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Ernst & Young Assurance Services SRL  
Bucharest Tower Center Building, 21<sup>st</sup> Floor  
15-17 Ion Mihalache Blvd., Sector 1  
011171 Bucharest, Romania

Tel: +40 21 402 4000  
Fax: +40 21 310 7219  
office@ro.ey.com  
ey.com

## **Report on Review of Interim Financial Information**

To the shareholders of TMK-ARTROM S.A.

### **Introduction**

1 We have reviewed the accompanying interim financial statements of TMK-ARTROM S.A. ("the Company"), which comprise the statement of financial position as at 30 June 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, presenting the following:

- ▶ Net assets/Total equity and reserves: 488,652 thousand lei
- ▶ Profit for the year: 2,465 thousand lei

2 Management is responsible for the preparation and presentation of these financial statements in accordance with the Order of the Minister of Public Finance no. 1286/2012 approving the accounting regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent modifications and clarifications. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of Review**

3 We conducted our review in accordance with the Standards on Auditing adopted by the Romanian Chamber of Auditors, and more specifically the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Basis for Qualified Conclusion**

#### **Disagreement on accounting estimates**

4 As presented in Note 2.2 m) to the financial statements, the Company's accounting policy in relation to valuation of inventories provides that inventories are recorded at the lower of cost and net realizable value, where net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution.

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The Company recorded as at 30 June 2016 a value adjustment of RON 1.105.963 for its work in progress balances. A comparison between the cost of the inventories (i.e. work in progress) and the sales prices for the period July - September 2016 showed that an additional value adjustment of RON 5,613,247 is required to bring the work in progress inventory balance at their net realizable value. According to Company's management the additional value adjustment is not required as the sale of these inventories (work in progress) will not be performed in the very next period, but gradually over a longer timeframe when is estimated an increase of the sales prices at a sufficient high level to ensure the inventories realization without additional losses.

As this additional value adjustment was not recorded by the Company as of 30 June 2016, the inventories are overstated with RON 5,613,247 and the period result is overstated with the same amount.

#### **Qualified Conclusion**

- 5 Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with Order of the Minister of Public Finance no. 1286/2012 approving the accounting regulations compliant with the International Financial Reporting Standards and applicable to companies whose securities are admitted to trading on a regulated market, with all subsequent modifications and clarifications.

On behalf of

**Ernst & Young Assurance Services SRL**

Registered with the Chamber of Financial Auditors in Romania

Nr. 77/15 August 2001



Sebastian Mocanu

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

No. 1603/16 August 2005

07 October

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