985.506 |

For first semester ended at 30 June 2014

| | | | | | | |
|--|--------------------|-------------------|----------------|--------------------|--------------------|--------------------|
| As at 1 January 2014 | 291.587.538 | 12.576.840 | 857.553 | 139.153.146 | (1.373.902) | 442.801.175 |
| Profit of the year | - | - | - | 26.039.623 | - | 26.039.623 |
| Other comprehensive income / (loss) for the year, net of tax | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | 26.039.623 | - | 26.039.623 |
| At 30 June 2014 | 291.587.538 | 12.576.840 | 857.553 | 165.192.769 | (1.373.902) | 468.840.798 |

TMK ARTROM S.A.**CASH FLOW STATEMENT****as of 30 June 2015***(all amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

| Indirect method | Note | 1 January - 30 June 2015 RON | 1 January - 30 June 2014 RON |
|---|---------------|------------------------------------|---------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit / (Loss) before tax | | 3.732.914 | 30.537.055 |
| Plus / minus adjustments for: | | | |
| Depreciation | 14, 15 | 17.293.102 | 13.890.334 |
| Increase / (reversal) of provisions | 26 | (3.365.703) | (1.786.856) |
| Increase / (reversal) of allowances for current assets | 18, 19 | (1.110.105) | 2.068.321 |
| Exchange rate differences | | 5.283.007 | (4.726.368) |
| Variation of retirement benefits | 23 | 141.624 | 164.693 |
| Result from disposal of non-current assets | 11.2 | 178.261 | 397.391 |
| Interest and related expenses | 11.3, 11.4 | 3.094.943 | 4.067.612 |
| Plus / minus adjustments for changes in working capital related to operating activities: | | | |
| Decrease / (increase) in inventories | 18 | (8.277.599) | (1.309.350) |
| Decrease / (increase) in trade and other receivables and prepayments | 19 | (26.516.863) | (35.433.578) |
| (Decrease) / increase in payables (except banks) | 24 | 57.384.788 | 42.488.459 |
| less: | | | |
| Interest paid | | (3.236.804) | (4.173.511) |
| Total inflows / (outflows) from operating activities (a) | | 44.601.565 | 46.184.202 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Amount received from disposal of non-current assets | | 53.979 | 35.810 |
| Purchase of tangible and intangible assets | 14 | (18.379.128) | (7.805.889) |
| Interest received | 11.4 | 2.786 | 4.857 |
| Total inflows / (outflows) from investing activities (b) | | (18.322.363) | (7.765.222) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Loans received | | - | 202.585.768 |
| Repayment of loans | | (35.896.800) | (238.451.458) |
| Repayment of finance leases (amortisation) | | (245.100) | (268.447) |
| Total inflows / (outflows) from financing activities (c) | | (36.141.900) | (36.134.137) |
| Net increase / (decrease) in cash and cash equivalents (a) + (b) + (c) | | (9.862.698) | 2.284.843 |
| Cash and cash equivalents at beginning of period | 21 | 29.473.937 | 1.667.297 |
| Cash and cash equivalents at end of period | 21 | 19.611.239 | 3.952.140 |

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 30 June 2015

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

1. CORPORATE INFORMATION

These financial statements of TMK ARTROM S.A. (the "Company") for half-year ended at 30 June 2015 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 additions and authorised for issue in accordance with the resolution of the Administrators dated 11 August 2015.

The Company has no subsidiaries or associates, and, therefore, it prepares only standalone financial statements. Standalone financial statements are consolidated at the parent entity, OAO TMK, headquartered in Moscow, Russian Federation. OAO TMK is ultimately controlled by D.A.Pumpyanskiy. Starting with 9 July 2015 the name of the final parent OAO TMK will be changed to PAO TMK.

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

TMK ARTROM SA is registered in Slatina 30th Draganesti Street, 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 pipes production is intended for sales outside of Romania, mainly within other EU countries, USA, and Canada.

2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These financial statements are presented in Romanian Lei ("RON"). The financial statements have been prepared under the historical cost convention.

Statement of Compliance

Standalone 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 additions. These provisions are in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), except as provided in IAS 21 The Effects of Changes in Foreign Exchange Rates on functional currency.

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Going concern

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

b) Transactions in foreign currencies

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

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

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

Exchange rate for 1 unit of foreign currency:

| | <u>30 June 2014</u> | <u>31 December 2014</u> | <u>30 June 2015</u> |
|-------|---------------------|-------------------------|---------------------|
| 1 EUR | 4,3870 | 4,4821 | 4,4735 |
| 1 USD | 3,2138 | 3,6868 | 3,9969 |

Non-monetary items in foreign currency measured at fair value are translated using the exchange rates at the date when the fair value is determined.

c) Significant accounting judgments, estimates and assumptions

The preparation of the Company's 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.

For details regarding significant accounting judgments, estimates and assumptions, please refer to Note 3.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments

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

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

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

The Company's financial assets include cash and cash equivalents, trade and other receivables 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 forecast transaction no longer occurs, the cumulative gain or loss is recognized in the comprehensive income and 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 cumulative gain or loss previously recognized in comprehensive income, remains separately in equity, until the forecast transaction will occur. When forecasted transaction occurs, the gains or losses previously recognized in other comprehensive income are transferred to the income statement.

Initially, financial instruments are recognized at their fair value plus transaction costs directly attributable to the acquisition or issue of financial instruments unless the financial instruments are at fair value through profit or loss.

Subsequently, financial assets and liabilities are measured according to the category to which they are classified, as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as during the amortization process.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as during the amortization process.

Derivative financial instruments

Derivative financial instruments, such as foreign currency exchange contracts and interest rate swap contracts, are measured at fair value. Derivative financial instruments are classified as held for trading unless they are designated as hedging instruments, for which hedge accounting is applied. Changes in the fair value of derivative financial instruments are recognized periodically either in profit or loss or, in the case of a cash flow hedge, in other components of equity, net of applicable deferred income taxes.

Amortized cost

Amortized cost for financial assets and liabilities is computed using the effective interest method. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Derecognition of financial instruments

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

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

Offsetting of financial instruments

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial assets

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

In relation to trade receivables, a provision for impairment is set when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts payable under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

No provisions are set for affiliates.

f) Property, plant and equipment

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

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

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

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

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

The tooling transferred from inventories to fixed assets are depreciated over the useful life estimated considering the specified use.

g) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their entire estimated useful lives.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets have the following useful lives:

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

Research and development costs

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

h) Prepayments

Advances paid for acquisition of property plant and equipment are considered non-monetary assets and for cash flow presentation are assimilated to property, plant and equipment.

Advances paid for services and inventories are considered monetary assets and for cash flow presentation are assimilated to trade receivables.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Impairment of non-financial assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

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

j) Provisions

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

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

Provisions are not recognized for future operating losses.

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Leases

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

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

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

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

l) Subsidies / government grants

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

m) Inventories

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

Finished goods and work in progress comprise of cost of direct materials and labor and a proportion of manufacturing overheads, allocated based on the normal operating capacity – the level of production equipment used (which is as full capacity). The allocation is made based on the quantity produced.

For the output of inventories, the cost is measured and registered by applying the first in – first out method for raw material and consumables and weight average cost method for work in progress and finished goods.

n) Cash and cash equivalents

Cash includes cash on hand, cash with banks and checks in course of being cashed. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with remaining three months or less to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Revenue recognition

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

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

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

p) Post employment benefits and other long term employee benefits

Short-term employee benefits

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

Defined benefit pension plans

The Company provides post-employment and other long-term benefits to their employees (lump-sum post-employment payments and payments in case of death.). All post-employment benefit plans are unfunded. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements. The liability recognized in respect of post-employment and other long-term employee benefits is the present value of the defined benefit obligation at the end of the reporting period, together with adjustments for unrecognized past-service costs. Defined benefit obligation is calculated by external consultants using the projected unit credit method.

All actuarial gains and losses, according to IAS 19 Revised, will be recognized in other comprehensive income in the period in which they will occur. The interest cost is recognized in finance costs.

q) Taxes

► Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in Romania.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

► Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

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

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

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

► Sales tax

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

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

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

r) Dividends

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

s) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

t) Reportable segments

The Company does not have reportable segments.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

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

- The Company records costs mostly in the national currency LEI (RON);
- The Company records revenues in a proportion of 18,39% in the national currency RON, and the other revenues recorded in EUR (71,32%) and USD (10,29%).

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

➤ Taxes

All amounts due to State authorities for taxes have been paid or accrued at the balance sheet date. The Romanian tax system undergoes a consolidation process and is being harmonized with the European legislation. Different interpretations may exist at the level of the tax authorities in relation to the tax legislation that may result in additional taxes and penalties payable. Where the State authorities have findings from reviews relating to breaches of Romania's tax laws, and related regulations these may result in: confiscation of the amounts in case; additional tax liabilities being payable; fines and penalties (those are applied on the total outstanding amount). As a result the fiscal penalties resulting from breaches of the legal provisions may result in a significant amount payable to the State.

➤ Pension benefits

The cost of the defined benefit pension plan and other post-employment benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed annually.

The management considers that the value of retirement benefits do not differ significantly from the value estimated for year 2015 in financial statements of previous year; the liability was updated with the effect of time passing.

4.1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2015:

- **IAS 19 Employee benefits (Amended): Employee Contributions**
- **IFRS 13 Fair Value Measurement**
- **IAS 40 Investment Properties**

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

- **IAS 19 Employee benefits (Amended): Employee Contributions**

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 13 Fair Value Measurement**

This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

- **IAS 40 Investment Properties**

This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

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

In addition to those standards and interpretations that have been disclosed in the financial statements for the year ended 31 December 2014, the following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2015 and have not been early adopted from the Company:

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

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

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 9 Financial Instruments – Classification and measurement**

The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**

The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The amendment has not yet been endorsed by the EU. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 14 Regulatory Deferral Accounts**

The standard is effective for annual periods beginning on or after 1 January 2016. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in 2014. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop IFRS 14 as an interim measure. IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. . The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

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

- **IAS 27 Separate Financial Statements (amended)**

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. This amendment has not yet been endorsed by the EU. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be effective for annual periods commencing on or after 1 January 2016. The amendments have not yet been endorsed by the EU. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**

The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments have not yet been endorsed by the EU. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**

which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2015. Management has assessed that these improvements will have no significant effect on the financial statements.

- **IFRS 2 Share-based Payment:** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- **IFRS 3 Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- **IFRS 8 Operating Segments:** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

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

- **IFRS 13 Fair Value Measurement:** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- **IAS 16 Property Plant & Equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- **IAS 24 Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- **IAS 38 Intangible Assets:** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- **The IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle**

which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2015. Management has assessed that these improvements will have no effect on the financial statements.

- **IFRS 3 Business Combinations:** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IFRS 13 Fair Value Measurement:** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- **IAS 40 Investment Properties:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

- **The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle**

which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. Management has assessed the following:

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:** The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.
- **IFRS 7 Financial Instruments: Disclosures:** The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

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

- **IAS 19 Employee Benefits:** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.
- **IAS 34 Interim Financial Reporting:** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

- **IAS 1: Disclosure Initiative (Amendment)**

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. These amendments have not yet been endorsed by the EU. The Management of the Company is in the process of assessing the impact of the new standard on the financial statements.

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 30 June 2015

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

5. TURNOVER

The chiefs executives are monitoring overall the operational results of the Company, in the purpose to decide the allocation of the resources and to measure the performance. The performance is measured based on the operational result included in the financial statements.

| | 30 June 2015 RON | % | 30 June 2014 RON | % |
|----------------|---------------------|------------|---------------------|------------|
| Domestic sales | 144.543.899 | 28,73 | 159.849.605 | 30,13 |
| Sales abroad | 358.508.863 | 71,27 | 370.732.126 | 69,87 |
| Total | 503.052.762 | 100 | 530.581.731 | 100 |

| | 30.06.2015 RON | 30.06.2014 RON |
|--|--------------------|--------------------|
| Sales of pipes produced by TMK-ARTROM from which: | | |
| Domestic | 64.621.609 | 67.782.727 |
| Europe | 269.590.079 | 274.892.780 |
| North America | 48.818.920 | 91.167.422 |
| Other areas | 7.678.431 | 4.337.846 |
| Total sales of pipes produced by TMK-ARTROM | 390.709.039 | 438.180.775 |
| Sales of other goods and services from which: | | |
| Sales of other goods on domestic market | 79.673.883 | 91.913.177 |
| Sales of other goods on external market | 32.389.920 | 163.182 |
| Rendering of services on domestic market | 248.406 | 153.701 |
| Rendering of services on external market | 31.514 | 170.896 |
| Total sales of other goods and services | 112.343.723 | 92.400.956 |
| Total turnover | 503.052.762 | 530.581.731 |

Total turnover decreased with 5% in first semester of year 2015 towards first semester of year 2014, from RON 530.581.731 to RON 503.052.762.

The sales of goods purchased to be resold has increased in first semester of year 2015 with 27% because of the increase of quantity and the changes in stucture of the products and the selling conditions of mettallurgical profiles purchased from related companies (by OAO TMK and TRADE HOUSE TMK) and sold on the internal and external market compared to first semester of year 2014.

The sales were made in first semester of 2015 directly and by related parties traders as follows:

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

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 30 June 2015

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

5. TURNOVER (continued)

Geographical information

Gross margin on geographical areas

| 1 January - 30 June 2015 | Romania | Europe | North America | Other countries | Total |
|-----------------------------|------------------|-------------------|-------------------|--------------------|----------------------|
| | RON | RON | RON | RON | RON |
| Turnover (Sales) | 144.543.897 | 279.155.978 | 48.818.920 | 30.533.967 | 503.052.762 |
| Cost of Sales | (138.984.908) | (245.347.623) | (30.786.717) | (28.687.277) | (443.806.525) |
| Gross Margin | 5.558.989 | 33.808.355 | 18.032.203 | 1.846.690 | 59.246.237 |

| 1 January - 30 June 2014 | Romania | Europe | North America | Other countries | Total |
|-----------------------------|------------------|-------------------|-------------------|--------------------|----------------------|
| | RON | RON | RON | RON | RON |
| Turnover (Sales) | 159.849.605 | 275.226.858 | 91.167.422 | 4.337.846 | 530.581.731 |
| Cost of Sales | (154.521.377) | (227.645.254) | (63.823.392) | (3.449.466) | (449.439.489) |
| Gross Margin | 5.328.228 | 47.581.604 | 27.344.030 | 888.380 | 81.142.242 |

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6. COST OF SALES

Cost of sales for the first semester ended as at 30 June, consisted of the following:

| | 30 June 2015 RON | 30 June 2014 RON |
|---|---------------------|---------------------|
| Raw materials | 252.940.882 | 273.279.831 |
| Energy and utilities | 26.856.285 | 30.109.317 |
| Staff cost (note 11.5) | 22.454.534 | 23.100.347 |
| Consumables | 21.246.920 | 23.648.392 |
| Depreciation and amortisation | 16.461.804 | 12.989.774 |
| Social security expenses (note 11.5) | 5.456.514 | 6.491.826 |
| Repairs and maintenance | 1.689.080 | 1.985.454 |
| Other compensations for employees | 1.471.166 | 1.952.948 |
| Freight | 935.475 | 983.381 |
| Professional fees and services | 775.741 | 1.446.707 |
| Taxes | 679.703 | 703.008 |
| Travel | 252.756 | 349.730 |
| Rent | 79.571 | 73.054 |
| Communications | 36.404 | 37.411 |
| Insurance | 28.722 | 98.482 |
| Other expenses | 9.778 | 15.830 |
| Total production cost | 351.375.335 | 377.265.492 |
| Change in own finished goods and work in progress | 8.365.861 | 2.034.155 |
| Cost of sales of externally purchased goods | 88.055.512 | 72.284.883 |
| Capitalized production costs | (2.497.594) | (3.937.362) |
| Obsolete stock, write-offs / (reversal of write-offs) (note 18) | (1.492.589) | 1.792.321 |
| Cost of sales | 443.806.525 | 449.439.489 |

7. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the first semester ended as at 30 June, consisted of the following:

| | 30 June 2015 RON | 30 June 2014 RON |
|--|---------------------|---------------------|
| Freight | 22.533.361 | 22.626.290 |
| Professional fees and services | 8.675.369 | 8.053.841 |
| Staff cost (note 11.5) | 1.600.931 | 1.415.315 |
| Insurance | 531.419 | 386.644 |
| Consumables | 425.432 | 444.980 |
| Social security expenses (note 11.5) | 386.353 | 397.255 |
| Bad debt expense (note 19) | 382.484 | 276.000 |
| Depreciation and amortisation | 190.584 | 247.881 |
| Other compensations for employees | 99.544 | 139.807 |
| Utilities and maintenance | 93.027 | 101.228 |
| Taxes | 66.726 | 131.426 |
| Travel | 53.234 | 235.904 |
| Communications | 52.998 | 54.166 |
| Other expenses | 27.776 | 98.950 |
| Rent | 241 | - |
| Selling and distribution expenses | 35.119.479 | 34.609.687 |

TMK ARTROM S.A.
NOTES TO THE FINANCIAL STATEMENTS
as of 30 June 2015

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

8. PROMOTION AND ADVERTISING EXPENSES

Promotion and advertising expenses for the first semester ended as at 30 June, consisted of the following:

| | 30 June 2015 RON | 30 June 2014 RON |
|---|---------------------|---------------------|
| Marketing expenses | 216.764 | - |
| Media expenses | 17.936 | - |
| Materials | 5.333 | - |
| Promotion and advertising expenses | 240.033 | - |

9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the first semester ended as at 30 June, consisted of the following:

| | 30 June 2015 RON | 30 June 2014 RON |
|--|---------------------|---------------------|
| Staff cost (note 11.5) | 6.138.884 | 5.967.727 |
| Professional fees and services | 2.273.779 | 2.244.060 |
| Social security expenses (note 11.5) | 1.464.448 | 1.708.535 |
| Depreciation and amortisation | 640.713 | 652.679 |
| Rent | 613.933 | 607.553 |
| Travel | 605.416 | 703.660 |
| Consumables | 551.031 | 490.714 |
| Utilities and maintenance | 538.102 | 637.767 |
| Communications | 391.201 | 425.295 |
| Taxes | 161.695 | 176.697 |
| Other expenses | 157.771 | 120.106 |
| Insurance | 61.727 | 60.334 |
| Other compensations for employees | 19.867 | 1.166.449 |
| General and administrative expenses | 13.618.567 | 14.961.576 |

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the first semester ended as at 30 June, consisted of the following:

| | 30 June 2015 RON | 30 June 2014 RON |
|--|---------------------|---------------------|
| Consumables | 256.314 | 3.008 |
| Staff cost (note 11.5) | 36.575 | 35.237 |
| Professional fees and services | 27.763 | 48.913 |
| Social security expenses (note 11.5) | 8.839 | 9.904 |
| Other compensations for employees | 1.039 | 1.019 |
| Insurance | - | 36 |
| Research and development expenses | 330.530 | 98.117 |

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11. OTHER INCOME/EXPENSES AND ADJUSTMENTS

11.1 Other operating income

Other operating income for the first semester ended at 30 June, consisted of the following:

| | 30 June 2015 | 30 June 2014 |
|----------------------------|---------------------|---------------------|
| | RON | RON |
| Damages, trial expenses | 217.981 | 289.585 |
| Special grants - subsidies | - | 7.837 |
| Other income | 663 | 332 |
| Total | 218.644 | 297.754 |

11.2 Other operating expenses

Other operating expenses for the first semester ended at 30 June, consisted of the following:

| | 30 June 2015 | 30 June 2014 |
|---|---------------------|---------------------|
| | RON | RON |
| Social actions expenses | 359.924 | 448.200 |
| Loss on disposal of property, plant and equipment | 178.261 | 397.391 |
| Professional fees and services | 73.868 | 33.000 |
| Staff costs - medical dispensary | 47.144 | 47.443 |
| Sponsorship and charitable donations | 33.579 | 87.248 |
| Social security costs - medical dispensary | 11.447 | 13.700 |
| Fines and penalties | 6.463 | 2.318 |
| Penalties - legal entities | 1.259 | 331 |
| Other expenses | 249.370 | 9.564 |
| Total | 961.315 | 1.039.195 |

11.3 Financial costs

Financial costs for the first semester ended at 30 June, consisted of the following:

| | 30 June 2015 | 30 June 2014 |
|--|---------------------|---------------------|
| | RON | RON |
| Interest on long-term loans and borrowings (note 16.2) | 2.414.913 | 2.510.525 |
| Interest on short-term loans (note 16.2) | 673.727 | 1.538.322 |
| Amortized cost of issuance fee | 209.659 | 211.632 |
| Other financial expenses | 147.677 | 179.326 |
| Interest on financial leasing | 9.089 | 17.601 |
| Discount fees and charges of promissory note | 19.996 | 8.563 |
| Total | 3.475.061 | 4.465.969 |

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11. OTHER INCOME/EXPENSES AND ADJUSTMENTS (continue)

11.4 Financial income

Financial income for the first semester ended at 30 June, consisted of the following:

| | 30 June 2015 RON | 30 June 2014 RON |
|------------------------|---------------------|---------------------|
| Interest on deposits | 1.099 | 4.383 |
| Other financial income | 1.688 | 474 |
| Total | 2.787 | 4.857 |

Net gain / (net loss) from foreign exchange differences

| | 30 June 2015 RON | 30 June 2014 RON |
|--|---------------------|---------------------|
| Revenues from foreign exchange differences | 19.581.021 | 14.290.520 |
| Expenses from foreign exchange differences | 21.570.790 | 10.023.774 |
| | (1.989.769) | 4.266.746 |

The variation of net result from foreign exchange differences is generated especially by the increase of EUR and USD which generated negative differences at the valuation of the bank liabilities in foreign currency.

11.5 Employee benefits expenses

Employee benefits expenses for the first semester ended at 30 June, consisted of the following:

| | 30 June 2015 RON | 30 June 2014 RON |
|--|---------------------|---------------------|
| Wages and salaries (Notes 6,7,9,10,11.2) | 30.278.068 | 30.566.069 |
| Social security costs (Notes 6,7,9,10,11.2), out of which: | 7.327.601 | 8.621.148 |
| - Company's contributions to social security (pensions) | 5.290.563 | 7.000.663 |
| Other compensations for employees - meal tickets | 1.296.225 | 1.269.786 |
| Other compensations for employees - other | 295.391 | 1.990.437 |
| Total employee benefits expense | 39.197.285 | 42.447.440 |

| | 30 June 2015 | 30 June 2014 |
|---|--------------|--------------|
| Average number of employees | 1.267 | 1.237 |
| Actual number of employees at the end of financial year | 1.267 | 1.253 |

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12. INCOME TAX

For half-year ended at 30 June 2015, the Company has calculated a current income tax of 30.633 RON.

| | 30 June 2015 | 30 June 2014 |
|----------------------------------|------------------|--------------------|
| Current income tax | (30.633) | (5.580.919) |
| Deferred income tax: | (464.322) | 1.083.487 |
| - Deferred income tax - revenues | 305.833 | 1.408.929 |
| - Deferred income tax - expenses | (770.155) | (325.442) |
| Income tax | (494.955) | (4.497.432) |

The Company has computed deferred tax from different temporary differences for fixed assets and other items. In first semester of year 2015 deferred tax expenses were of RON 770.155 (30 June 2014: RON 325.442) and deferred tax income of RON 305.833 (30 June 2014: RON 1.408.929).

Reconciliation between current income tax expense and the accounting profit multiplied by Romanian domestic tax rate for half-year ended at 30 June is as follows:

| | 30 June 2015 | 30 June 2014 |
|--|------------------|-------------------|
| Profit before income tax | 3.732.914 | 30.537.055 |
| Income taxes calculated at the nominal applicable tax rate (16%) | 597.266 | 4.885.929 |
| Tax effect of deductible / non-taxable elements, out of which: | (5.076.851) | (3.963.457) |
| - Fiscal depreciation | (4.116.429) | (2.773.743) |
| - Legal reserve | - | (244.297) |
| - Revenues from reversal of allowances | (960.422) | (945.417) |
| Tax effect of taxable / non-deductible elements, out of which: | 4.556.874 | 4.745.695 |
| - Realization of revaluation reserve | 1.413.411 | 1.507.368 |
| - Accounting depreciation | 2.766.896 | 2.222.453 |
| - Allowances expenses | 263.372 | 977.681 |
| - Other items | 113.195 | 38.193 |
| Tax credit, out of which: | (46.656) | (87.248) |
| - sponsoring expense | (15.457) | (87.248) |
| - reinvested profit in equipment | (31.199) | - |
| Computed income tax / (tax loss) | 30.633 | 5.580.919 |
| Income tax reported in the statement of income | 30.633 | 5.580.919 |

According to the Romanian regulations, in first semester of year 2015 the Company had an income tax credit for the profit reinvested in equipment of RON 194.992 which was purchased and put into operation in first quarter 2015. These income tax credit represents 16% from the reinvested profit and it was in amount of RON 31.199.

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12. INCOME TAX (continue)

| | 30 June 2015 | 30 June 2014 |
|---|------------------|--------------|
| Statement of comprehensive income | | |
| Deferred tax related to items charged or credited directly to other comprehensive income during the year: | - | - |
| Actuarial (gains)/losses arising from changes in financial assumptions | (101.843) | - |
| Income tax charged directly to other comprehensive income | (101.843) | - |

Deferred tax relates to the following:

Statement of financial position

| | 30 June 2015 RON | 31 December 2014 RON |
|---|---------------------|-------------------------|
| - Deferred income tax assets | | |
| Allowance for doubtful accounts receivable | 286.196 | 221.812 |
| Employee benefits | 543.550 | 323.973 |
| Provisions for management bonuses | - | 446.864 |
| Provisions for quality complaints | 211.269 | 302.917 |
| Adjustments of inventories | 520.184 | 758.999 |
| Provisions for decommissioning property, plant and equipment | 35.096 | 35.096 |
| Recognized in other elements of equity | | |
| Employee benefits recognized directly in other elements of equity | (101.842) | 101.842 |
| Total (a) | 1.494.453 | 2.191.503 |
| - Deferred income tax liabilities | | |
| Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets | 39.943.517 | 40.074.403 |
| Total (b) | 39.943.517 | 40.074.403 |
| Net deferred tax income (a) - (b) | (38.449.064) | (37.882.900) |

12. INCOME TAX (continue)

Statement of comprehensive income

| | 30 June 2015 RON | 30 June 2014 RON |
|---|---------------------|---------------------|
| - Deferred income tax assets | | |
| Allowance for doubtful accounts receivable | 64.385 | 124.831 |
| Employee benefits | 117.735 | 22.325 |
| Provisions for management bonuses | (446.865) | (218.898) |
| Provisions for quality complaints | (91.648) | (102.095) |
| Adjustments of inventories | (238.814) | 286.772 |
| Provisions for decommissioning property, plant and equipment | - | 35.096 |
| <u>Recognized in other elements of comprehensive income</u> | | |
| Employee benefits recognized directly in OCI | (101.843) | - |
| Total (a) | (697.050) | 148.031 |
| - Deferred income tax liabilities | | |
| Difference between carrying amount and fiscal amount of property, plant and equipment and intangible assets | (130.885) | (935.456) |
| Total (b) | (130.885) | (935.456) |
| Net deferred tax income (a) - (b) | (566.165) | 1.083.487 |

13. EARNINGS PER SHARE

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

| Earnings per share amounts in RON | 30 June 2015 | 30 June 2014 |
|--|--------------|--------------|
| <u>Earnings</u> | | |
| Net profit | 3.237.959 | 26.039.623 |
| Average number of shares | 116.170.334 | 116.170.334 |
| Earnings per average number of shares | 0,03 | 0,22 |

During the first semester of year 2015 there were no transactions involving ordinary shares or potential ordinary shares.

14. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in first semester of year 2015, ended at 30 June, were as follows:

| | Land and buildings | Machinery and equipment | Transport and motor vehicles | Furniture and fixtures | Construction in progress | Total |
|---|-----------------------|-------------------------------|------------------------------------|---------------------------|-----------------------------|----------------------|
| | RON | RON | RON | RON | RON | RON |
| <u>Cost</u> | | | | | | |
| At 1 January 2015 | 110.732.812 | 412.179.079 | 12.309.136 | 1.993.119 | 12.648.246 | 549.862.392 |
| Additions | - | - | - | - | 29.688.230 | 29.688.230 |
| Disposals | (6.598) | (283.083) | (145.038) | (166.323) | - | (601.042) |
| Transfers | 163.048 | 4.911.073 | 467.495 | 93.637 | (5.635.253) | - |
| At 30 June 2015 | 110.889.262 | 416.807.069 | 12.631.593 | 1.920.433 | 36.701.223 | 578.949.580 |
| <u>Depreciation and impairment</u> | | | | | | |
| At 1 January 2015 | (13.769.077) | (84.819.193) | (4.375.844) | (808.672) | - | (103.772.786) |
| Depreciation charge for the year | (1.742.719) | (14.762.264) | (647.077) | (104.900) | - | (17.256.960) |
| Disposals | 1.925 | 101.994 | 118.448 | 146.435 | - | 368.802 |
| At 30 June 2015 | (15.509.871) | (99.479.463) | (4.904.473) | (767.137) | - | (120.660.944) |
| <u>Net book value</u> | | | | | | |
| At 30 June 2015 | 95.379.391 | 317.327.606 | 7.727.120 | 1.153.296 | 36.701.223 | 458.288.636 |

14. PROPERTY, PLANT AND EQUIPMENT(continued)

Movements in property, plant and equipment in year 2014 were as follows:

| | Land and buildings RON | Machinery and equipment RON | Transport and motor vehicles RON | Furniture and fixtures RON | Construction in progress RON | Total RON |
|---|------------------------------|-----------------------------------|--|----------------------------------|------------------------------------|----------------------|
| Cost | | | | | | |
| At 1 January 2014 | 108.420.460 | 366.784.014 | 11.385.207 | 1.525.074 | 32.458.920 | 520.573.675 |
| Additions | - | - | - | - | 29.009.126 | 29.009.126 |
| Disposals | (214.165) | (4.406.577) | (149.447) | (1.661) | (8.264) | (4.780.114) |
| Transfers | 2.307.167 | 49.801.642 | 1.073.376 | 469.706 | (53.651.891) | - |
| Provisions for diconmissioning property, plant and equipment | 219.350 | - | - | - | - | 219.350 |
| Transfers from inventories | - | - | - | - | 4.840.355 | 4.840.355 |
| At 31 December 2014 | 110.732.812 | 412.179.079 | 12.309.136 | 1.993.119 | 12.648.246 | 549.862.392 |
| Depreciation and impairment | | | | | | |
| At 1 January 2014 | (10.328.847) | (62.836.470) | (3.227.071) | (587.551) | - | (76.979.939) |
| Depreciation charge for the year | (3.479.650) | (24.786.361) | (1.224.593) | (222.782) | - | (29.713.386) |
| Disposals | 39.420 | 2.803.638 | 75.820 | 1.661 | - | 2.920.539 |
| At 31 December 2014 | (13.769.077) | (84.819.193) | (4.375.844) | (808.672) | - | (103.772.786) |
| Net book value | | | | | | |
| At 31 December 2014 | 96.963.735 | 327.359.886 | 7.933.292 | 1.184.447 | 12.648.246 | 446.089.606 |

Lands owned by the Company are located in Slatina city, with an area of 416.081,03 square meters.

Property, plant and equipment increases were made in first semester of year 2015 by purchases of independent fixed assets and by putting into operation the contracting or self-made investments.

During half-year 2015 the Company made current repairs for developing the process flow at the designed parameters, but also capital repairs for equipments and buildings which were recognized in the carrying value of property, plant and equipment in amount of RON 2.388.539.

The disposals of property, plant and equipment in half-year 2015 in amount of RON 601.042 are represented by the non-depreciated value of parts replaced for capital repairs made during first semester of year 2015 in amount of RON 185.762 (30 June 2014: RON 340.071) and also their depreciated value of RON 96.757 (30 June 2014: RON 377.509), sales of fixed assets in amount of RON 311.361 and donations of property, plant and equipment in amount of RON 7.162. The income resulted was of RON 33.570 as at 30 June 2015 (30 June 2014: RON 35.810).

The gross value of fully depreciated items of property, plant and equipment in use as at 30 June 2015 is of RON 4.004.244 (31 December 2014: RON 3.663.237).

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14. PROPERTY, PLANT AND EQUIPMENT(continued)

Out of total property, plant and equipment as of 30 June 2015, properties with a net book value of RON 193.523.578 (31 December 2014: RON 210.423.007) were pledged in favour of TMK Europe.

Financial leasing and assets in progress

The carrying amount of property, plant and equipment held under finance lease at 30 June 2015 was of RON 1.174.556 (31 December 2014: RON 855.751). Assets held under lease are pledged as guarantees for finance lease.

15. INTANGIBLE ASSETS

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

Movements in intangible assets during first semester of year 2015 were as follows:

| | Licenses and trademarks RON | Other intangible assets RON | Intangible assets in progress RON | Total RON |
|---|--|--|--|----------------------|
| <u>Cost</u> | | | | |
| At 1 January 2015 | 420.914 | 46.291 | - | 467.205 |
| Additions | 25.371 | - | 765.338 | 790.709 |
| Disposals | - | - | - | - |
| At June 30th 2015 | 446.285 | 46.291 | 765.338 | 1.257.914 |
| <u>Amortisation and impairment</u> | | | | - |
| At 1 January 2015 | (284.760) | (41.304) | - | (326.064) |
| Amortisation | (33.422) | (2.720) | - | (36.142) |
| Impairment | - | - | - | - |
| At June 30th 2015 | (318.182) | (44.024) | - | (362.206) |
| Net book value | | | | |
| At 30 June 2015 | 128.103 | 2.267 | 765.338 | 895.708 |

The increase of intangible assests in progress is represented by signing a contract for the purchase of a new IT software „Microsoft Dynamics AX 2012 Integrated System”. The IT software will be put into operation starting with July 2016.

15. INTANGIBLE ASSETS (continued)

Movements in intangible assets during year 2014 were as follows:

| | Licenses and trademarks RON | Other intangible assets RON | Intangible assets in progress RON | Total RON |
|------------------------------------|--------------------------------------|--------------------------------------|--|--------------|
| Cost | | | | |
| At 1 January 2014 | 527.431 | 70.512 | - | 597.943 |
| Additions | 39.151 | - | - | 39.151 |
| Disposals | (145.668) | (24.221) | - | (169.889) |
| At 31 December 2014 | 420.914 | 46.291 | - | 467.205 |
| Amortisation and impairment | | | | |
| At 1 January 2014 | (350.776) | (60.086) | - | (410.862) |
| Amortisation | (68.663) | (5.439) | - | (74.102) |
| Disposals | 134.679 | 24.221 | - | 158.900 |
| Impairment | - | - | - | - |
| At 31 December 2014 | (284.760) | (41.304) | - | (326.064) |
| Net book value | | | | |
| At 31 December 2014 | 136.154 | 4.987 | - | 141.141 |

16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

16.1. Financial assets

| | 30 June 2015 RON | 31 December 2014 RON |
|---|---------------------|-------------------------|
| Other financial receivables | | |
| Deposits for letters of guarantee | - | 204.555 |
| Granted guarantees, from which: | 76.923 | 83.795 |
| - Guarantees granted to related parties (note 25) | 76.923 | 83.795 |
| Total other financial receivables | 76.923 | 288.350 |
| Total other financial assets | 76.923 | 288.350 |

16.2. Other financial liabilities

Interest-bearing long-term loans and borrowings

| | 30 June 2015 RON | 31 December 2014 RON |
|--|---------------------|-------------------------|
| Long-term interest-bearing bank loans | 137.595.661 | 164.053.614 |
| Long-term interest-bearing borrowing - related parties (note 25) | 62.501.684 | 66.500.802 |
| Un-amortized cost of debt origination | (268.060) | (256.864) |
| Balance of long - term loans | 199.829.285 | 230.297.552 |

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16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

| Future repayments | 30 June 2015 | 31 December 2014 |
|--|---------------------|-------------------------|
| | RON | RON |
| Long- and short-term loans and borrowings-interests | 307.037.623 | 336.213.343 |
| Interest payable at reporting date | 934.102 | 1.073.177 |
| Un-amortized cost of debt origination | (692.224) | (678.950) |
| Total long- and short-term loans and related interest and un-amortized cost | 307.279.501 | 336.607.570 |
| Future interests | 8.062.747 | 12.256.354 |
| Total future repayments for loans and related interest | 315.342.248 | 348.863.924 |

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16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Interest-bearing long-term loans and borrowings

| Bank | Type of loan | Currency | 30 June 2015 | | Interest rate | Amount repayable RON / equivalent RON | Amount repayable EUR/USD |
|-----------------------------|-----------------------------|----------|-----------------|------------|-------------------|---|-----------------------------|
| | | | Amount received | Due date | | | |
| UNICREDIT TIRIAC BANK | Loan on 5 years - long part | EUR | 15.000.000 | 11/16/2016 | EURIBOR 1M+margin | 44.735.000 | 10.000.000 |
| BCR ERSTE | Loan on 5 years - long part | EUR | 20.000.000 | 10/03/2016 | EURIBOR 3M+margin | 26.561.406 | 5.937.500 |
| BCR ERSTE | Overdraft on 3 years | EUR | 20.000.000 | 10/03/2017 | EURIBOR 3M+margin | 66.299.255 | 14.820.444 |
| Total long-term bank loans | | | | | | 137.595.661 | |
| TMK EUROPE GmbH | Long-term borrowing | USD | 22.837.540 | 09/25/2018 | Libor+0.5% | 62.501.684 | 15.637.540 |
| | | RON | 38.425 | | | | - |
| Un-amortized long-term cost | | | | | | (268.060) | |
| Total | | | | | | 199.829.285 | |

| Bank | Type of loan | Currency | 31 December 2014 | | Interest rate | Amount repayable RON / equivalent RON | Amount repayable EUR/USD |
|-----------------------------|-----------------------------|----------|------------------|------------|-------------------|---|-----------------------------|
| | | | Amount received | Due date | | | |
| UNICREDIT TIRIAC BANK | Loan on 5 years - long part | EUR | 15.000.000 | 11/16/2016 | EURIBOR 1M+margin | 44.821.000 | 10.000.000 |
| BCR ERSTE | Loan on 5 years - long part | EUR | 20.000.000 | 10/03/2016 | EURIBOR 3M+margin | 35.016.406 | 7.812.500 |
| BCR ERSTE | Overdraft on 3 years | EUR | 20.000.000 | 10/03/2017 | EURIBOR 3M+margin | 84.216.207 | 18.789.453 |
| Total long-term bank loans | | | | | | 164.053.613 | |
| TMK EUROPE GmbH | Long-term borrowing | USD | 22.837.540 | 09/25/2018 | Libor+0.5% | 66.500.803 | 18.037.540 |
| | | RON | 38.425 | | | | - |
| Un-amortized long-term cost | | | | | | (256.864) | |
| Total | | | | | | 230.297.552 | |

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16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Finance lease

| | 30 June 2015 | 31 December 2014 |
|--|---------------------|-------------------------|
| | RON | RON |
| Lease payments less than 3 months, gross | 84.723 | 73.461 |
| Lease payments between 3 and 12 months, gross | 181.702 | 150.976 |
| Lease payments between 1 and 5 years, gross | 193.897 | 76.525 |
| Total minimum lease payments, gross | 460.322 | 300.962 |
| Less: future finance charges | 19.067 | 8.994 |
| Present value of minimum lease payments | 441.255 | 291.968 |
| Distributed as follows: | | |
| Maturing within 1 year | 254.482 | 216.515 |
| Maturing between 1 and 2 years | 168.988 | 75.453 |
| Maturing between 2 and 3 years | 17.785 | - |
| Total | 441.255 | 291.968 |

At 30 June 2015, TMK-Artrom had ongoing with Raiffeisen Leasing S.R.L. Bucharest 6 financial lease contracts for the purchase of six vehicles and with BCR Leasing IFN S.A. 5 financial lease contract for the purchase of five vehicles.

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

Interest-bearing short-term loans and borrowings

| | 30 June 2015 | 31 December 2014 |
|--|---------------------|-------------------------|
| | RON | RON |
| Long-term interest-bearing bank loans, current portion | 16.775.625 | 16.807.875 |
| Short-term bank loans | 70.979.533 | 71.115.986 |
| Long-term interest-bearing borrowing, current portion - from related parties | 19.185.120 | 17.735.065 |
| Interest related to long-term bank loans | 781.710 | 914.869 |
| Interest related to short-term bank loans | 104.891 | 109.764 |
| Interest related to long-term borrowings - from related parties | 47.501 | 48.545 |
| Un-amortized short-term cost | (424.164) | (422.086) |
| Total | 107.450.216 | 106.310.018 |

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

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16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

| Bank | Type of loan | Currency | 30 June 2015 | | Interest rate | Amount repayable <i>RON equivalent</i> | Amount repayable <i>EUR</i> |
|--|---------------------------------------|----------|-----------------|--------------------------|-------------------|---|--------------------------------|
| | | | Amount received | Due date (mm/dd/yyyy) | | | |
| UNICREDIT TIRIAC BANK | Credit for funding general needs | EUR | 26.000.000 | 10/14/2016 | EURIBOR 1M+margin | 70.979.533 | 15.866.667 |
| Total short-term bank loans | | | | | | 70.979.533 | |
| BCR ERSTE | Loan on 5 years - current portion | EUR | 20.000.000 | 10/03/2016 | EURIBOR 3M+margin | 16.775.625 | 3.750.000 |
| Total short part of long-term bank loans | | | | | | 16.775.625 | |
| TMK EUROPE GmbH | Long-term borrowing - current portion | USD | 22.837.540 | 09/25/2019 | Libor+0.5% | 19.185.120 | 4.800.000 |
| | | RON | 38.425 | | | - | - |
| Total | | | | | | 106.940.278 | |

| Bank | Type of loan | 31 December 2014 | | Due date (mm/dd/yyyy) | Interest rate | Amount repayable RON / RON equivalent | Amount repayable EUR |
|--|---------------------------------------|------------------|--------------------|--------------------------|----------------------|--|----------------------------|
| | | Currency | Amount received | | | | |
| UNICREDIT TIRIAC BANK | Credit for funding general needs | EUR | 27.000.000 | 15/11/2014 | EURIBOR 1M+margin | 71.115.986 | 15.866.667 |
| Total short-term bank loans | | | | | | 71.115.986 | |
| BCR ERSTE | Loan on 5 years - current portion | EUR | 20.000.000 | 10/03/2016 | EURIBOR 3M+margin | 16.807.875 | 3.750.000 |
| Total short part of long-term bank loans | | | | | | 16.807.875 | |
| TMK EUROPE GmbH | Long-term borrowing - current portion | USD | 22.837.540 | 09/25/2019 | Libor+0.5% | 17.696.640 | 4.800.000 |
| | | RON | 38.425 | | | 38.425 | - |
| Total | | | | | | 105.658.926 | |

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16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

- Loans granted by BCR in total initial amount of EUR 40 mil. 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 Unicredit Tiriatic Bank, as follows:
 - Long-term loan in initial amount of EUR 15 mil. guaranteed with:
 - Pledge without dispossession on credit balance of current bank accounts opened at Unicredit Tiriatic 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.
 - Loan in initial amount of EUR 27 mil. and which according to the addendum from 23.06.2015 decreased to EUR 26 mil., from which at 30.06.2015 the amount used was EUR 15.866.667 guaranteed with:
 - Pledge without dispossession on credit balance of current bank accounts opened at Unicredit Tiriatic Bank by TMK-ARTROM S.A.
 - Company warranty issued by Pipe Plant Volzsky Russia, for guarantee of full and irrevocable repayment of any and all amounts which are owed by Borrower and/or Co-borrower to Bank based on the Contract.

The Company signed with BCR a limit of discounts for promissory notes in amount of RON 10.000.000 with ROBOR 3M+3% interest which can be changed in loan if customers do not settle the promissory notes which have reached the maturity.

At 30.06.2015 there were no promissory notes discounted and warranted in this limit. This facility is guaranteed with:

- Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK-Artrom S.A.;
- Pledge without dispossession on credit balance of current bank accounts opened at BCR by TMK Resita S.A.;

At 24.07.2014 TMK-ARTROM and TMK-RESITA have signed with Banca Comerciala Romana SA a Contract of Reverse Factoring without recourse - according to which BCR will accept for financing invoices issued by the suppliers of TMK-ARTROM and TMK-RESITA in overall limit approved of RON 45 million, in order to maintain an efficient supply network with the suppliers of the company. The guarantees granted by this contract are: security mortgage on the creditor balance of the current accounts opened at Banca Comerciala Romana by TMK-ARTROM S.A. and security mortgage on the creditor balance of the current accounts opened by TMK RESITA S.A. at Banca Comerciala Romana. At 30.06.2015 the Company did not use any of the limit for the suppliers of TMK-ARTROM S.A (same for 2014).

As at 30.06.2015, all financial ratios agreed through the loan contracts signed with banks were complied.

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16. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Other long-term liabilities

| | 30 June 2015 | 31 December 2014 |
|---|---------------------|-------------------------|
| | RON | RON |
| Long-term sundry creditors | 34.533 | 10.901 |
| Long-term guarantees | 4.808 | 1.698 |
| Balance of other long - term liabilities | 39.341 | 12.599 |

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 unfavorable movements in currency exchange EUR/RON and USD/RON.

The floating evolution of RON exchange rate with EURO and USD during half-year 2015, led management of the Company not to consider useful signing, on a regular basis, forward contracts on exchange rate in half-year 2015.

17. OTHER NON-CURRENT ASSETS

| | 30 June 2015 | 31 December 2014 |
|--|---------------------|-------------------------|
| | RON | RON |
| Prepayments for property, plant, and equipment | 781.040 | 11.371.656 |
| Total | 781.040 | 11.371.656 |

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

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18. INVENTORIES

Inventories consist of the following:

| | 30 June 2015 RON | 31 December 2014 RON |
|--|---------------------|-------------------------|
| Raw materials | 40.232.624 | 34.542.399 |
| Work in progress | 35.680.858 | 37.783.192 |
| Finished goods | 23.657.897 | 24.816.352 |
| Consumables | 14.644.515 | 11.488.759 |
| Merchandise at third parties (in transit) | 13.486.764 | 5.800.161 |
| Other materials | 6.517.153 | 7.216.738 |
| Semi-finished goods | 2.282.149 | 16.614 |
| Finished goods at third parties (in transit) | 1.444.121 | 8.131.489 |
| Raw materials and consumables at third parties | 337.927 | 280.342 |
| Merchandise and packaging | 75.055 | 107.556 |
| Materials to be purchased | 57.256 | - |
| Raw materials to be purchased | 44.882 | - |
| Total | 138.461.201 | 130.183.602 |

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

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

Ageing analysis of inventories:

| | Below 1 year RON | 1 - 2 years RON | 2 - 3 years RON | Over 3 years RON | Total RON |
|------------|---------------------|--------------------|--------------------|---------------------|--------------|
| 30.06.2015 | 107.801.026 | 20.891.640 | 4.894.913 | 4.873.621 | 138.461.201 |
| 31.12.2014 | 101.170.367 | 18.823.584 | 4.957.613 | 5.232.038 | 130.183.602 |

In first semester of year 2015 were set up allowances for inventories considering net realizable value – the movement of the adjustments is presented below:

| | 30 June 2015 RON | 31 December 2014 RON |
|---|---------------------|-------------------------|
| Balance January 1st | 4.743.742 | 5.134.718 |
| Additional allowances set | 633.104 | 3.108.775 |
| Allowances used | (2.125.693) | (3.499.751) |
| Balance at the end of reporting period | 3.251.153 | 4.743.742 |

19. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables consist of the following:

| | 30 June 2015 RON | 31 December 2014 RON |
|--|---------------------|-------------------------|
| Trade receivables, from which: | 245.153.660 | 187.749.093 |
| - Receivables from other related parties (note 25) | 52.950.076 | 49.837.236 |
| Other receivables - VAT | 14.847.289 | 16.274.085 |
| Sundry debtors, from which: | 1.376.458 | 866.957 |
| - Sundry debtors - related parties (note 25) | 40.229 | 11.041 |
| Employee claims | 642.565 | 480.191 |
| Recoverable income tax | 1.058.070 | - |
| Less: | | |
| Allowance for doubtful accounts receivable | (1.779.043) | (1.396.559) |
| Allowance for sundry debtors | (662.854) | (662.854) |
| Total | 260.636.145 | 203.310.913 |

Trade receivables are non-interest bearing and generally have an average collection period of 77 days (2014: 71 days).

The allowance for sundry debtors in amount of RON 662,854 was set up in year 2014 for the receivable representing the VAT of the advance not reimbursed by Metalkid 2008 SRL Iasi. The debit regarding the advance given was recovered from the insurance company but the related VAT could not be recovered.

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

| | RON |
|---------------------------------|------------------|
| At 1 January 2015 | 1.396.559 |
| Impairment adjustments expenses | 402.404 |
| Used | (19.920) |
| At 30 June 2015 | 1.779.043 |

Ageing analysis of trade receivables

| | Neither past due nor impaired | | Past due but not impaired | | | | | Past due and impaired | Total |
|-------------------|-------------------------------|------------|---------------------------|------------|-------------|------------|------------|-----------------------|-------|
| | | < 30 days | 30-60 days | 61-90 days | 91-120 days | > 120 days | > 120 days | | |
| | RON | RON | RON | RON | RON | RON | RON | RON | RON |
| 30.06.2015 | 169.240.600 | 46.330.606 | 18.674.191 | 4.847.118 | 223.675 | 4.058.428 | 1.779.043 | 245.153.660 | |
| 31.12.2014 | 168.475.607 | 15.208.179 | 1.352.650 | 171.948 | - | 1.144.150 | 1.396.559 | 187.749.093 | |

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

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

| Receivables | Currency | 30 June 2015 | | 31 December 2014 | |
|---------------------------|----------|--------------------|------------------|--------------------|------------------|
| | | RON | Foreign currency | RON | Foreign currency |
| Internal customers | LEI | 49.808.393 | | 38.040.653 | |
| | EUR | 40.866.546 | 9.135.251 | 11.776.835 | 2.627.526 |
| External customers | EUR | 106.919.131 | 23.900.555 | 89.808.968 | 20.249.132 |
| | USD | 43.430.229 | 10.865.978 | 44.145.862 | 11.974.032 |
| Doubtful customers | LEI | 1.496.808 | | 1.591.041 | |
| | EUR | 890.330 | 199.023 | 949.667 | 211.880 |
| Notes issued by customers | LEI | 1.742.222 | | 1.436.067 | |
| Total | | 245.153.660 | | 187.749.093 | |

As of 30 June 2015 the Company registered doubtful customers receivables in amount of RON 2.387.138 (1 January 2015: RON 2.540.708). For the amounts registered in this category were constituted value adjustments in amount of RON 1.779.043, because they are considered to have high risk on cashing.

From the amount of RON 169.240.600 trade receivables at 30.06.2015 neither past due nor impaired, the amount of RON 124.578.697 is considered without risk, and includes the following categories:

- RON 71.303.197, respectively 42% representing receivables insured by COFACE Germany;
- RON 40.866.546, respectively 24% receivables covered by export letters;
- RON 12.408.954, respectively 7% intercompany receivables.

The difference of RON 44.661.903, respectively 27% are considered to have a low risk in aggregate because those customers are in general located in different countries and industries independent markets.

20. PREPAYMENTS

Prepayments consist of the following:

| | 30 June 2015 RON | 31 December 2014 RON |
|---|---------------------|-------------------------|
| Prepayments for services, inventories, from which: | 99.226.993 | 132.509.304 |
| - Prepayments for services, inventories - related parties (note 25) | 99.196.127 | 131.866.156 |
| Prepaid expenses | 3.571.724 | 1.210.787 |
| Total | 102.798.717 | 133.720.091 |

The amount of RON 99.196.127 (without VAT) represents advances given to TMK Resita S.A. (31 December 2014: RON 131.866.156).

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21. CASH AND SHORT-TERM DEPOSITS

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

| | 30 June 2015 RON | 31 December 2014 RON |
|-----------------------------------|---------------------|-------------------------|
| Cash on hand | 11.641 | 33.978 |
| Cash at banks in Ron | 493.288 | 2.044.499 |
| Cash at banks in foreign currency | 18.922.040 | 25.751.132 |
| Other cash equivalents | 179.504 | 363.577 |
| Short-term deposits | 4.766 | 1.280.751 |
| Total | 19.611.239 | 29.473.937 |

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

TMK-Artrom constituted interest-bearing overnight deposits at Banca Comerciala Romana, depending on the availability of cash in bank account at the end of the day.

| Short-term deposits | 30 June 2015 | 31 December 2014 |
|---------------------|--------------|------------------|
| in RON | 4.766 | 1.280.751 |

There is no restricted cash.

22. SHARE CAPITAL, RESERVES AND RETAINED EARNINGS

Share capital

| Subscribed and paid share capital | Number of shares | Nominal Value RON / share | Subscribed share capital RON | Total RON |
|-----------------------------------|------------------|------------------------------|---------------------------------|---------------|
| Balance 1 January 2015 | (116.170.334) | 2,51 | (291.587.538) | (291.587.538) |
| Balance 30 June 2015 | (116.170.334) | 2,51 | (291.587.538) | (291.587.538) |

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

Legal and other reserves

| | Legal reserve | Other reserves | Total |
|---------------------------|---------------|----------------|------------|
| | RON | RON | RON |
| Balance at 1 January 2015 | 14.962.653 | 2.196.446 | 17.159.099 |
| Balance at 30 June 2015 | 14.962.653 | 2.196.446 | 17.159.099 |

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

Retained earnings

The structure of retained earnings at 30th June 2015

| Account name | Balance at 30 June 2015 | Nature |
|--|-------------------------|---|
| Retained earnings representing undistributed profit | 26.976.380 | Can be distributed or used to cover losses |
| Retained earnings from adopting IAS for the first time (OMFP 94/2001) | 14.455 | Can be distributed or used to cover losses, it is taxable at use of reserve |
| Retained earnings representing the surplus realized from revaluation reserves | 11.225.078 | Can be distributed or used to cover losses, it is taxable at use of reserve |
| Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost | 120.193.190 | It has to be realized (through sale and/ or depreciation) before distributing dividends |
| Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost | 17.636.891 | Can be distributed or used to cover losses |
| Period Result | 3.237.959 | |
| Total retained earnings | 179.283.953 | |

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

The structure of retained earnings at 31st December 2014

| Account name | Balance at 31 December 2014 | Nature |
|--|--------------------------------|---|
| Retained earnings concerning uncovered losses | (11.470.643) | It should be nil before distributing dividends |
| Retained earnings from adopting IAS for the first time (OMFP 94/2001) | 14.455 | Can be distributed or used to cover losses, it is taxable at use of reserve |
| Retained earnings from the changes of accounting policies | 1.554.175 | Can be distributed or used to cover losses |
| Retained earnings representing the surplus realized from revaluation reserves | 11.225.078 | Can be distributed or used to cover losses, it is taxable at use of reserve |
| Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost | 120.193.190 | It has to be realized (through sale and/ or depreciation) before distributing dividends |
| Retained earnings from using, at the date of transition to IFRS, of fair value as deemed cost, surplus made from fair value as deemed cost | 23.795.810 | Can be distributed or used to cover losses |
| Retained earnings from adopting for the first time of IAS 29 | (6.158.919) | It should be nil before distributing dividends |
| Distribution from profit of the year to legal reserve | (3.724.706) | |
| Period Result | 40.617.555 | |
| Total retained earnings | 176.045.995 | |

23. PENSIONS PLANS AND OTHER POST-EMPLOYMENT BENEFITS

Retirement compensations are given according to the collective labor contract signed at the level of the Company as presented below.

- **Retirement benefits:** all employees receive two gross monthly salaries in force at retirement date;
- **Benefits for death of an employee for any cause:** in case of death of an employee, the families of the employees receive two average monthly salaries per Company. The average monthly salary is computed for all employees and is adjusted with inflation each year.

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

| | 30 June 2015 RON | 31 December 2014 RON |
|---|---------------------|-------------------------|
| Net liability at the beginning of the year | 2.661.347 | 2.851.708 |
| Expense recognized in statement of income | 141.624 | 245.068 |
| Benefits paid | (42.298) | (106.612) |
| Components of defined benefit costs recorded in OCI | - | (328.817) |
| Net liability at the end of the year | 2.760.673 | 2.661.347 |
| Short-term liabilities | 284.247 | 284.247 |
| Long-term liabilities | 2.476.426 | 2.377.100 |

As at 30.06.2015 the Company estimated the obligation regarding actuarial provision for employee benefits, accounting the following:

- Expenses accounted in profit or loss in amount of RON 141.624;
- Benefits paid in amount of RON 42.298.

Total net liability at 30.06.2015 is of RON 2.760.673.

The key assumptions used in the actual computation from the beginning of current period for the pension and post-employment benefit obligations of the Company are:

Mortality: mortality rates was based on separate mortality tables for male and female published by the Romanian National Institute of Statistics in 2010.

Staff turnover: the turnover rate used in the actuarial projections was of 1,88% .

Discount rate: the discount rate of future cash flows used in actuarial evaluation is the risk free rate represented by the average interest rate at 31 December 2014 of government bonds issued in Romanian lei.

Salaries and long-term inflation: For the computation of the death benefit, we have used the average monthly salary of RON 2,241 / employee for the employees.

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

Taxes: IAS 19 revised requires social charges and other related taxes to be included in the measurement of employee benefit. Both benefits included in the evaluation generate costs with social contributions. The rate of 22.35% was used for social contributions for assessing the employee benefits, meaning that the obligation value and the corresponding periodical components were increased by this rate. This rate is the current rate of contributions applied by the Company.

Other assumptions: retirement age for women born after 1967 is expected to be 63, while for men born after 1950 is expected to be 65, representing retirement ages expected in future.

Disclosures according to IFRS on the basis that all changes in the employee benefits are treated as Actuarial gains/losses – Experience:

| | PV of retirement benefits RON | PV of employee death benefits RON | Total 30 June 2015 RON | Total 31 December 2014 RON |
|--|-------------------------------------|---|------------------------------|----------------------------------|
| Opening defined benefit obligation as at 1 January | 2.195.266 | 466.081 | 2.661.347 | 2.851.708 |
| Current service cost | 73.997 | 18.337 | 92.334 | 170.602 |
| Interest cost | 41.963 | 7.328 | 49.290 | 74.466 |
| Remeasurement (gains)/losses: | - | - | - | (328.817) |
| - Remeasurement (gains)/losses - Experience | - | - | - | 178.342 |
| - Remeasurement (gains)/losses arising from changes in financial assumptions | - | - | - | (192.008) |
| - Remeasurement (gains)/losses arising from changes in demographic assumptions | - | - | - | (315.151) |
| Benefits paid (including releases in reserve due to involuntary termination) | (37.698) | (4.600) | (42.298) | (106.612) |
| Closing defined benefit obligation | 2.273.527 | 487.146 | 2.760.673 | 2.661.347 |

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

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

| | PV of retirement benefits RON | PV of employee death benefits RON | Total 30 June 2015 RON | Total 31 December 2014 RON |
|---|-------------------------------------|---|------------------------------|----------------------------------|
| Current service cost | 73.997 | 18.337 | 92.334 | 170.602 |
| Net interest expense | 41.963 | 7.328 | 49.290 | 74.466 |
| Components of defined benefit costs recorded in profit or loss | 115.959 | 25.665 | 141.624 | 245.068 |

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

| | PV of retirement benefits RON | PV of employee death benefits RON | Total 30 June 2015 RON | Total 31 December 2014 RON |
|--|-------------------------------------|---|------------------------------|----------------------------------|
| Opening net liability arising from defined benefit obligation | 2.195.266 | 466.081 | 2.661.347 | 2.851.708 |
| Components of defined benefit costs recorded in profit or loss | 115.959 | 25.665 | 141.624 | 245.068 |
| Components of defined benefit costs recorded in OCI | - | - | - | (328.817) |
| Benefits paid | (37.698) | (4.600) | (42.298) | (106.612) |
| Closing balance of the discounted value of liabilities | 2.273.527 | 487.146 | 2.760.673 | 2.661.347 |

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24. TRADE AND OTHER PAYABLES (CURRENT)

Trade and other payables consists of the following:

| | 30 June 2015 RON | 31 December 2014 RON |
|--|---------------------|-------------------------|
| Current trade payables, from which: | 124.195.779 | 64.284.378 |
| - Intercompany trade payables (note 25) | 88.383.199 | 27.232.381 |
| Accrued and withheld taxes on payroll | 5.820.268 | 5.686.838 |
| Payables for non-current assets | 4.343.638 | 3.231.026 |
| Bills of exchange payable | 4.335.489 | 5.144.798 |
| Salaries and Wages | 1.171.477 | 1.587.205 |
| Advances from customers, from which: | 684.776 | 1.940.497 |
| - Intercompany advances from customers (note 25) | 44.225 | - |
| Liabilities for other taxes | 108.141 | 110.010 |
| Short-term guarantees | 96.539 | 76.878 |
| Accrued and other liabilities | 47.231 | 176.209 |
| Total | 140.803.338 | 82.237.839 |

Concerning the Company's debts to the fiscal authorities, as of 30 June 2015, there is a balance to be paid RON 5.928.409 (1 January 2015: RON 5.796.848), which represents the current debts of taxes and social debts of salaries, income tax of legal and individual non-resident persons which were required for compensation with input VAT from fiscal authorities.

Trade payables are non-interest bearing and are, normally, settled on an average of 40 day terms.

25. TRANSACTIONS WITH RELATED PARTIES

TMK EUROPE GmbH Germania, company which is part of OAO TMK, is the major shareholder of TMK - Artrom SA and of TMK - Resita SA.

The Company is 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 production in United States, Rusia, Romania and Kazakhstan and 2 R&D centres (Research and Development) in Rusia and United States. The biggest part of TMK sales refers to steel pipes for oil and natural gas industry and pipes for industrial purposes with high margin, in 85 countries.

TMK delivers its products, together with a large package of services (especially on heat treatment, tubes coated with corrosion protection systems for large depths, premium threaded connections, and other). OAO TMK is a public company registered in Russian Federation. TMK shares are listed on the main 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.

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25. TRANSACTIONS WITH RELATED PARTIES (continued)

The Company has relations with the following related parties from TMK group:

| Society | Country home | Relationship |
|--|----------------------|-------------------------------|
| - OAO TMK Rusia | Rusia | final parent |
| - TMK Europe GmbH Koln, Germania | Germany | parent (major shareholder) |
| - TMK IPSCO INTERNATIONAL, L.L.C., USA | USA | Related, under common control |
| - TMK IPSCO CANADA L.T.D., Canada | Canada | Related, under common control |
| - TMK Middle East, Dubai, United Arab Emirates | United Arab Emirates | Related, under common control |
| - TMK-RESITA S.A. Resita | Romania | Related, under common control |
| - TMK GLOBAL AG Zurich | Switzerland | Related, under common control |
| - TMK Italia s.r.l. Lecco, Italia | Italy | Related, under common control |
| - Sinarsky pipe plant RUSIA | Rusia | Related, under common control |
| - OJSC Volzsky Pipe Plant RUSIA | Rusia | Related, under common control |
| - RosNITI JSC RUSIA | Rusia | Related, under common control |
| - TMK-Inox RUSIA | Rusia | Related, under common control |
| - Trade House TMK | Rusia | Related, under common control |
| - TMK Real Estate SRL | Romania | Related, under common control |
| - TMK Assets SRL | Romania | Related, under common control |
| - TMK Land SRL | Romania | Related, under common control |
| - TMK Gulf International Pipe Industry L.L.C. | Sultanate of Oman | Related, under common control |
| - SCEA Domaine de Bebian | France | Related, under common control |

The balances of transactions with related parties

| Trade Receivables | 30 June 2015 | 31 December 2014 |
|-----------------------------|---------------------|-------------------------|
| | RON | RON |
| TMK IPSCO International USA | 37.309.524 | 40.963.224 |
| TMK - RESITA S.A. | 9.234.583 | 5.686.786 |
| TMK Middle East Dubai | 6.120.706 | 3.182.638 |
| Sinarsky pipe plant Russia | 257.378 | - |
| TMK Italia s.r.l. Italy | 22.367 | - |
| TMK Real Estate Bucharest | 3.534 | 2.480 |
| TMK Assets Bucharest | 1.488 | 1.116 |
| TMK Land Bucharest | 496 | 992 |
| Total | 52.950.076 | 49.837.236 |

| Other Assets | 30 June 2015 | 31 December 2014 |
|--|---------------------|-------------------------|
| | RON | RON |
| TMK - RESITA S.A. (advances for purchase of goods) | 99.196.127 | 131.866.156 |
| TMK Real Estate Bucharest (long-term receivables - guarantees) | 76.923 | 83.795 |
| TMK Real Estate Bucharest (sundry debtors) | 27.434 | 1.128 |
| TMK - RESITA S.A. (sundry debtors) | 10.782 | 7.068 |
| Trade House TMK Russia (sundry debtors) | 2.013 | 2.017 |
| TMK Gulf International Pipe Industry Oman (sundry debtors) | - | 828 |
| Total | 99.313.279 | 131.960.992 |

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25. TRANSACTIONS WITH RELATED PARTIES (continued)

| Trade Payables | 30 June 2015 | 31 December 2014 |
|-------------------------------|---------------------|-------------------------|
| | RON | RON |
| Trade House TMK Russia | 46.247.272 | 19.856.276 |
| OAQ TMK Russia | 34.196.412 | 55.302 |
| TMK Europe GmbH Germany | 7.059.445 | 6.376.089 |
| TMK Italia s.r.l. Italy | 761.899 | 657.093 |
| TMK IPSCO International USA | 83.366 | 75.862 |
| RosNITI JSC Russia | 27.978 | - |
| TMK Real Estate Bucharest | 6.491 | 11.792 |
| TMK-Inox Russia | 336 | 127.953 |
| SCEA Domaine de Bebian France | - | 72.014 |
| Total | 88.383.199 | 27.232.381 |

| Other liabilities | 30 June 2015 | 31 December 2014 |
|---|---------------------|-------------------------|
| | RON | RON |
| TMK Europe GmbH (loan) | 81.686.804 | 84.235.868 |
| TMK Europe GmbH Germany (interest owed at reporting date) | 47.501 | 48.545 |
| Total | 81.734.305 | 84.284.413 |

Transactions with related parties

| Sales (Turnover) | 30 June 2015 | 30 June 2014 |
|--|---------------------|---------------------|
| | RON | RON |
| TMK IPSCO International USA (pipes) | 48.274.414 | 91.090.950 |
| TMK-RESITA S.A. (pipes, re-invoiced materials from TMK Europe and domestic market, perceives commission, customs commission for Schenker, management services, extra charges for quality claims) | 17.494.462 | 19.016.925 |
| TMK Middle East Dubai (pipes) | 2.504.553 | 2.809.627 |
| Sinarsky pipe plant Russia (pipes) | 255.652 | - |
| TMK GLOBAL Switzerland (pipes) | 239.474 | - |
| TMK-Inox Rusia (mandrel parts) | 74.950 | - |
| TMK Italia s.r.l. Italy (audit services) | 24.643 | 2.241 |
| TMK Europe GmbH Germany (pipes, audit services) | (9.367) | 10.327.143 |
| TMK Real Estate Bucharest (management services, sale of property, plant and equipment and other materials) | 5.380 | 3.000 |
| TMK Assets Bucharest (management services) | 1.800 | 1.800 |
| TMK Land Bucharest (management services) | 1.200 | 1.200 |
| TMK IPSCO Canada (pipes) | - | 76.473 |
| Total | 68.867.161 | 123.329.359 |

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25. TRANSACTIONS WITH RELATED PARTIES (continued)

| Purchases | 30 June 2015 | 30 June 2014 |
|--|---------------------|---------------------|
| | RON | RON |
| TMK RESITA S.A. (billets - raw materials, spare parts, repair services) | 253.408.515 | 268.686.704 |
| Trade House TMK Russia (billets and pipes for resale) | 61.080.889 | 71.795.297 |
| OAo TMK Russia (advisory services, billets for resale) | 34.229.820 | 97.569 |
| TMK Europe GmbH Germany (materials re-invoiced to TMK Resita, pipes and billets selling commission, materials for own consumption, extra charges for quality claims) | 17.756.679 | 27.680.349 |
| TMK Italia s.r.l. Italy (extra charges for quality claims, pipes and billets selling commission) | 4.877.658 | 4.921.381 |
| TMK Real Estate Bucharest (rent and apartment maintenance) | 528.393 | 533.511 |
| TMK INOX Russia (steel pipes for resale) | 239.717 | - |
| TMK Ipsco International USA (extra charges for quality claims) | 81.908 | 31.015 |
| RosNITI JSC Russia (research and development services) | 27.763 | 105.748 |
| OJSC Volzsky Pipe Plant Russia (quarantee fees) | - | 45.879 |
| Total | 372.231.343 | 373.897.453 |

Loans within the Group

TMK Europe GmbH Germany (former TMK Sinara Handel GmbH), the parent company, it is creditor with the amount of RON 81.686.804 representing USD 20.437.500 (1 January 2015: RON 84.235.867 representing USD 22.837.540 and RON 38.425).

The amounts are related to the loan given by parent company at 01.12.2008, as a result of AGEA from 17 November 2008, when were approved the changes of the nature and the delay from payment of the receivable owed by Company to TMK Europe GmbH in amount of USD 22.837.540 and RON 38.425 in the following conditions:

- the loan will be paid in 57 instalments starting from 25 January 2014 to 25 September 2018 inclusively the debit in value of RON 38,425 of Company towards TMK Europe GmbH payable on 25 January 2014 will be settled in USD at the official exchange rate RON/USD of National Bank of Romania from the last working day of year 2013. The receivable has an interest of LIBOR + 0.5% p.a. starting from 1 January 2009. The interest is calculated and it is paid on the 15th of each month for the previous month;
- on 21.11.2013, Addendum no.1 to the contract from 01.12.2008 was concluded by which it was established that the reimbursement of the loan will be made in 57 instalments starting from 25.01.2015 to 25.09.2019. The value of RON 38,425 of the Company owed to TMK Europe GmbH payable on 25 January 2015 will be settled in USD at the official exchange rate RON/USD of the National Bank of Romania from the last business day of 2014.

At 30.06.2015 short-term value of the loan was RON 19.185.120 and long-term value was RON 62.501.684.

The interest owed by TMK-ARTROM S.A. at 30 June 2015 is of USD 11.884 (30 June 2014: USD 12.412) and respectively RON 39.900 (30 June 2014: RON 39.900).

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25. TRANSACTIONS WITH RELATED PARTIES (continued)

For the loan presented above the Company has guarantees in favor of TMK Europe GmbH Germany (former TMK SINARA HANDEL GmbH), as follows:

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

The value of pledged asstes is in amount of 204.287 thousand RON as at 30 June 2015.

Cash compensations granted to key-employees registered in first semester of year 2015 are in amount of RON 8.161.242 (30 June 2014: RON 7.613.334).

26. PROVISIONS

| Other short-term provisions | 30 June 2015 RON | 31 December 2014 RON |
|--|---------------------|-------------------------|
| Provisions for quality complaints material cost ST | 1.048.804 | 1.525.398 |
| Provisions for quality complaints additional cost ST | 61.503 | 157.708 |
| Provisions for managers bonuses ST | - | 2.792.904 |
| Total | 1.110.307 | 4.476.010 |

| Other long-term provisions | 30 June 2015 RON | 31 December 2014 RON |
|---|---------------------|-------------------------|
| Provisions for quality complaints material cost LT | 197.691 | 197.691 |
| Provisions for quality complaints additional cost LT | 12.431 | 12.431 |
| Provisions for dicommissioning property, plant and equipment LT | 219.350 | 219.350 |
| Total | 429.472 | 429.472 |

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26. PROVISIONS (continue)

The movement in short-term provisions are as follows:

| Short-term provisions | Provisions for quality complaints material cost | Provisions for quality complaints additional cost | Provisions for manager bonuses | Total |
|---|---|---|--------------------------------|------------------|
| At 1st January 2014 | 1.226.748 | 305.870 | 2.764.562 | 4.297.180 |
| Expense with provisions recognized in statement of income | 2.056.976 | 407.126 | 2.792.904 | 5.257.006 |
| Used | (1.758.326) | (555.288) | (2.764.562) | (5.078.176) |
| At 31 December 2014 | 1.525.398 | 157.708 | 2.792.904 | 4.476.010 |
| Expense with provisions recognized in statement of income | 434.205 | 34.740 | - | 468.945 |
| Used | (910.799) | (130.945) | (2.792.904) | (3.834.648) |
| At 30th June 2015 | 1.048.804 | 61.503 | - | 1.110.307 |

As at 30 June 2015 no movement in the long-term provisions was registered.

27. MANAGEMENT OF FINANCIAL RISK – OBJECTIVES AND POLICIES

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

During its current activity, the Company is exposed to a number of financial risks: market risk (which includes interest rate risk, foreign currency risk and other price risk), liquidity risk and credit risk. The disclosure shows the Company's sensitivity towards all of each risks. The Management Committee establishes and revises the policies in order to supervise each category of risks presented below.

Market risk

The Company is exposed to risks from movements in interest rate, foreign currency exchange rates and market prices that affect its assets, liabilities and anticipated future transactions.

Interest rate risk

Interest rate risk is the risk that the fair value of cash flows of financial instruments will fluctuate because of changes in the market of interest rates. The policy of minimizing this risk is supervised by Financial Management and it is coordinated also by Financial Department of OAO TMK Group.

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

TMK-ARTROM borrows mainly on variable interest rates. In first semester of year 2015, all loans had variable interest 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 26,6 % of portfolio at 30.06.2015 and 22,5% at 31 December 2014. At 30 June 2015 and at 31 December 2014 the Company did not had in balance loans with ROBOR calculation basis. The market evolution in the last 3 years of EURIBOR and LIBOR made the Company not to consider necessary to use hedge instruments, but the Company monitors interest rates level and it is disposed to use hedging instruments if it considers that it is necessary.

On 30 June 2015, the Company did not have financial assets with variable interest rate.

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

| | Variation in margin | Effect on profit before tax (thousands RON) | Effect on equity (thousands RON) |
|-------------------------|------------------------|---|-------------------------------------|
| 30 June 2015 | | | |
| increase in EURIBOR | 10 | (3,4) | (2,9) |
| decrease in EURIBOR | (10) | 3,4 | 2,9 |
| increase in LIBOR | 10 | (7,9) | (6,6) |
| decrease in LIBOR | (10) | 7,9 | 6,6 |
| 31 December 2014 | | | |
| increase in EURIBOR | 10 | (38,6) | (32,4) |
| decrease in EURIBOR | (10) | 38,6 | 32,4 |
| increase in LIBOR | 10 | (12,1) | (10,2) |
| decrease in LIBOR | (10) | 12,1 | 10,2 |

Foreign currency risk

The Company's exposure to foreign currency risk relates to sales, purchases and borrowings denominated in a currency other than the functional currency of the Company. The currencies in which these transactions and balances are denominated are EUR and USD.

The Company at half-year 2015 did not signed EUR/RON and USD/RON forward contracts in order to cover the exposure to foreign currency risk, because the management considers that the evolution of exchange rate can not bring variations that will produce significant losses to the Company.

The exposure to the risk of exchange rate is detailed in Note 27 the paragraph "Financial instruments, cash and deposits" below.

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

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

| | Percentage volatility | Effect on profit before tax (thousands RON) | Effect on equity (thousands RON) |
|-------------------------|--------------------------|---|-------------------------------------|
| 30 June 2015 | | | |
| EUR/RON | 10% | (15.954) | (13.402) |
| EUR/RON | -10% | 15.954 | 13.402 |
| USD/RON | 10% | (3.906) | (3.281) |
| USD/RON | -10% | 3.906 | 3.281 |
| 31 December 2014 | | | |
| EUR/RON | 10% | (18,723) | (15,727) |
| EUR/RON | (10 %) | 18,723 | 15,727 |
| USD/RON | 10% | (1,808) | (1,519) |
| USD/RON | -10% | 1,808 | 1,519 |

Liquidity risk

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

The Company tries to target an optimal ration between equity and total debt and to maintain an appropriate level of liquidity and financial capacity as to minimize interest expenses and to have an optimal profile of composition and duration of liabilities. As at 30.06.2015 about 27% from the total of loans and borrowings are due in the following 12 months, because the indebtedness rate is monitored in the way it do not exceed the limit established by the management. We also mention that the access to the financing sources it is available, and the bank loans due in 12 months can be extended with the existing creditors according to the contracts in force.

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

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

| Liquidity risk | Less than 3 months | 3 to 12 months | 1 to 5 years | >5 years | Total |
|--|--------------------|--------------------|--------------------|-------------------|--------------------|
| 30.06.2015 | | | | | |
| Interest bearing loans (including future interest) | 9.865.227 | 102.207.809 | 199.007.523 | 4.953.915 | 316.034.474 |
| Leasing | 84.723 | 181.702 | 193.897 | - | 460.322 |
| Other non-current liabilities | - | - | 39.341 | - | 39.341 |
| Trade and other payables | 99.517.759 | 40.600.803 | - | - | 140.118.562 |
| Total | 109.467.709 | 142.990.314 | 199.240.761 | 4.953.915 | 456.652.699 |
| 31.12.2014 | | | | | |
| Interest bearing loans (including future interest) | 9.536.245 | 102.598.509 | 223.955.209 | 13.452.911 | 349.542.874 |
| Leasing | 73.461 | 150.976 | 76.525 | - | 300.962 |
| Other non-current liabilities | - | - | 12.599 | - | 12.599 |
| Trade and other payables | 73.281.679 | 7.014.931 | 732 | - | 80.297.342 |
| Other current liabilities | 1.386.460 | - | - | - | 1.386.460 |
| Total | 84.277.845 | 109.764.416 | 224.045.065 | 13.452.911 | 431.540.237 |

Financial indicators of the loan contracts were respected as at 30 June 2015 and up to the date of the approval of the financial statements.

Credit risk

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

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

In December 2013, the collaboration with Marsh Broker Asigurare-Reasigurare from Romania has begun, which are performing the following:

1. Auditing the risk and preparing a report underlining the major risks faced by the company and the measures for reducing these risks;
2. Identifying the risks transferable to reinsurance;
3. Requesting solutions from the insurance market, negotiating offers, presenting the comparative report with valid options for TMK ARTROM;
4. Managing the insurance program (notifications, expiry, renewals).
5. Assistance in case of damage and assistance in the recovering of damage and a consultant for each event.
6. Providing continued reports and informs regarding the changes of insurance market from Romania and not only.

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

Net cash

Net cash from operating activities decreased in first semester of year 2015 towards the same period of previous year due to the decrease of the profit before tax the increase of inventory with higher values compared with the increase of liabilities.

Net cash from investing activities decreased in half-year 2015 towards half-year 2014 due to the higher volume of payments made for purchases of property, plant and equipment mainly for the purchase of equipment for a new production workshop "Workshop no.5 ACH - Pipes for Hydraulic Cylinders".

Net cash from financing activities in half-year 2015 remained at the same level towards half-year 2014 due to the reimbursements made for long-term loans compared with the previous period, EUR 3.750.000 at BCR according to the payments schedule, reimbursement of USD 2.400.000 from the borrowing from TMK Europe and the decrease of the level of BCR Overdraft.

Trade receivables

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

Within the Entity, the adjustments for impairment related to clients 90 day outstanding is computed according to five risk categories:

| | |
|---|-------|
| A = Companies with temporary problems | 0%; |
| B = Steady companies | 15%; |
| C = Unsteady companies | 30%; |
| D = Companies in a pre-bankruptcy stage | 50%; |
| E = Bankrupt companies | 100%. |

For 100% risks, a provision for all recorded client invoices not received is set, not only for those 90 day outstanding.

The classification into the five categories will be made as follows:

A = Companies with temporary problems 0%;

We have the debtors' assurance that the payment will be made at once. The payment was not made for technical reasons (the invoice was issued late, or it was incorrectly prepared, but the client always pays on time. The document included errors.)

B = Steady companies 15%

The debtor' financial situation shows that they have enough resources to make the payment, they guarantee the payment will be made and mention the payment term and have liquid assets.

They have not been sued because intensive work is conducted with them and the payment schedule was prepared.

A 15% risk is assigned when the payment schedule is prepared and several amounts have been paid. The department in charge with the receivables has enough information (Balance Sheet, Income Statement) and the Financial Department can perform a financial analysis on these clients.

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

C = Unsteady companies 30%

Following analysis of the financial situation and the feedback to the request to pay the debt, the management has decided to initiate legal proceedings. The attorneys are confident they will win. All clients sued are classified in the C category. If the financial analysis shows they have the sources to make the payment and choose not to make it, they will be classified as:

D = Companies in a pre-bankruptcy stage 50%

All actions to receive the debts have been taken by the Financial and Legal Departments. Debt collection has been transferred to the Security Service and the probability to receive the debts is possible and/or likely. When the client is in this situation, it is virtually impossible to receive the debt (the company Security Service is in charge).

E = Bankrupt companies 100%

In this case, a provision for the entire receivable of the client, regardless of the maturity, is set. The analysis prepared by the Legal Department for each individual case and the commercial analysis of internal and external clients will be attached.

The case is submitted to the Company's Management and the Board of Directors for approval.

Starting 1 July 2011 a Commercial Credit Committee was elected and its regulation started to take effect for a better coordination of financial discipline and for Company's receivables security.

The provisions of this regulation are applied on sales done directly to third parties, on both internal and external parties, on sales for client with TMK Italy and agent TMK EUROPE as well as directly on adjacent markets from East Europe.

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

The Company sells its products to external and internal partners and it offers them credit limits from 30 to 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.

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

In order to limit the credit risk, the Company signed with COFACE S.A. on 1 October 2012 a contract to secure the non-payment risk for almost the entire portfolio of sales to third parties. In 2013, the Company decided to maintain the contract of securing the non-payment risk with Coface, but this time with the subsidiary from Germany which offered an insurance premium significantly lower under the same conditions as those from the previous year. In December 2014 the Company decided to extend the insurance contract signed with COFACE Germany with one more year. At 30.06.2015 credit limits granted by Coface S.A covered 74% of requested limits for external clients and on internal market 59% of requested limits. As at 30.06.2015 50% from the receivables which are insured were covered by Coface. For 21% from the total third parties receivables were opened irrevocable letters of credit. Customers which are not covered by Coface S.A in percentage of 100% and do not have opened letters of credit are carefully monitored in order to limit the possible losses from non-collection.

The only one customer which had a percentage higher than 10% from the turnover of half-year 2015 was DONALAM SRL with RON 52.043.664 (10,3%) representing sales of billets purchased from TRADE HOUSE TMK. The sales to this customer were covered by letters of credit.

Financial instruments, cash and deposits

Credit risk which derives from cash and deposits from banks (Banca Comerciala Romana) is coordinated by the Financial Management. A part from the cash and deposit from banks are pledged in favor of banks for securing loans.

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

30 June 2015

| Financial position | RON | EUR | USD | GBP | JPY | TOTAL |
|--|-------------------|--------------------|-------------------|--------------|-----------|--------------------|
| Cash and cash equivalents | 689.199 | 18.689.309 | 228.703 | 3.952 | 76 | 19.611.239 |
| Other non-current receivables | - | 76.923 | - | - | - | 76.923 |
| Trade receivables | 51.932.816 | 148.011.572 | 43.430.229 | - | - | 243.374.617 |
| Other receivables | 17.191.439 | 68.786 | 1.303 | - | - | 17.261.528 |
| Total assets | 69.813.454 | 166.846.590 | 43.660.235 | 3.952 | 76 | 280.324.307 |
| Interest-bearing loans and borrowings (including future interests) | - | 233.089.085 | 82.945.389 | - | - | 316.034.474 |
| Leasing | - | 460.322 | - | - | - | 460.322 |
| Trade payables | 38.794.658 | 100.341.980 | 981.924 | - | - | 140.118.562 |
| Other long - term liabilities | 2.765.481 | 34.533 | - | - | - | 2.800.014 |
| Total liabilities | 41.560.139 | 333.925.920 | 83.927.313 | - | - | 459.413.372 |

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

31 December 2014

| Financial position | RON | EUR | USD | GBP | JPY | TOTAL |
|--|-------------------|--------------------|-------------------|-----------|-----------|--------------------|
| Cash and cash equivalents | 3.432.256 | 3.062.153 | 22.979.398 | 99 | 31 | 29.473.937 |
| Other non-current receivables | - | 288.350 | - | - | - | 288.350 |
| Trade receivables | 39.939.019 | 102.267.653 | 44.145.862 | - | - | 186.352.534 |
| Other receivables | 16.907.574 | 24.901 | 25.904 | - | - | 16.958.379 |
| Total assets | 60.278.849 | 105.643.057 | 67.151.164 | 99 | 31 | 233.073.200 |
| Interest-bearing loans and borrowings (including future interests) | 38.425 | 263.899.787 | 85.604.662 | - | - | 349.542.874 |
| Leasing | - | 300.962 | - | - | - | 300.962 |
| Trade and other payables | 39.471.306 | 39.837.810 | 988.226 | - | - | 80.297.342 |
| Other long - term liabilities | 2.663.045 | 10.901 | - | - | - | 2.673.946 |
| Other current liabilities | 1.386.460 | - | - | - | - | 1.386.460 |
| Total liabilities | 43.559.236 | 304.049.460 | 86.592.888 | - | - | 434.201.584 |

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

The administration of the company is controlled by the shareholders and the financial statements are audited by the financial auditor, according to legal regulations valid in Romania.

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28.COMMITMENTS AND CONTINGENT LIABILITIES

Total commitments for the acquisition of property, plant and equipment as at 30 June 2015 are of RON 5.549.880 (31 December 2014: RON 19.481.252).

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Future rent expenses (related to operating leasing):

| | 30 June 2015 | 31 December 2014 |
|---------------------------|---------------------|-------------------------|
| | RON | RON |
| Less than one year | 620.290 | 1.338.692 |
| Between one and two years | 153.075 | 831.246 |
| | 773.365 | 2.169.938 |

The fiscal audit of TMK-Artrom for the income tax, VAT and transfer pricing for the period 2005-2009 started in prior years will be resumed beginning with 20 July 2015. After the end of the fiscal audit, TMK-Artrom may appear liable for additional taxes and penalties.

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

29. EVENTS AFTER THE REPORTING PERIOD

Starting with 9 July 2015 the name of the final parent OAO TMK will be changed to PAO TMK.

Chief Executive Officer,
Ing. Popescu Adrian

Chief Economical and Accountancy Officer,
Ec. Vaduva Cristiana